

RELAVANCE OF KNOWLEDGE TOWARDS MEASUREMENT OF HUMAN RESOURCES ON INVESTMENT DECISIONS IN SRI LANKA

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ABSTRACT

The success or failure of every organization is based on effective utilization of the enterprise's resources. Accountants much concern physical and financial assets while tend to ignore similar accountability for key element for success of the organization. That is organization's employees. Since Human Assets are one of the most important factors to any of the organization, measuring and inclusion of Human Assets into the financial statement will benefit to the users specially for investors. (Elias N., 1972). According to the literature, investor's decision will be affected by the different variables. Knowledge on human accounting is a key variable which effected to investment decisions and researcher should focused on this matter. (Johanson U., 1996). But no one empirically tested the Knowledge of the Investor toward Human Resources Accounting Information. Therefore, this study attempts to examine the relevance of knowledge towards measurement of human resources on investment decisions in Sri Lanka.

This study was carried out among 37 corporations that invest in commercial banks registered under CSE. Sample was selected by using the random sampling method. A self administered questionnaire was used for collecting data from the decision makers.

The findings revealed that Knowledge of the Investor towards the measurement of human resources significantly relevant to corporate investor's stock acquisition decisions (0.000) at significance level 0.05. Based upon the responses, null hypothesis was rejected. At the same time Knowledge of the Investor towards the measurement of human resources significantly relevant to corporate investor's stock disposal decisions (0.007) at significance level 0.05.

KEY WORDS

behavioral aspect, investor, Human resources accounting information, Knowledge of the investor

1. INTRODUCTION

Human Resource is now becoming one of the most important assets to any organization in the modern world. Accounting professionals totally ignored this valuable asset until approximately 45 years ago. (Committee on Human Resources Accounting 1974, p. 115, Tomassini L.A, 1977, p. 904). At the same time decision makers exclude the most important factor when they make their particular decisions. According to the traditional point of view, Human Assets exclude by users because of various arguments. The Committee on Human Resources Accounting (1973, p. 171) pointed out that 'While valuable assets exist in the form of the human organization, many believe that the nature of these assets is such that any attempt to quantify them may be unreliable, costly or fruitless'. But during the past few decades, the need to measure human Assets has been discussed extensively. (Likert, 1961, 1967; Hermanson, 1964; Hekimian and Jones, 1967; Brummet, Flamholtz, 1969, 1971a; and Lev and Schwartz, 1971; cited by Hendricks A., 1976) As a result of number of speculative and controversial articles on Human Resources Accounting, different measurement methods have been aroused. Ex. Historical cost or Acquisition cost method, Replacement cost method, Opportunity cost method etc.

External parties have been demanding information on Financial Statements before they make decisions. Disclose each and every item in Financial Statements will be an additional advantage to the decision maker. Since Human Assets are one of the most important factors to any of the organization, measuring and inclusion of Human Assets in to the Financial Statement will be benefit for the users. Details relating to changes of human assets during the period will be shown a clear and correct picture about both the assets position and income of the organization. For example, from the external decision makers' perspective, the ratio of human assets to total assets may be useful to predict the future profitability of the organization. Because it has been found that there is a positive correlation between a firm's investment in human assets and its future profitability. (Brummet, Flamholtz, and Pyle 1968, p. 218.)

Though there appears to be widespread interest in developing concepts and systems for valuing human resources globally, Sri Lankan investors still standing on their traditional point of view. Less identification on this area is the major reason for this situation. Higher education system or standards setters do not provide any theoretical knowledge on this regard. This study therefore, aims to examine the relevance of knowledge towards measurement of human resources on investment decisions in Sri Lanka.

2. LITERATURE REVIEW

An organization today is passing through a phase of transformation with the change and uncertainty in the environment. In any organization human element is the most important input. The success or failure of an organization depends on its human resources. At present more than ever before, the processes of human resource management are facing a complex and rapidly changing environment (Tang 2005). Although corporations have the insight that their most substantial value driver is the company's staff, they do not know how to assign any value to it (Gebauer 2003).

