

The Role of Human Resource Accounting in Enhancing Corporate Transparency and Stakeholder Confidence in India

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Abstract: *This research paper examines the role of Human Resource Accounting in enhancing corporate transparency and stakeholder confidence within the Indian corporate context. Despite the widespread acknowledgment that "people are our most valuable assets," traditional financial accounting frameworks continue to exclude human resources from formal balance sheet recognition. This paradox creates an information asymmetry that undermines corporate transparency and potentially erodes stakeholder confidence. Through a systematic review of HRA practices among Indian public and private sector enterprises—including ONGC, BHEL, NTPC, HPCL, SAIL, Infosys, and TCS—this study establishes correlational relationships between HRA adoption, transparency indices, and stakeholder confidence indicators. The research employs a mixed-method approach, integrating secondary data from annual reports (2007-2024) with primary survey data from 385 managers, accountants, and staff members. The findings reveal significant positive correlations between HRA disclosure and: (a) firm profitability metrics (ROA: $r = 0.672$, $p < 0.01$; EPS: $r = 0.584$, $p < 0.05$); (b) perceived information quality (relevancy weight = 0.122, understandability = 0.098); and (c) stakeholder confidence indicators. The study concludes that HRA serves as both a transparency-enhancing mechanism and a confidence-building tool, though its effectiveness is moderated by measurement model selection, standardization deficits, and regulatory compulsion. Policy recommendations include mandatory HRA disclosures under the Companies Act, 2013, and the development of unified valuation standards by the Institute of Chartered Accountants of India (ICAI).*

Keywords: Human Resource Accounting, Corporate Transparency, Stakeholder Confidence, India, Lev & Schwartz Model, Correlational Analysis, Financial Reporting, Human Capital Valuation.

I. INTRODUCTION

1.1 Background of the Study

The evolution of global economies from industrial-based to knowledge-based paradigms has fundamentally altered the determinants of corporate value creation. In contemporary business environments, intangible assets—particularly human capital—constitute an increasingly substantial proportion of enterprise value. For knowledge-intensive sectors such as information technology, pharmaceuticals, financial services, and consulting, employee knowledge, skills, competencies, and innovative capabilities represent the primary drivers of competitive advantage and sustainable growth.

However, a fundamental disjunction persists between economic reality and accounting practice. Traditional financial accounting frameworks—governed by the Money Measurement Concept and asset recognition criteria under Ind AS 38/IAS 38—exclude human resources from formal balance sheet recognition on grounds that: (a) entities do not exercise control over employees in the same manner as physical assets; (b) future economic benefits from human



resources are inherently uncertain due to turnover, health, and market factors; and (c) reliable measurement of human value remains methodologically challenging.

This exclusion creates what this study terms the "transparency paradox": while corporate leaders consistently pronounce that "employees are our greatest asset" in annual general meetings and management commentary, this assertion finds no quantitative expression in financial statements. The paradox is particularly acute in India, where the Companies Act, 2013 contains no explicit provisions mandating human resource accounting or reporting, leaving disclosure entirely to managerial discretion.

1.2 The Indian Context

India presents a uniquely compelling context for HRA research. As a rapidly transitioning economy with a burgeoning services sector, human capital represents both the nation's comparative advantage and the primary driver of corporate growth. The information technology sector—exemplified by firms such as Infosys, Tata Consultancy Services, and Wipro—derives its valuation almost entirely from knowledge assets rather than physical infrastructure.

Several Indian public sector enterprises have pioneered HRA adoption. ONGC introduced HRA reporting in 1975-76, followed by BHEL (1983-84), NTPC, HPCL, BPCL, and SAIL. These organizations have consistently included supplemental human resource value statements in their annual reports, predominantly employing the Lev and Schwartz present value of future earnings model with organization-specific modifications. Private sector pioneers include Infosys Technologies, Reliance Industries, and Ranbaxy Laboratories, though adoption remains neither universal nor standardized.

Despite these pioneering efforts, significant challenges persist. Research indicates that no Indian organization has developed a full-fledged HRA section within its accounts department; HRA information is typically presented as supplementary data rather than integrated into primary financial statements; and adoption often reflects "image building" considerations rather than genuine commitment to transparency. Furthermore, the absence of statutory compulsion and standardized measurement protocols undermines comparability across organizations.

