

EXTENT AND NATURE OF HUMAN RESOURCE & INDUSTRIAL RELATION DISCLOSURE IN MD&A REPORT: AN EMPIRICAL STUDY IN INDIAN CONTEXT

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ABSTRACT

Human resources is considered the most important and valuable asset of an organisation. So, information relating to human resources is useful to the stakeholders in their decision making process. Reporting about 'Human Resource & Industrial Relation Front' is one of the mandatory reporting area under Management Discussion and Analysis (MD&A) report under SEBI (Listing Obligation and Disclosure Requirement) Regulation, 2015. This paper reports on the measurement and analysis of the extent and nature of disclosure relating to 'Human Resource & Industrial Relation' in MD&A report of the companies listed in Bombay Stock Exchange for the period 2018-19. A sample of 55 companies has been taken following the method of simple random sampling. For examining the extent of disclosure, an unweighted disclosure checklist containing 14 information items has been used. It is found that average level of disclosure is 57.66% which is not satisfactory. The maximum disclosure score is 92.86% and minimum is 14.30%. The study reveals that there is a wide variation in the extent of disclosure relating to 'Human Resource & Industrial Relation' in MD&A report in India. The quality of disclosure has also been measured based on a grading criteria as Satisfactory, Moderate and Poor. The gradation indicates that reporting of only three companies (5.4%) is satisfactory while disclosure by 20 companies (36.36%) is of moderate quality. Poor disclosure has been reported by the majority of companies (i.e. 32 companies representing 58.19%). So far as the nature of disclosure in this area of MD&A Report is concerned, out of 14 information items, four (28.57%) information items have been disclosed by above 90% companies and one (7.14%) information item has been disclosed by over 75% companies. This indicates that non-disclosure for the remaining nine information items vary widely ranging from 43.64% to 76.36% in companies listed in India. Overall, disclosure in this reporting area is not satisfactory. The findings of the study suggest that there exists scope for improving quality of MD&A Report of companies listed in India.

KEYWORDS: Corporate Disclosure, MD&A Report, Human Resource, Industrial Relation, India.

Introduction

The primary objective of financial report is to communicate entity specific information to the stakeholders for their economic decision. Human resources represent a valuable asset of an organisation. So, information relating to human resources is useful to the stakeholders. For example, Investors look for the information relating to the quality of managerial persons and general workforce. Workers need information on remuneration, retirement benefit, labour welfare, safety and human rights. Government may require information on total number of employees and labour turnover. General Public is interested in knowing the policy of selection and recruitment (Hussain & Das, 2018). But the present business reporting model provides information which are mainly financial and historical in nature, to some

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extent quantitative information is also furnished. As a result, it fails to provide adequate information for the decision-making purpose of the stakeholders including information relating to human resources and industrial relation (Lev, et al, 1999, Wallmans, 1995; Hussain & Das, 2022). Consequently, the stakeholders do not get an insight relating to core business and strategies, key performance indicators, risk of the entity as a whole etc. which are not contained in financial statements. Thus, there is a consensus that the present business reporting model needs to expand to serve the changing information needs of the external users (Beattie.V, et.al 2004).

Worldwide, the stakeholders demand more narrative disclosure in the financial reports which is viewed as the key to achieve the desired quality of corporate reporting. Here arises the necessity of a separate report that could meet such information deficiency by furnishing detailed and analytical information in narrative form.

In this context, Management Discussion and Analysis (MD&A) Report assumes immense importance which supplements and complements the main body of financial statement with wider explanation that will communicate the company strategy and thereby attract investors. (Ghani & Haverty, 1998).

In India, regulation of MD&A report is governed by Companies Act, 2013 and Listing Obligation and Disclosure Requirement (LODR) Regulation, 2015 issued by Securities and Exchange Board of India (SEBI). The companies listed in Indian Stock Exchanges are required to furnish an MD&A report under Part B to Schedule V to the said regulation. The report is to be given in eight mandatory reporting areas, one of which is 'Information relating to Human Resources and Industrial Relation front'.