In order to reflect the true value of an organization and to make the standard accounting ratios more meaningful, there is a need to represent the asset value of intangibles in the organizations balance sheet (Sheedy-Gohil 1996). Human resource is considered as one such intangible asset that required to be shown in the balance sheet (Johanson *et al* 1998). "Reporting about the value of an organization is more and more attached to the value of the personnel resources (human resources/human assets) (Gebauer 2003).



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CONTENTS

Sr. No.	Title & Name of the Author (s)	Page No.
1.	RELEVANCE OF KNOWLEDGE TOWARDS MEASUREMENT OF HUMAN RESOURCES ON INVESTMENT DECISIONS IN SRI LANKA AHESHA SAJEEWANI PERERA	7
2.	CORPORATE GOVERNANCE AND FINANCIAL DISTRESS IN THE BANKING INDUSTRY: A CASE OF NIGERIAN ECONOMY ADEGBIE, FOLAJIMI FESTUS	15
3.	ITC LIMITED - STRATEGIC FORAYS INTO THE FOODS BUSINESS HARMEEN SOCH	23
4.	MICRO FINANCE: ITS ROLE AND IMPLICATIONS FOR THE SOUTH ASIAN FINANCIAL CRISIS. AMISHA GUPTA	35
5.	VOLATILITY AND INFORMATION OF UNDERLYING SPOT MARKET ON EXPIRATION - REFERENCE TO S&P CNX NIFTY FUTURE G. SARAVANAN, SYED AHAMED & DR. MALABIKA DEO	42
6.	A TREND ANALYSIS OF LIQUIDITY MANAGEMENT EFFICIENCY IN SELECTED PRIVATE SECTOR INDIAN STEEL INDUSTRY DR. AMALENDU BHUNIA	48
7.	PAYMENTS IN INDIA GOING 'E-WAY' - AN ANALYTICAL STUDY PROF. S. SUBRAMANIAN & DR. M. SWAMINATHAN	54
8.	NPA's IN BANKS: A SYNDROME PROBING REMEDY JAYA AGNANI	62
9.	COMPARATIVE ANALYSIS OF CAR LOANS PROVIDED BY PNB AND HDFC BANK ESHA SHARMA	74
10.	RELATIONSHIP OF ENVIRONMENTAL DISCLOSURES AND OTHER INDEPENDENT VARIABLES IN THE DIFFERENT TYPE OF INDUSTRIES - A CASE STUDY OF INDIAN BSE-200 COMPANIES AMANDEEP SINGH	78
11.	SIX SIGMA - A BREAKTHROUGH IMPROVEMENT STRATEGY FOR BUSINESS IMPROVEMENT- AN OVERVIEW TUSHAR N. DESAI & DR. R. L. SHRIVASTAVA	88
12.	FOREIGN INSTITUTIONAL INVESTMENTS AND INDIAN CAPITAL MARKET: AN EMPIRICAL ANALYSIS MRS. AMANDEEP KAUR SHAHI & MS. KRITI AVASTHI	100
13.	HARMONIZING HR PRACTICES AND KNOWLEDGE MANAGEMENT MS. G. NAGAMANI & PROF. (DR.) V. MALLIKARJUNA & DR. J. KATYAYANI	107
14.	EFFECTIVENESS OF ENDORSEMENT ADVERTISEMENT ON RURAL VS URBAN YOUTH BUYING BEHAVIOUR PROF. (DR.) PUJA WALIA MANN, MR. MANISH JHA & MS. SUMAN MADAN	112
15.	DUPONT ANALYSIS OF SELECTED INDIAN COMMERCIAL BANKS TO MAKE INFORMED DECISION: AN EMPIRICAL INVESTIGATION SOMA PANJA CHOWDHURY & SUBROTO CHOWDHURY	121
16.	INDIAN BANKING-A CASE OF RESILIENCE IN TURBULENCE DR. S.C. BIHARI	130
17.	EVALUATION OF WORKPLACE HEALTH, SAFETY AND WELFARE PROMOTION: A REVIEW OF NESTLE INDIA LTD. [A FACTOR ANALYSIS APPROACH] RAMINDER KAUR BHATIA, SHUBPREET SIDHU & BALJINDER KAUR	134
18.	AN OVERVIEW AND IMPLICATIONS OF BASEL I AND BASEL II PROF. PRADEEP AGGARWAL, DR. SHRUTI NAGAR & DR. SUNIL KUMAR	141
19.	CORPORATE DISCLOSURE PRACTICES V/S INVESTOR'S REQUIREMENTS-A STUDY DR ASHOK KHURANA & MS KANIKA GOYAL	148
20	A STUDY OF THE IMPACT OF TRAIT ANXIETY AND SEX ON THE ACADEMIC MOTIVATION OF SECONDARY SCHOOL STUDENTS PUSHKRIT GUPTA, JASWINDER SINGH & REKHA RANI	158
	REQUEST FOR FEEDBACK	162