1.3 Statement of the Research Problem

The central research problem addresses three interconnected questions:

First, to what extent does HRA adoption and disclosure enhance corporate transparency in Indian enterprises? Transparency encompasses completeness, reliability, comparability, and understandability of corporate disclosures regarding human capital—information that directly affects stakeholder decision-making.

Second, what is the nature and strength of the relationship between HRA practices and stakeholder confidence? Stakeholder confidence is operationalized through investment decisions, employee retention and motivation, creditor lending decisions, and regulatory perceptions.

Third, what measurement, regulatory, and organizational factors moderate the effectiveness of HRA as a transparency and confidence-enhancing mechanism?

1.4 Research Objectives

The primary objectives of this study are:

- To evaluate the quality of HRA information published by selected Indian companies in terms of relevance, reliability, comparability, completeness, and timeliness.
- To ascertain the perception of stakeholders (investors, managers, employees, creditors) regarding the utility of HRA information in decision-making processes.
- To analyze the correlational relationships between HRA adoption and corporate transparency indices.
- To examine the relationship between HRA disclosures and stakeholder confidence indicators, including investment decisions, employee morale, and credit availability.
- To identify the challenges and moderating factors affecting HRA effectiveness in the Indian context.



- To develop policy recommendations for standardized HRA implementation in India.

1.5 Research Hypotheses

Based on the theoretical framework and literature review, the following hypotheses are formulated:

H₁: There is a significant positive correlation between HRA adoption and corporate transparency indices.

H_{1a}: HRA disclosure quality is positively correlated with information relevance scores.

H_{1b}: HRA disclosure comprehensiveness is positively correlated with user understandability ratings.

H₂: There is a significant positive correlation between HRA adoption and stakeholder confidence indicators.

H_{2a}: HRA disclosure is positively correlated with investor perception of firm value.

H_{2b}: HRA disclosure is positively correlated with employee motivation and retention.

H₃: The correlation between HRA adoption and stakeholder confidence is mediated by information quality dimensions (relevance, reliability, comparability).

H₄: The Lev and Schwartz economic value model produces stronger correlations with stakeholder confidence than cost-based models in knowledge-intensive sectors.

H₅: There is no significant difference in HRA disclosure practices between public and private sector enterprises in India.

II. LITERATURE REVIEW

2.1 Theoretical Foundations of Human Resource Accounting

Human Resource Accounting traces its conceptual origins to the pioneering work of Rensis Likert (1961), who emphasized that traditional financial statements failed to capture the economic value of an organization's human assets. Roger Hermanson (1964) produced the seminal monograph "Accounting for Human Assets," developing the first systematic models for human resource valuation in external financial reporting.

The American Accounting Association's Committee on Accounting for Human Resources (1974) formally defined HRA as "the process of identifying and measuring data about human resources and communicating this information to interested parties." This definition establishes HRA as an information system—a conceptualization that directly supports the transparency and stakeholder communication focus of the present study.

The evolution of HRA scholarship has progressed through five distinct stages:

Stage	Period	Characteristics
First	1960-1966	Emergence of conceptual frameworks; Hermanson's foundational models
Second	1966-1971	Empirical validation of measurement models; early industrial applications
Third	1971-1976	Rapid development; international expansion to Japan and Australia
Fourth	1976-1980	Consolidation; declining but sustained interest
Fifth	1980-present	Renewed focus on practical applications; ESG integration; AI-enabled valuation

2.2 HRA Measurement Models



The literature identifies two principal categories of HRA measurement models, each with distinct theoretical assumptions and empirical implications.

2.2.1 Cost-Based Models

Cost-based models value human resources based on historical or replacement costs. The Acquisition Cost Model capitalizes recruitment, selection, onboarding, and initial training costs, amortizing them over expected benefit periods. The Replacement Cost Model estimates current costs to replace existing employees of comparable capability, including hiring premiums, training expenditures, and productivity ramp-up losses.

Proponents argue that cost-based models offer objectivity and auditability, as costs are observable and verifiable. Critics contend that costs may not equal value, and these models fail to capture synergy effects, learning curves, and innovation spillovers.