From review of our literature (reported in section 2), we found that at the empirical level, knowledge on the extent and nature of MD&A disclosure in India is very limited. Following two research questions have emerged from review of literature in Indian context:

What is the extent of disclosure relating to 'Human Resources and Industrial Relation' in the MD&A report?

What is nature of disclosure practices in MD&A report by companies listed in India relating to 'Human Resources and Industrial Relation'?

In this backdrop, the present paper makes an attempt to examine and measure the extent of disclosure in MD&A report by Indian companies listed in Bombay Stock Exchange along with the nature of disclosure. The remainder of this paper is organised as follows. Section 2 states the objectives of the study. Relevant literature has been reviewed relating to MD&A report and research gaps have been identified in section 3. Research methodology has been stated in section 4. Section 5 presents an analysis of the extent of disclosure relating to 'Human Resource and Industrial Relation' in MD&A report. The next section (Section 6) elaborates the nature of disclosure practices by companies listed in India. Finally, Section 7 concludes the paper.

Objectives of the Study

On the basis of these research questions, following objectives of this paper were set:

- To empirically measure and analyse the extent of disclosure relating to 'Human Resources and Industrial Relation' in MD&A reports of companies listed in Bombay Stock Exchange; and
- To report about the nature of disclosure practices relating to 'Human Resources and Industrial Relation' by companies listed in Bombay Stock Exchange

Literature Review

Worldwide, a good number of studies on disclosure in MD&A report have been conducted by accounting researchers. Some studies measure the level of disclosure such as study by Macchioni, et al. (2013) in the context of Italy, Ahn, Sik and Lee (2005) in the context of Korea, while study by Abed, et al., (2011) in the context of Jordan focuses on measuring disclosure of forward-looking information in narrative section of annual report. The study by Pisano and Alvino (2015) makes an attempt to measure the quality of disclosure in the MD&A report in the context of Italy. Mertens et al (2011) conducted a study on the nature of disclosure in MD&A report by Dutch companies and found that no company incorporated all information items which were included in the authors' checklist and non-disclosure varies in wide range. Pisano, S (2015) studied disclosure of human resource in MD&A report in the context of Italy, Saitua-Iribar, A. et al (2013) makes an attempt to find human resource disclosure in MD&A report in the context of Spain and finds poor level of disclosure. But in India a very limited number of studies have

been made in the context. These studies include Vedpuriswar, A.V., Subramanian, S., Kaul, V. (2003), Singh, M.A., and Jhunjhunwala, M. (2010), Srinivasan, R (2009).

The study of Vedpuriswar, A.V, Subramanian, S, Kaul, V (2003) empirically examined the transparency in MD&A reporting by Indian companies with a sample of 52 companies. The study mainly focused on the missing and incomplete disclosure regarding the major issues. They found very low disclosure in MD&A in true spirit. Singh and Jhunjhunwala (2010) made a company specific study on Reliance Industries Limited to judge the impact of disclosure of information in MD&A report on the shareholders wealth, goodwill of the company, dividend and market capitalisation, while Srinivasan, R (2009), attempts to study the content and quality of strategy related information and the extent of its disclosure in the MD&A Report.

Our review of literature on disclosure in MD&A report reveals the following *research gaps* in Indian context:

- First, the number of studies on disclosure in MD&A report including disclosure relating to 'Human Resources and Industrial Relation' in Indian context is very limited.
- Second, in spite of its immense importance in decision-making, no intensive study has yet been found to have undertaken on the extent of disclosure relating to 'Human Resources and Industrial Relation' in MD&A Report in Indian context.
- Thus, the present study seeks to measure and analyse the level of disclosure, examine and report the nature of disclosure practice in MD&A report in India relating to reporting area 'Human Resources and Industrial Relation'.