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Though balance sheets exhibit value related to business transactions, it's unfortunate that the value of human resources is not included in the balance sheet. To find out the productivity of investment in respect of human beings in any Enterprise Human Resource Accounting will be helpful (Batra 1996). Human Resource Accounting (HRA) deals with the measurement of the value of human resources (Gebauer 2003). Human Resource Accounting is also a scaling tool that generates and reports quantitative control information about the contribution of human resources for promoting industrial productivity. It can help management by taking many vital decisions relating to selection, lay-offs, transfers, training, promotion etc (Batra 1996).

In 1973, the American Accounting Association's committee on Human Resource Accounting defined HRA as "the process of identifying and measuring data about human resources and communicating this information to interested parties" Managers have to learn about HRCA models. Thus two types of knowledge have to be improved: knowledge of human resource costs and values or the normal outcome of different human resource measures within the organization; knowledge of models of how to calculate costs, incomes and values (Johanson 1999). Most studies have shown that the second kind of knowledge can be increased by training (Johanson 1999). The first kind of knowledge must be continuously influenced by efficient information systems (Johanson 1999). The study carried out by Johanson and Nilson (1996b) successfully influenced the knowledge of participants by training them on HRCA and by changing information systems (Johanson and Nilson 1996b; cited by Johanson 1999).

HRA represents both a paradigm, a way of looking at human resource decisions and issues, and a set of measures for quantifying the effects of Human Resource Management strategies upon the cost and value of people as organization valued resources (Grojer and Johanson 1998a). The concept and methods of HRA examine what information is necessary and how this information has to be combined to determine the value of human resources (Gebauer 2003).

In today's economy, it is more and more important to reveal information about the values of organizations. Whenever there is a transition of a business share to another owner, the question is about the value of such a proportion of the corporation and therefore about the value of the enterprise in its whole. HRA can serve as a tool to reduce information asymmetries (Gebauer 2003).

In Sweden, there has been a strong and even increasing interest in HRCA in both research and education (Grojer and Johanson 1998a). The School of Business at the Stockholm University teaches students HRCA. A special research institute, Personnel Economics Institute has been established for studies in this area and they have launched the Journal of Human Resource Costing & Accounting.

The biggest challenge in HRA is that of assigning monetary values to different dimensions of HR costs, investments and the worth of employees. Over the years there have been a number of models put forward as a basis for the computation of the monetary value of employees (Dawson, 1994a, Milost, 2007). These models can be categorized into two main approaches. The Cost Approach and the Economic Value Approach. Historical or Acquisition Cost Models. Opportunity Cost Model and Replacement Cost Models are main models of cost approach and Flamholtz's Model of Determinants of Individual Value to Formal Organisations, Flamholtz's Stochastic Rewards Valuation Model, The Lev and Schwartz Model and Hekimian and Jones Competitive Bidding Model are main models of Economic Value Approach.

Information disclosed in financial statements of an organization will be geared primarily to external users including investors. (Flamholtz, 1990; Flamholtz, Bullen, Wei Hua, 2002). It is difficult to compare across companies when the measures involve subjectively and considerable use of estimates. Traditional accounting's conservatism has made it difficult for investors to compare Human Assets in firms. Further HRA measure incorporate subjectively, they are very relevant to the real needs of decision makers and investors. (Flamholtz, 1990; Flamholtz, Bullen, Wei Hua, 2002).