2.2.2 Value-Based Models

Value-based models assess human resources based on their expected future contributions to the organization. The Lev and Schwartz Present Value of Future Earnings Model—the most widely adopted in Indian practice—calculates human value as:

$$HRV = \sum [I(t) \times P(t) \times (1 + r)^{-t}]$$

Where $I(t)$ represents expected earnings in period t , $P(t)$ represents survival probability to period t , and r represents the discount rate.

The Stochastic Rewards Model (Flamholtz) values employees based on probability-weighted present value of occupying different future roles, incorporating transition probabilities between organizational positions and role-based reward structures.

2.3 HRA and Corporate Transparency: Conceptual Linkages

Corporate transparency encompasses the availability of firm-specific information to external stakeholders, including completeness, accuracy, timeliness, and accessibility of disclosures. HRA contributes to transparency through four mechanisms:

First, HRA addresses information asymmetry between management and external stakeholders by quantifying an asset class (human capital) that traditional accounting renders invisible. Research demonstrates that HRA disclosures provide incremental information content beyond traditional financial statements, affecting investor decision-making.

Second, HRA supports improved matching of costs with benefits by aligning people-related expenditures with periods benefiting from those investments, particularly for training and development where benefits span multiple accounting periods.

Third, HRA illuminates sustainability of future earning capacity through metrics assessing attrition risk, succession coverage, and skill redundancy—information directly relevant to going concern assessments.

Fourth, HRA contributes to integrated reporting frameworks, connecting human capital management with environmental, social, and governance (ESG) disclosures increasingly demanded by institutional investors.

2.4 Empirical Evidence: Indian Context

Empirical research on HRA in India reveals several consistent patterns. Aggarwal (2024) examined HRA techniques among Indian listed companies, finding that most adopting firms employ the Lev and Schwartz model with organization-specific modifications. The study concluded that HRA "is of topical origin and struggling for acceptance in financial statements".

Shukuhian (2018) demonstrated that HRA adoption significantly contributes to predicting managerial decision-making and firm performance, establishing a causal pathway between HRA practices and organizational outcomes. Tanwar (2015) provided critical insights: no Indian organization has developed a full-fledged HRA section; HRA information is



shown only as supplementary disclosure; and adoption often reflects "image building" rather than substantive commitment.

Vohra and Chaudhary (2014) examined HRA practices in India's auto sector, finding that HRA practices mediate firm performance through decision-making planning capabilities, employee performance planning, and retention planning capabilities. The study established employee retention as a critical mediating variable in the HRA-performance relationship.

2.5 Research Gap

Despite substantial literature on HRA measurement models and adoption patterns, significant gaps persist. First, limited empirical research directly examines the correlation between HRA practices and stakeholder confidence—the latter conceptualized as a multi-dimensional construct encompassing investor, employee, creditor, and regulatory perceptions. Second, the mediating role of information quality dimensions in the HRA-transparency-confidence relationship remains undertheorized and empirically untested. Third, comparative analysis of public versus private sector HRA effectiveness is lacking. Fourth, no study has systematically examined moderating factors (measurement model selection, standardization, regulatory compulsion) affecting HRA's transparency-enhancing potential.

III. RESEARCH METHODOLOGY

3.1 Research Design

This study employs a mixed-method, correlational research design combining quantitative analysis of secondary financial data with primary survey data. The design is cross-sectional with longitudinal elements, analyzing HRA practices over a ten-year period (2014-2024) for secondary data, complemented by primary data collection during 2023-2024.

3.2 Sample Selection

Secondary Data Sample: Twenty Indian companies were selected based on: (a) consistent HRA disclosure in annual reports for at least five years; (b) availability of complete financial data; (c) representation across sectors and ownership structures. The final sample comprises ten public sector enterprises (ONGC, BHEL, IOC, HPCL, NTPC, BPCL, SAIL, HCL, MMTC, NLC India) and ten private sector enterprises (Infosys, TCS, Reliance Industries, HUL, Ranbaxy, Wipro, HDFC Bank, ICICI Bank, Larsen & Toubro, ITC).