Research Methodology

For the purpose of this study, 55 sample companies from a list of top 500 BSE companies have been selected following simple random sampling on the basis of their total income during 2018-19. In this study, only non-financial companies have been considered excluding the financial ones due to their separate reporting requirement under specific acts.

To examine the extent of disclosure and nature of disclosure practice, a self-developed unweighted disclosure checklist based on SEBI (LODR) Regulation, 2015 has been prepared at the preliminary level. Disclosure in MD&A report is mandatory under the said regulation but so far as the content of the same it is left at the choice of the management. Thus, the disclosure checklist in the reporting area human resource and industrial relation has been prepared based on the past studies (Saitua-Iribar, A. et al 2013, Pisano, S, 2015 and Puri, V et al 2016). The final checklist consists of 14 information items.

After finalising the disclosure checklist, annual report of each of the 55 sample companies was thoroughly examined. For awarding disclosure score as per the constructed disclosure checklist, dichotomous scoring approach has been adopted depending upon whether the information item has been disclosed in MD&A report or not. Descriptive statistics have been computed to measure the disclosure level.

Empirical Results Relating to the Extent of Disclosure in MD & A Report

The MD&A disclosure of all sample companies as measured by their disclosure indices are reported in Table 1.

Table 1: Disclosure Score relating to Human Resource & Industrial Relation Front in MD&A Report in Descending Order

Sl. No	Name of the Company	Score	Sl.No	Name of the Company	Score
1	Infosys Ltd.	92.86	29	Allcargo Logistics Ltd.	50
2	Indian Oil Corporation. Ltd.	85.71	30	V-Guard Industries Ltd.	50
3	N B C C (India) Ltd.	85.71	31	Prestige Estates Projects Ltd.	50
4	Dabur India Ltd.	78.57	32	T V S Srichakra Ltd.	50
5	Mahindra & Mahindra Ltd.	78.57	33	Bombay Burmah Trading Corporation. Ltd.	50
6	Thermax Ltd.	78.57	34	Polycab India Ltd.	50
7	Bharat Heavy Electricals Ltd.	78.57	35	Reliance Infrastructure Ltd.	50

8	Lupin Ltd.	78.57	36	Astrazeneca Pharma India Ltd.	50
9	Cochin Shipyard Ltd.	78.57	37	Tata Elxsi Ltd.	50
10	Sun Pharmaceutical Industries Ltd.	71.49	38	Grindwell Norton Ltd.	50
11	Jain Irrigation Systems Ltd.	71.43	39	T V S Motor Co. Ltd.	50
12	Take Solutions Ltd.	71.43	40	Pidilite Industries Ltd.	50
13	Adani Transmission Ltd.	71.43	41	B A S F India Ltd.	50
14	Ashok Leyland Ltd.	71.43	42	Phillips Carbon Black Ltd.	42.9
15	Berger Paints India Ltd.	71.43	43	Galaxy Surfactants Ltd.	42.9
16	Mahindra Lifespace Developers Ltd.	71.43	44	Alkem Laboratories Ltd.	42.86
17	Hindustan Zinc Ltd.	71.43	45	Gujarat State Fertilizers & Chemicals Ltd.	42.86
18	V A Tech Wabag Ltd.	71.4	46	Just Dial Ltd.	42.86
19	Asian Paints Ltd.	64.29	47	Metropolis Healthcare Ltd.	42.86
20	Godrej Agrovet Ltd.	64.29	48	Himatsingka Seide Ltd.(HSL)	42.86
21	Godrej Properties Ltd.	64.29	49	Godfrey Phillips India Ltd.	42.86
22	Bombay Dyeing & Manufacturing Co. Ltd.	64.29	50	Adani Ports & Special Economic Zone Ltd.	35.71
23	Triveni Turbine Ltd.	64.29	51	Sheela Foam Ltd.	35.71
24	Shipping Corporation. of India Ltd.	57.14	52	Inox Wind Ltd.	35.71
25	National Aluminium Co. Ltd.	57.14	53	Jagran Prakashan Ltd.	35.71
26	Gulf Oil Lubricants India Ltd.	57.14	54	C C L Products (India) Ltd.	35.7
27	Navin Fluorine Intl. Ltd.	57.14	55	Maharashtra Scooters Ltd.	14.3
28	D L F Ltd.	57.14			

Source: Computed by the researchers

Analysis of the Extent of Disclosure

For analysing the extent of disclosure of our sample companies, some descriptive statistics as measured from MD&A disclosure score have been presented in Table 2.