Committee on HRA (1973) pointed out the purpose of HRA as 'improve the quality of financial decisions made both internally and externally concerning an organization.' For external users, particularly investors could benefit from HRA through the provision of information on the extent to which the Human assets of the organization have been increased or have diminished during the period. (Report of the Committee on Human Resource, 1973).

Stakeholders such as shareholders, investors, creditors, debtors ect. used company's annual reports before they make decisions. In this situation HRA will act as a tool of enhancing decision making degree. (Flamholtz, Bullen, Wei Hua, 2002). Management can use HRA Information to analyze the effects of decisions such as job cuts, layoffs, hiring, rehiring qualified employees ect. and to understand the long-term implication and hidden cost of such decisions. More important role of HRA is monitoring and quantifying the cost and the value of the people from the Human Resource perspective and it delivers the message as people are more valuable organization resources. (Flamholtz, Bullen, Wei Hua, 2002). This will affect the morale of the employees and ultimately, it will affect to the productivity.

HRA Information can demonstrate that investment in Human Resource which will improve the future profitability of the company. (Brummet, Flamholtz, and Pyle 1968, p. 218,). This information may useful to the Share holders of the company and potential investors, since it imply the future improvement of shareholders wealth.

It seems clear that inclusion of Human Resources Accounting Information to the Financial Statement will enhance the investors' opportunity to make better decisions specially in developing countries like Sri Lanka.

3.1 RESEARCH PROBLEM

According to an experiment done by Nabil Elias (1972) to determine whether different decisions would result if human assets accounting data were incorporated into the financial statement, he founded that, inclusion of HA statement affect the decisions of the advanced accounting students and the finance students but did not affect to the intermediate accounting students. Further, Elias tried to find the back ground variables that may cause decision to be different. Except the variable of the 'degree to which advising investors constitutes part of the job', none of the given variables (familiarity with human assets accounting, business experience, level of education, recency of education, accounting professional courses completed, age, experience with buying and selling stock, the degree to which consulting or advising investors constitutes part of the job) yielded a significant result. However, at the end no conclusion could be drawn about the effect of these variables on decision making because the study did not observed consistent about the pattern.

According to the James A Hendricks (1976) in his study of 'the impact of Human Resources Accounting Information on stock investment decision, he has found that stock investment decisions are affected by the addition of HRA information to conventional accounting information. Further, this study attempts to answer the question of "why HRA information might affect stock investment decision?" According to findings, experience of the investor is the only variable related to the decision difference. Other variables such as age, number of courses completed in accountancy and finance, number of years of experience, employment status, the extent to which advising investors or evaluating stock is part

of the job, number of stock transaction completed, the number of human assets articles read, and the number of human assets accounting lectures or class meetings attended were become less significant.

In this context researches have expressed their findings of impact of valuing and inclusion of human resources on investment decisions and some were addressed the variables affect different kind of decisions.

In this setting the research problem is as follows.

“Does knowledge of the investor towards measurement of Human Resources influence decision makers for the acquisition and disposal of shares (stocks) in the banking sector in Sri Lanka?”

3.2 PROBLEM JUSTIFICATION

Presently, 235 companies representing 20 sectors listed at the Colombo Stock exchange in Sri Lanka. Out of this 235 companies, Commercial Bank of Ceylon Ltd, Hatton National Bank Ltd, Nations Trust Bank Ltd, Pan Asia Banking Corporation Ltd, Sampath Bank Ltd, Seylan Bank Ltd have registered and active in Sri Lanka as registered commercial banks in CSE. Employees of the banks can be identified as the most valuable assets of the bank. Therefore, the bank should manage its people in a manner which contribute to the success. Most of the banks have been realized the importance of the people factor and setting their policies which place their people at the centre. (Commercial Bank Annual Report, 2007)

In this setting, it is difficult to ignore people who work in banks at the time the investor's making their investment decisions.