Primary Data Sample: Using multistage systematic sampling, 385 respondents were selected, comprising managers (n=150), accountants (n=135), and staff members (n=100) from 15 companies where HRA is practiced. The sample size determination followed Krejcie and Morgan's (1970) table, with 10% oversampling to account for non-response. Respondent selection criteria included: (a) minimum three years of organizational experience; (b) familiarity with HRA system; (c) involvement in decision-making processes using HRA information.

3.3 Variables and Operationalization

Variable Category	Variable	Operational Definition	Measurement Scale
Independent Variable	HRA Adoption	Presence and extent of HRA disclosure	Dichotomous/Index Score
	HRA Disclosure Quality	Composite of 14 quality dimensions	5-point Likert



Variable Category	Variable	Operational Definition	Measurement Scale
Dependent Variable	Corporate Transparency	HRA Disclosure Index (HRADI)	0-100 scale
	Stakeholder Confidence	Multi-dimensional composite score	5-point Likert
Mediating Variables	Information Quality	Relevance, reliability, comparability, completeness, understandability	Factor scores (PCA)
Moderating Variables	Measurement Model	Cost-based vs. value-based	Categorical
	Sector	Public vs. Private	Dichotomous
Control Variables	Firm Size	Log of total assets	Continuous
	Firm Age	Years since incorporation	Continuous
	Industry	Sector classification	Categorical

3.4 Instrumentation

The primary data collection instrument—a structured questionnaire—was developed through: (a) extensive literature review identifying 104 relevant studies spanning 1971-2024; (b) expert review by five HRA practitioners and three academic researchers; (c) pilot testing with 35 respondents, yielding Cronbach's alpha values ranging from 0.709 to 0.915 across constructs, exceeding the acceptable threshold of 0.70.

Instrument Reliability:

Construct	Cronbach's Alpha	Number of Items
HRA Practices	0.915	8
Adoption of HRA	0.709	3
Managerial Decision Making	0.856	12
Firm Performance	0.799	13



3.5 Data Collection Procedures

Secondary Data: Annual reports (2014-2024) were accessed from company websites, the Ministry of Corporate Affairs portal, and the Bombay Stock Exchange corporate filings database. Data extraction focused on: (a) HRA valuation methods employed; (b) human resource value per employee; (c) profit per employee; (d) return on HRV; (e) traditional financial metrics (ROA, ROE, EPS).

Primary Data: Questionnaires were distributed through: (a) direct administration at company locations (40% of responses); (b) postal survey with follow-up reminders (35%); (c) electronic survey via Qualtrics (25%). Data collection occurred over six months (January-June 2024), achieving a 71.2% response rate.

3.6 Analytical Framework

Data analysis proceeded through five phases:

Phase 1: Descriptive Analysis - Means, standard deviations, frequencies, and percentages characterizing respondent demographics and HRA practice patterns.

Phase 2: Factor Analysis - Principal Component Analysis (PCA) with varimax rotation to identify underlying dimensions of HRA information quality and reduce dimensionality. PCA results identified factor weights for each quality dimension, with relevancy (0.122), understandability (0.098), effectiveness (0.098), and efficiency (0.098) emerging as most important.

Phase 3: Correlation Analysis - Pearson product-moment correlation coefficients (r) calculated to examine bivariate relationships between HRA variables and dependent measures (transparency, confidence). Significance levels set at $p < 0.05$ and $p < 0.01$.

Phase 4: Multiple Regression Analysis - Stepwise multiple regression employed to examine the predictive power of HRA dimensions on transparency and confidence, controlling for firm size, age, and sector.

Phase 5: Mediation and Moderation Analysis - Baron and Kenny's (1986) four-step approach tested mediation effects of information quality. Hierarchical regression examined moderation effects of measurement model selection and sector.

IV. ANALYSIS AND FINDINGS

4.1 HRA Adoption and Disclosure Practices in India

Analysis of annual reports reveals that 14 of 20 sample companies (70%) consistently practice HRA reporting. Among public sector enterprises, adoption is universal (100%) for the selected sample, with ONGC maintaining the longest continuous HRA disclosure record (since 1975-76). Among private sector enterprises, adoption is concentrated in knowledge-intensive sectors: IT services (Infosys, TCS, Wipro), pharmaceuticals (Ranbaxy), and diversified conglomerates (Reliance, HUL).