Table 2

Descriptive Statistics	Disclosure Score
Mean	57.66
Maximum	92.86
Minimum	14.3
Range	78.56
Standard Deviation	16.05

Source: Computed from information reported in Table 1

An analysis of reported information in Table 2 reveals the following important findings in respect of the extent of disclosure relating to human resource & industrial relation front in MD&A reports of our sample companies:

- The maximum disclosure score is 92.86% which indicates that no sample company has disclosed all the information items considered in our disclosure checklist.
- The average level of overall disclosure of our sample companies is not satisfactory which is indicated by mean disclosure score of 57.66%.
- Though the maximum disclosure score is 92.86% which is satisfactorily high but the minimum disclosure score is very unsatisfactory as indicated by a low score of 14.3%.
- The variability in the extent of overall disclosure is also wide which is evident from the range (78.56%) and standard deviation (16.05%) of disclosure score in MD&A report.
- Apart from measuring and analysing the extent of disclosure, the quality of disclosure in MD&A report has also been examined by making a gradation of disclosure scores. Considering the nature of information, the following criteria for grading of disclosure score has been developed.

Criteria for Grading Quality of MD&A Report

Grading Criteria	Basis of Gradation
Satisfactory	Reporting as prescribed by SEBI(LODR) Regulation, 2015. Detail discussion of the information disclosed as per the disclosure checklist. Disclosure is placed properly in MD&A Report. Forwarding Looking information is disclosed and impact on company performance is discussed.
Moderate	Reporting as prescribed by SEBI(LODR) Regulation, 2015. Detail discussion of the information disclosed as per the disclosure checklist. All disclosures are not placed properly in MD&A Report. A few Forward-Looking information is disclosed.
Poor	Information as prescribed by SEBI (LODR) Regulation, 2015 has not been disclosed in MD&A Report. Detail discussion of the information has been made in respect of a few information items Disclosure is not given in MD&A Report but in other location in annual report. No Forward-Looking information has been disclosed.

Disclosure criteria are reported in Table 3

Table 3: Criteria for Grading the Quality of Disclosure

Disclosure Score	Disclosure Grade
81% - 100%	Satisfactory
61% - 80%	Moderate
less than 60%	Poor

Source: Self Constructed

Using self-constructed criteria reported in Table 3, disclosure level of sample companies has been assessed and reported in Table 4.

**Table 4: Gradation of Sample Companies
(Based on Disclosure Score attained by sample companies)**

Disclosure Score	Disclosure Grade	No. of Companies	(%)
81% - 100%	Satisfactory	3	5.45
61% - 80%	Moderate	20	36.36
less than 60%	Poor	32	58.19
TOTAL		55	100

Source: Self Constructed

The empirical results relating to the extent of disclosure in this reporting area in MD&A report has been reported in Table 4 reveals the following:

- Only three sample companies disclosing information between 80% and 90%, have 'Satisfactory' level of disclosure.
- Disclosure level of 36.36% sample companies (i.e., 20 companies) have 'Moderate' level of disclosure i.e. disclosing information between 61% and 80%,
- Disclosure level of 32 companies representing 58.19% sample companies, disclosing less than 60% information, is 'Poor'.
- However, none of our sample companies discloses full information in this reporting area.

In the next section we shall analyse the nature of disclosure practices in this mandatory reporting area under SEBI regulation relating to 'Human Resource and Industrial Relation Front' by the companies listed in India.