To make a better investment, an investor should consider all information including details of employees. Because the information relating to the fluctuations of the employee will be benefited to gain a real picture of the organization. Unless they consider the information relating to human assets for their decision making, they automatically under value the assets of the company when they make investment decisions.

In the Sri Lankan scenario, some banks measure human assets and include in their annual reports (Commercial Bank). But usage of this Information in case of decision making by the investor is questionable.

There has been no of research conducted on this area internationally. But it is difficult to find the prior research in this area in Sri Lanka specially in the banking sector. There is a vast gap in this area. Therefore this study will be contributed to fill that gap to a certain extent and this effort will be researcher's original attempt.

4. OBJECTIVES OF THE STUDY

Major objective of the study is to examine the relevance of knowledge towards measurement of human resources on investment decisions in Sri Lanka.

5. SIGNIFICANCE OF THE RESEARCH

Traditional thinking pattern of the investors was to analyze the financial statement which is included in the annual report of the company. Findings of the study will be enable the investors to go beyond from their traditional thinking pattern on how to measure the future performance of the company by using different information including information on human resources of the company. Further, findings of the study will help investors to make strategic decisions specially in the case of investment.

After having a deep understanding about the value of the human assets, Central Bank can use the information to set the human resource development index which can compare with index of the other countries. This will help to change the government policies such as education policies according to the international standard. Further, this will be benefit to the government to implement the new tax policy on organizations in the future.

Building company-wide accountability is a key element and it makes a business sustainable over a long period of time. Society is a major party that organization should be accountable. The study will help society to gain knowledge about the value of the accounting information which used for the different type of decision.

6. METHODOLOGY

This study is based on investigating the relevance of knowledge towards measurement of human resources on investment decisions in Sri Lanka rather than establishing definite cause – effect relationships among the variables. The type of the investigation of this study was therefore correlation rather than causal. Because this study attempted to analyze the relationship between the dependent variable and independent variables, this study was analytical or in hypotheses testing in nature or purpose. Time horizon of the study was cross sectional due to the reason that the data collection was done over a period of several weeks. The unit of analysis is the organization. In order to achieve objectives of the study, a self administered questionnaire was used to collect data. Hence, the researcher interference on normal flow of event was minimal.

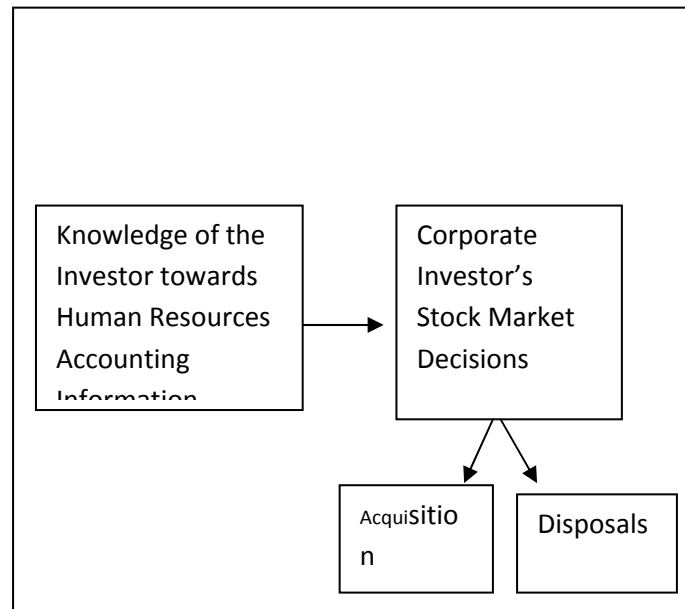
For the purpose of this study a sample of corporate investors selected among 'Top 20 registered shareholders' of six commercial banks registered under Colombo Stock Exchange such as Commercial Bank of Ceylon Ltd, Hatton National Bank Ltd, Nations Trust Bank Ltd, Pan Asia Banking Corporation Ltd, Sampath Bank Ltd, Seylan Bank Ltd. For this purpose, researcher has eliminated common corporate investors and individual investors from the list of 'Top 20 registered share holders'.