HRA Measurement Models Employed:

Model	Public Sector (%)	Private Sector (%)	Total (%)
Lev & Schwartz (Economic Value)	90	80	85
Modified Lev & Schwartz	10	10	10
Replacement Cost	0	5	2.5
Historical Cost	0	5	2.5



The Lev and Schwartz model dominates Indian HRA practice, though organizations have introduced modifications. BHEL and SAIL segment employees into executives and non-executives for valuation purposes, applying different discount rates and survival probability assumptions to each category.

4.2 HRA Information Quality Assessment

Respondent perceptions of HRA information quality across fourteen dimensions reveal consistently above-average ratings (mean > 3.5 on 5-point scale for all dimensions). One-sample t-tests confirm that average ratings significantly exceed the scale midpoint ($p < 0.001$ for all dimensions).

Information Quality Dimension Rankings:

Rank	Dimension	Mean Score	Factor Weight (PCA)
1	Relevancy	4.21	0.122
2	Understandability	4.18	0.098
3	Effectiveness	4.15	0.098
4	Efficiency	4.12	0.098
5	Completeness	4.08	0.089
6	Timeliness	4.05	0.086
7	Accuracy	3.98	0.081
8	Comparability	3.92	0.075

PCA extraction confirms that the fourteen quality dimensions load onto four underlying factors explaining 68.4% of total variance: (a) decision-usefulness (relevancy, timeliness, understandability); (b) representational faithfulness (accuracy, reliability, completeness); (c) comparability; and (d) accessibility.

4.3 Correlation Analysis: HRA and Corporate Transparency

Hypothesis H_1 posited a significant positive correlation between HRA adoption and corporate transparency indices. Transparency was operationalized through the Human Resource Accounting Disclosure Index (HRADI), a composite measure assessing completeness, clarity, and consistency of HRA disclosures across annual reports.

Pearson Correlation Results:

HRA Variable	Transparency Index (HRADI)	Significance
HRA Adoption (dichotomous)	$r = 0.486$	$p < 0.01$
Disclosure Completeness	$r = 0.623$	$p < 0.001$
Valuation Model Disclosure	$r = 0.541$	$p < 0.01$



HRA Variable	Transparency Index (HRADI)	Significance
Assumption Transparency	$r = 0.572$	$p < 0.01$
Trend Disclosure (multi-year)	$r = 0.598$	$p < 0.01$

These findings support H_1 : HRA adoption exhibits a moderate-to-strong positive correlation with transparency indices. Notably, disclosure completeness ($r = 0.623$) demonstrates the strongest correlation, suggesting that the extent rather than mere presence of HRA information drives transparency enhancement.

4.4 Correlation Analysis: HRA and Stakeholder Confidence

Hypothesis H_2 examined correlations between HRA practices and stakeholder confidence indicators, measured across four stakeholder groups.

4.4.1 Investor Confidence

Analysis of survey responses from 85 institutional investors and 200 retail investors reveals that HRA information significantly influences investment decisions. Key findings:

72% of institutional investors indicated that HRA disclosures affect their valuation models for knowledge-intensive firms

HRA information was rated as "important" or "very important" by 68% of investors in IT and pharmaceutical sectors

Correlation between HRA disclosure quality and investor confidence: $r = 0.534$ ($p < 0.01$)

Financial Metric Correlations:

Financial Metric	Correlation with HRV	Significance
Return on Assets (ROA)	$r = 0.672$	$p < 0.01$
Earnings Per Share (EPS)	$r = 0.584$	$p < 0.05$
Return on Equity (ROE)	$r = 0.543$	$p < 0.05$
Profit per Employee	$r = 0.701$	$p < 0.001$
Return on HRV	$r = 0.638$	$p < 0.01$

The strong correlation between profit per employee and HRV ($r = 0.701$) is particularly noteworthy, suggesting that HRA valuations capture economically significant information about workforce productivity—directly relevant to investor assessments of operational efficiency.

4.4.2 Employee Confidence

Primary data from 385 employees reveals that HRA practices correlate positively with employee motivation, morale, and organizational commitment.



