

Human Resource Accounting Disclosure Index: The Need for an Alternative Approach

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ABSTRACT : The use of indexes to measure certain phenomena in accounting research is not new. In human resources accounting (HRA), researchers use indexes to determine the level of disclosure of HRA information presented in financial statements. The HRA disclosure (HRAD) index developed by Al Mamun (2009) is a primary index upon which researchers in HRA developed many HRAD indexes. The Al Mamun (2009) and the other HRAD indexes in use today do not assess the quality or extent of disclosure of HRA information in financial reports. This paper argues that there is a need for researchers in HRA to develop a new HRAD index capable of assessing the quality and extent of the disclosure in financial reports. The new index, if developed, will enhance the reliability of data measurement in HRA research and facilitate the comparison of HRAD levels among reporting entities.

KEYWORDS: Human Resources, Accounting, Voluntary, Disclosure, Index.

I. INTRODUCTION

Researchers in many fields in social and management sciences use indexes to measure and observe the trends of certain phenomena (Pham et al., 2021; Reckien, 2018). Some of the most commonly referred to indexes are the consumer price index (Gujarati, 2004) and the corruption perception index by Transparency International (Aliu, 2019; Khan, 2009). These indexes provide insight into the phenomena they represent though some of the phenomena may not be in numerical forms. Researchers in accounting use indexes to measure the levels of accounting disclosure (Nasir, 2015; Pham et al., 2021; Sarkar et al., 2016) and the quality of financial reporting (Rashid, 2020). In human resource accounting, the HRAD index is often used. The index developed by Al Mamun (2009) (cited as Almamun, 2009; Al mamun, 2009; Syed, 2009 in some studies) appears to be the most widely used in HRA research. For instance, Akintoye et al. (2016), Ali et al. (2020), Khodabakhshi (2015) and many researchers have used the Al Mamun (2009) HRADI to measure and report the levels of HRAD in many countries. Some prior studies have used the Al Mamun (2009) index without modifications, while others have modified the index. However, the Al Mamun (2009) HRADI, its modified version and other HRADI used by HRA researchers are dichotomous and unweighted (Ali et al., 2020; Khodabakhshi, 2015; Kaur et al., 2016).

This paper argues that there is a need for researchers in HRA to develop an alternative HRADI which can take care of the deficiencies of the Al Mamun (2009) and other unweighted and dichotomous HRADI.

Voluntary human resource accounting disclosure : HRA is a developing field in accounting and is used for accounting and reporting human resources related costs and information (Cherian & Farouq, 2013). The concept of HRA differs significantly from conventional accounting. The ultimate target of HRA is the quantification of human resources value (HRV) and recognising the value as an asset in the balance sheets of reporting entities.

As a result of the lack of accounting standards and legal and regulatory backing, reporting entities provide HRAD voluntarily (Bello & Micah, 2021; Amahalu et al., 2016; Branco et al., 2010). Reporting entities usually disclose varying degrees of HRA information in the notes to the accounts of audited financial reports. The disclosure of HRA information is at the discretion of these reporting entities that opt to report the information to their stakeholders. Leaving HRAD at the discretion of reporting entities has given rise to different means and degrees of disclosing HRA information in the financial statements.

II. THE USE OF INDEX TO MEASURE HUMAN RESOURCE ACCOUNTING DISCLOSURE

Prior studies on HRA have used indexes to measure the level of HRAD in financial reports. Many studies adopted or adapted the Al Mamun (2009) HRADI. Most of the indexes used in these studies share two common characteristics. The indexes are dichotomous and unweighted. Firstly, most existing HRAD indexes are dichotomous, measuring only the presence of a disclosure item without regard to how well a reporting entity disclose it. Dichotomous measurement may not fit well with voluntary disclosure items because every reporting entity decides what and how to report the items. As a result of the discretion of the management of reporting entities to determine how to report HRA information, different entities may report the same item differently. For example, an entity may report a disclosure item in more detail, while another entity may report the same item with few or no details. Secondly, the existing HRAD indexes are unweighted. The indexes give an impression that all the HRA disclosure items rank equally. It may not be correct to assume that all the HRAD items have equal importance. The varying degree of importance of the HRAD items may be why some entities fail to disclose certain HRAD items. Table 1 below shows some studies that have used indexes to measure HRAD. Table 1 shows that many prior studies on HRAD have used dichotomous and unweighted indexes.

Table 1: Some Studies that used HRADI

Studies	Type of Index
Pham et al. (2021)	Dichotomous, unweighted.
Adejuwon et al. (2020)	Dichotomous, unweighted
Ojokuku and Oladejo (2017)	Dichotomous, unweighted
Akintoye et al. (2016)	Dichotomous, unweighted
Sarkar et al. (2016)	Dichotomous, unweighted
Souza et al. (2016)	Dichotomous, unweighted.
Khodabakhshi (2015)	Dichotomous, unweighted
Ullah et al. (2014)	Dichotomous, unweighted.
Kaur et al. (2014)	Unweighted
Enofe et al. (2013)	Dichotomous, unweighted
Majdalany and Henderson (2013)	Dichotomous, unweighted
Babajide (2013)	Dichotomous, unweighted
Avazzadehfath and Rajashekar	Dichotomous, unweighted.
Micah et al. (2012)	Dichotomous, unweighted
Al Mamun (2009)	Dichotomous, unweighted

One of the few studies that tried to consider the extent of HRAD is Huang et al. (2008). In their study on the external reporting of human capital, Huang et al. (2008) developed a method of measuring human capital disclosure in annual reports. The method developed by Huang et al. (2008) measures HRAD based on the number of words on a 5-points Likert scale. Although the scale by Huang et al. (2008) tries to reflect the extent of HRAD, it gives a score of one for non-disclosure instead of zero and does not take care of the quality of the disclosure.

THE NEED FOR AN ENHANCED HUMAN RESOURCE ACCOUNTING DISCLOSURE INDEX :

As stated in the introduction, many of the HRAD indexes in use by researchers is dichotomous. The existing HRAD indexes reflect the presence or absence of a disclosure item only. The indexes do not consider the quality of the disclosure. In addition, the exiting indexes assume that all the disclosure items have equal importance. The assumption of the equality of importance of all the disclosure items may not be a true reflection of the reality.

A Good HRAD index should have the ability to capture the differences in the mode of disclosure of the same item by different reporting entities. A dichotomous index is more suited for measuring discrete dichotomous variables. Such variables have only two possible alternative outcomes. But where an index measures continuous dichotomous variables, the index should have the capacity of measuring the various possibilities that may occur between the two extreme occurrences. A good index should give appropriate weight to all the items it measures. Therefore it will be a good idea to have an HRAD index that can give appropriate weights to all the disclosure items it measures. Table captions appear centered above the table in upper and lower case letters. When referring to a table in the text, no abbreviation is used and "Table" is capitalized.

III. C ONCLUSION

Given that HRADI has gotten acceptance in accounting research and that most HRAD indexes have some deficiencies, it is pertinent to have other types of indexes that can amend the downsides of the existing HRADI. The new HRADI should have the ability to measure both the extent and quality of the disclosure and measure the relative weight of each disclosure item. An HRADI capable of measuring the quality, the extent of disclosure and the relative importance of each disclosure item will provide more reliable and accurate results and better comparison between the disclosure practices of different reporting entities.

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