It was considered as appropriate to use the random sampling technique. Based on that, sample was randomly selected from the corporate investors who acquire and dispose shares in commercial banks (registered under CSE) in Sri Lanka.

6.1. THEORETICAL FRAMEWORK

Investors point of view, there is a main variable which have an impact on investor's decision making. Knowledge of the investor towards HRAI. (Johanson 1999, Masood, 2005, Jensen M.R.H. et al, 2006, David W. et al, 2007). Conceptual framework of the study is as follows.

Conceptual Framework



(Source: compiled by the author)

6.2.HYPOTHESES

H1_A. Knowledge towards measurement of human resources significantly relevance to stock acquisition decision in Sri Lanka.

H2_A. Knowledge towards measurement of human resources significantly relevance to stock disposal decision in Sri Lanka.

7. DATA ANALYSIS AND PRESENTATION

7.1 Analysis of the Reliability

Cronbach's Alpha Test

The Cronbach's Alpha test was examined in order to test the reliability of the questionnaire used to collect the data. The results of Cronbach's Alpha test are given in the Table 1.0 which suggests that the internal reliability of instrument is very high.

Table 1.0 Cronbach's Alpha Coefficients

Cronbach's Alpha	0.883
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(Source: Survey findings)

7.2. INFERENCE STATISTICS

7.2.1 CORRELATION OF DATA

Correlation or association between variables- Knowledge towards measurement of human resources and stock acquisition decisions and stock disposal decisions are as follows.

Table 1.1: Correlations between variables- KOIN and investor's stock acquisition decisions

	AVKOIN	INVACQ
AVKOIN	1	
INVACQ	.806(**)	1

** Correlation is significant at the 0.01 level (2-tailed).

(Source: Survey findings)

According to the table 1.1, High positive correlation can be identified between Knowledge of the Investor towards measurement of Human Resources and stock acquisition decisions. That is 0.806 at a significant level of 0.01.

Table 2: Correlations between variables- KOIN and investors stock disposal decisions

	AVKOIN	INVDIP
--	--------	--------

AVKOIN	1	
INVDIP	.436(**)	1

** Correlation is significant at the 0.01 level (2-tailed).

(Source: Survey findings)

As shown in the table 2, correlation between variable- Knowledge of the Investor towards measurement of Human Resources with Investors stock disposal decision shows positive relationships as 0.436 respectively.

7.3 REGRESSION ANALYSIS

Hypotheses 1

$H1_0$. Knowledge towards measurement of human resources not significantly relevance to stock acquisition decision in Sri Lanka.

$H1_A$. Knowledge towards measurement of human resources significantly relevance to stock acquisition decision in Sri Lanka.

The statistical format of simple regression model built to test the above hypothesis is as follows.

$$Y = \beta_0 + \beta_1 X_1$$

Interpretation of model

Y= Investors decision to acquire the stocks

β_0 =Y intercept

β_1 =Slope coefficient- Change in Y due to a corresponding change of one unit of X.

X_1 =KOIN

Table 3 reflect the simple linear regression analysis used to test the hypothesis 1.

Table 3 Model Summary – hypothesis 1

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.806(a)	.650	.640		.32399

a Predictors: (Constant), AVKOIN

(Source: Survey findings)

According to the table 3, 65% of the variation in Investors decision to acquire the stocks was explained by associating the variable with Level of Knowledge of the Investor towards Human Resources Accounting Information. At the same time only a small margin of error, $e = .324$ is involved in the regression line.

Table 4 ANOVA(b) – hypothesis 1

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.819	1	6.819	64.959	.000(a)
	Residual	3.674	35	.105		
	Total	10.492	36			

a Predictors: (Constant), AVKOIN

b Dependent Variable: INVACQ

(Source: Survey findings)

As per the table 4, the F -test revealed a relative magnitude of the regression (explained by the regression) and the residual (unexplained by the regression), $F(1, 35) = 64.959$. Table 4 reveals the significance is 0.000, which is lower than 0.05. Accordingly, null hypothesis will be rejected and the alternative hypothesis will be accepted. So it can be said that there is a significant relationship between Knowledge of the Investor towards measurement of Human Resources and corporate investor's stock acquisition decision at a significant level of 0.05.