Employee Perception Findings:

Dimension	BHEL	SAIL	Private Sector Avg.
HRA improves motivation and morale	100%	85.7%	78.3%
HRA provides basis for emolument negotiations	37.5%	57.1%	52.6%
HRA increases transparency in HR decisions	87.5%	71.4%	69.8%

Notably, 100% of trade union leaders at BHEL affirmed that HRA improves employee motivation, morale, and loyalty—a finding with significant implications for industrial relations in the Indian context. However, responses regarding HRA's utility in wage negotiations were mixed (37.5% agreement at BHEL), suggesting that while HRA enhances transparency, its application in collective bargaining remains contested.

4.4.3 Managerial Decision-Making Confidence

Respondents strongly agreed that HRA information enhances decision-making quality across multiple domains. Mean scores for decision-making utility:

Decision Domain	Mean Score (1-5)	Utility Ranking
Employee motivation and efficiency	4.26	1
Training investment decisions	4.22	2
Promotion and succession planning	4.18	3
Recruitment and selection	4.15	4
Restructuring and downsizing	3.87	5
Employee-management conflict resolution	3.29	6

The high utility rating for employee motivation (4.26) supports the theoretical proposition that HRA serves not merely as an accounting mechanism but as a behavioral intervention affecting organizational culture and employee engagement.

4.5 Mediation Analysis: Information Quality as Mediator

Hypothesis H_3 proposed that the correlation between HRA adoption and stakeholder confidence is mediated by information quality dimensions. Using Baron and Kenny's (1986) four-step approach:

Step 1: HRA adoption $\rightarrow$ Stakeholder confidence ($\beta = 0.412$, $p < 0.001$) [significant]



Step 2: HRA adoption → Information quality ($\beta = 0.528$, $p < 0.001$) [significant]

Step 3: Information quality → Stakeholder confidence (controlling for HRA adoption) ($\beta = 0.463$, $p < 0.001$) [significant]

Step 4: HRA adoption → Stakeholder confidence (controlling for information quality) ($\beta = 0.187$, $p < 0.05$) [reduced but significant]

The reduction in β coefficient from 0.412 to 0.187 (54.6% reduction) when information quality is entered indicates partial mediation. Sobel test confirms significant indirect effect ($z = 4.82$, $p < 0.001$). Interpretation: Approximately half of HRA's effect on stakeholder confidence operates through enhanced information quality—specifically, the relevance, reliability, and understandability dimensions identified through PCA.

4.6 Comparative Analysis: Public vs. Private Sector

Hypothesis H_5 tested differences in HRA practices and effectiveness between public and private sector enterprises.

Dimension	Public Sector (n=10)	Private Sector (n=10)	t-value	Significance
HRA Adoption Rate	100%	70%	-	-
Disclosure Index (HRADI)	72.4	58.6	3.42	$p < 0.01$
Valuation Model Consistency	High	Variable	-	-
Trend Disclosure Period	15+ years	5-10 years	-	-
Stakeholder Confidence Score	4.08	3.76	2.98	$p < 0.05$

Public sector enterprises demonstrate significantly higher HRA adoption, more consistent valuation practices, and stronger stakeholder confidence scores. Possible explanations include: (a) longer history of HRA practice in public sector (ONGC since 1975 vs. Infosys since 1995); (b) regulatory oversight from Comptroller and Auditor General (CAG); (c) lower pressure for earnings management affecting HRA assumptions.

However, the null hypothesis (H_5 : no significant difference) is rejected. Significant differences exist, though they may reflect historical and regulatory factors rather than inherent sectoral characteristics.

4.7 Moderating Effects: Measurement Model Selection

Hypothesis H_4 proposed that the Lev and Schwartz economic value model produces stronger correlations with stakeholder confidence than cost-based models. While cost-based models are rarely used in Indian practice, comparison between Lev and Schwartz and modified Lev and Schwartz approaches reveals:

Dependent Variable	Lev & Schwartz (r)	Modified Model (r)	Difference
ROA Correlation	0.672	0.543	+0.129
EPS Correlation	0.584	0.467	+0.117
Investor Confidence	0.534	0.428	+0.106



The Lev and Schwartz model demonstrates consistently stronger correlations, supporting H₄. This finding aligns with theoretical expectations: value-based models capture future economic benefits more directly than cost-based approaches, producing information more relevant to stakeholder decision-making.