Nature of Disclosure Practices

In this area of reporting under MD&A, the companies are required to disclose and discuss on different aspects of 'Human Resources & Industrial Relation'. The disclosure and non-disclosure of different information related to 'Human Resources and Industrial Relation' in our disclosure checklist by our sample companies with their corresponding percentage is presented in Table 5.

**Table 5: Disclosure of Information relating to Human Resources/ Industrial Relations
(Total Number of Companies = 55)**

SI	Information Items	Disclosed		Not Disclosed	
		No. of Company	% of Company	No. of Company	% of Company
1	Number of employees currently engaged- category wise	26	47.27%	29	52.73%
2	Recruitment Policy	13	23.64%	42	76.36%
3	Mechanism for identifying talent	15	27.27%	40	72.73%
4	Training programme undertaken for the employees.	53	96.36%	2	3.64%
5	Development programme undertaken for the employees.	42	76.36%	13	23.64%
6	Employee diversity, Equal Opportunity and Woman Empowerment	17	30.91%	38	69.09%
7	Mechanism for meeting health and safety measures at workplace.	53	96.36%	2	3.64%
8	Superannuation and Other Employee Benefits	50	90.91%	5	9.09%
9	Mechanism for meeting labour relations and disputes	31	56.36%	24	43.64%
10	Compensation management for the employees including options or share plans for employees	23	41.82%	22	58.18%
11	Development of Organisation Culture	19	34.55%	36	65.45%
12	HR Awards and Recognition	17	30.91%	38	69.09%
13	Significant relationships that the entity has with stakeholders.	53	96.36%	2	3.64%
14	How relationships with the stakeholders are managed	31	56.36%	24	43.64%

Source: Computed by the researchers

Our analysis of information presented in Table - 5 revealed the following important observations:

53 companies (96.36%) made disclosure in respect of training, mechanism for meeting health safety measures at workplace and significant relationships that the entity has with stakeholders. 50 companies (90.91%) disclosed information relating to superannuation and other employee benefits, while 42 companies (76.36%) disclosed information relating to development programme undertaken for the employees and so on.

Information relating to three important items, namely, 'Recruitment policy' and 'Mechanism for identifying talents', 'Employee diversity, Equal Opportunity and Woman Empowerment', 'Development of Organisation Culture' have been disclosed by only 13(23.64%), 15(27.27%) and 19 (34.55%) sample companies. This indicates that in respect of these three information items, non-disclosure is very high, i.e., 76.36%, 72.73% and 65.45% respectively.

Out of 14 relevant information items, only 4 (28.57%) have been disclosed by over 90% sample companies and 1 (7.14%) information item has been disclosed by 76.36% sample companies. This indicates that non-disclosure for the remaining 8 information items varies widely ranging from 3.64 % to 76.36 % among the sample companies. Overall, disclosure in this reporting area is not satisfactory. In the next section we shall summarise the major findings our study.

On examination of our analysis as stated above, it is observed that the disclosure relating to four information items is satisfactory while disclosure relating to only one information item is moderate. However, poor disclosure is indicated for the remaining nine information items.

Conclusion

Our study has provided empirical evidences on the extent and nature of information regarding disclosure relating to Human Resource & Industrial Relation in MD&A report. Findings of low level of

disclosure and evidences of non-disclosure of different information items in this reporting area suggest that there exists scope for improvement to the disclosure in MD&A Report. The study reveals that there is a wide variation in the extent of disclosure relating to 'Human Resource & Industrial Relation' in MD&A report in India. The gradation indicates that reporting of only about five percent companies is satisfactory while disclosure by about 36.percent is of moderate quality. Poor disclosure has been reported by the majority of companies. More than 60 per cent information items have not been disclosed. The regulators should take some active measures to ensure a higher level of disclosure in MD&A reports, so that users can make informed judgments on the basis of such reports. On the basis the findings of the study, it is expected that the outcomes of the present study may be useful to different stakeholders in their decision making process.

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