Hypotheses 2

$H2_0$. Knowledge towards measurement of human resources not significantly relevance to stock disposal decision in Sri Lanka.

$H2_A$. Knowledge towards measurement of human resources significantly relevance to stock disposal decision in Sri Lanka.

The statistical format of simple regression model built to test the above hypothesis is as follows.

$$Y = \beta_0 + \beta_2 X_2$$

Interpretation of model

Y= Investors decision to dispose the stocks

β_0 =Y intercept

β_2 =Slope coefficient- Change in Y due to a corresponding change of one unit of X.

X_2 =KOIN

Table 5 reflect the simple linear regression analysis used to test the hypothesis 6.

Table 5 Model Summary – hypothesis 2

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.436(a)	.190	.167		.66022

a Predictors: (Constant), AVKOIN

(Source: Survey findings)

According to the table 5, 19% of the variation in Investors decision to acquire the stocks was explained by associating the variable Knowledge of the investor towards measurement of Human Resources. Further the regression line involved an error of, $e = 0.660$.

Table 6 ANOVA(b) – hypothesis 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.585	1	3.585	8.224	.007(a)
	Residual	15.256	35	.436		
	Total	18.841	36			

a Predictors: (Constant), AVKOIN

b Dependent Variable: INVDIP

(Source: Survey findings)

As per the table 6, the F -test revealed a relative magnitude of the regression (explained by the regression) and the residual (unexplained by the regression), $F(1, 35) = 8.224$. Table 6 reveals the significance is 0.007, which is lower than 0.05. Accordingly, null hypothesis will be rejected and the alternative hypothesis will be accepted. So it can be said that there is a significant relationship between Knowledge of the Investor towards measurement of Human Resources and corporate investor's stock disposal decisions at a significant level of 0.05.

Table 7 -Summary of hypothesis testing

Investors decision Variables	Investors acquisition decision	Investors disposal decision
KOIV	significantly relevant	significantly relevant

(Source: Compiled by the author)

8.CONCLUSION AND RECOMMENDATION

8.1 CONCLUSION

This study was carried out to answer the question of “Does knowledge of the investor towards valuation of Human Resources influence decision makers for the acquisition and disposal of shares (stocks) in the banking sector in Sri Lanka?”

Researcher considered one underline independent variable knowledge of the Investor towards measurement of Human Resources. Findings of the study revealed that knowledge towards measurement of human resources significantly relevant to investor's for the acquisition and disposal of shares (stocks) from the banking sector in Sri Lanka.

8.2 RECOMMENDATIONS

Internationally several attacks on the issue of “ignoring the most valuable assets, key element of the success of an organization” is currently under way. International Accounting Standards Committee and other authorized accounting bodies urgently recommended to give serious consideration to adding the concept of measuring human resources to the current agenda. But, Sri Lanka still standing on their traditional accounting system. Therefore, following recommendations can give in order to align with the international standard.

Short term recommendations

Educate the highest people (board of directors, managerial levels ect.) in the organizations regarding importance of having Human Resources Accounting Information System.

Attitude regarding ‘Human Resource Accounting’ of accountants should be changed.

Necessity of having relevant quantitative and qualitative disclosures regarding Human Resources Accounting in the financial statements should be stressed out.

Knowledge of the accountants should be improved by the way of seminars, workshops, short term training ect. Here, two types of knowledge have to be improved.

Knowledge of human resources cost and values or the normal outcome of different human resource measures within the organization.

Knowledge of the models of how to calculate costs, income and values

Long term recommendations

Examination of implications associated with incorporation of Human Assets data as part of conventional accounting system through further research and surveys ect. .

“Human Resources Accounting” should be included in the education system at university level and professional level.

Include terms about Human Resources Accounting in Sri Lankan company law.

Introduce Human Resources Standard (Accounting and Auditing) locally.

Introduce legal requirements regarding Human Resources Accounting.

Attention should be focused on developing software on Human Resource Accounting Information System.

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