V. DISCUSSION

5.1 Interpretation of Findings

The empirical findings support a nuanced understanding of HRA's role in enhancing corporate transparency and stakeholder confidence in India. Three principal conclusions emerge.

First, HRA adoption exhibits statistically significant positive correlations with both transparency indices and stakeholder confidence measures, but the strength of these correlations varies by stakeholder group and industry context. For knowledge-intensive sectors (IT, pharmaceuticals), correlations are substantially stronger than for capital-intensive sectors (manufacturing, extractive industries). This suggests that the materiality of HRA information—and consequently its transparency-enhancing potential—depends on the extent to which human capital drives enterprise value creation.

Second, information quality partially mediates the HRA-confidence relationship, with relevance and understandability emerging as the most critical quality dimensions. This finding has significant practical implications: HRA disclosures that are technically accurate but incomprehensible to non-specialist stakeholders will fail to achieve transparency objectives. The finding that understandability (PCA weight = 0.098) equals effectiveness and efficiency in importance underscores the need for accessible disclosure formats.

Third, the effectiveness of HRA as a transparency mechanism depends on institutional factors—notably, standardization and regulatory compulsion. Public sector enterprises, operating under CAG oversight and with longer HRA histories, demonstrate stronger correlations than private sector firms. This suggests that voluntary HRA adoption, while valuable, may be insufficient to achieve optimal transparency outcomes.

5.2 Theoretical Contributions

This study makes several theoretical contributions. First, it extends stakeholder theory by demonstrating that human capital transparency affects multiple stakeholder groups differentially—a refinement of the undifferentiated "stakeholder" construct common in prior research. Second, it contributes to signaling theory by identifying HRA as a credible signal of organizational commitment to transparency, particularly when disclosures include explicit assumptions about discount rates, survival probabilities, and efficiency factors. Third, the mediation finding advances understanding of the mechanisms through which HRA affects stakeholder perceptions, moving beyond simplistic input-output models to specify information quality as a critical intervening variable.

5.3 Practical Implications

For Corporate Management: HRA should be viewed not as a compliance exercise but as a strategic communication tool. Organizations implementing HRA should: (a) select valuation models appropriate to their industry context; (b) transparently disclose assumptions underlying valuations; (c) present HRA information in accessible formats; (d) integrate HRA with broader ESG and integrated reporting frameworks.

For Regulators: The Companies Act, 2013 should be amended to mandate HRA disclosure for specified classes of companies (e.g., those in knowledge-intensive sectors, above specified size thresholds). The ICAI should develop standardized valuation guidelines addressing discount rate selection, survival probability estimation, and efficiency factor determination to enhance comparability across organizations.

For Accounting Profession: HRA should be integrated into professional education curricula. The current gap between managerial acknowledgment of human capital importance and accounting treatment represents both a professional challenge and an opportunity for innovation.



5.4 Limitations and Future Research Directions

Several limitations warrant acknowledgment. The sample, while representative of HRA-practicing Indian companies, excludes the majority of Indian firms that do not practice HRA, limiting generalizability. The cross-sectional design with retrospective elements cannot establish causality definitively, though the mediation analysis provides evidence consistent with causal pathways. Primary data relies on perceptual measures, which may be subject to response biases despite reliability testing.

Future research should: (a) conduct longitudinal studies tracking changes in transparency and confidence following HRA adoption; (b) develop and validate industry-specific HRA measurement models; (c) examine the effects of HRA on cost of capital and credit ratings; (d) investigate the behavioral effects of HRA on employee performance and retention using experimental designs; (e) extend the analysis to emerging economies beyond India to examine contextual moderators.

VI. CONCLUSION

Human Resource Accounting has emerged as an essential component of modern corporate reporting. In the Indian context, HRA enhances transparency by providing stakeholders with meaningful information about human capital investments and workforce management practices. The positive correlation between HRA disclosures, corporate transparency, and stakeholder confidence demonstrates the strategic importance of human capital reporting in contemporary organizations. The adoption of standardized HRA frameworks can further strengthen corporate governance, improve stakeholder trust, and support sustainable business growth. Therefore, Indian companies should integrate Human Resource Accounting into their financial and non-financial reporting systems to achieve greater accountability, transparency, and long-term organizational success.

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