
ANNUAL REPORT: A MAJOR INDICATOR OF FIRM'S ORIENTATION TOWARDS HUMAN RESOURCE

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Abstract

Annual report is the important public document for any company's stakeholders. It includes all information and issues that has strategic importance. On the other hand twenty first century HR is thriving as strategic partner rather than administrative expert or employee advocate. Unique set of intangible assets influence the performance of a company. HR being a strategic asset driving performance, explicitly or implicitly impacts the contents of annual report and its interpretation. This paper attempts to understand any organisation's approach and philosophy towards human resources using the content analysis of annual report. Companies are selected on the basis of foreign shareholding pattern and data was obtained through their respective websites. Finding highlighted that foreign companies operating in India paid slightly more attention and focus on the importance of HR issues in annual reports and better orientation regarding the management of people. However, despite the global appeal and changing pattern HR is still lacking the real position of strategic key area in annual reports. Study has number of implications for business organisation, HR professionals and research scholars.

Key words- HRM; Annual report; Management of people: content analysis: strategic HR.

1. Introduction

Over the time research on human resource management is gaining popularity day by day due to its role in company's competitiveness. Many studies confirm that HR is the most pivotal asset for any organisation that can be turn into a sustainable competency if managed properly (Shukla, 2014). The way of managing human resource is also changing year by year (Parry, 2011). Research on HRM is still going on to gain the important place in the organisational realm. From administrative expert to strategic partner continuum many changes occur in the role and function of HRM. Many research studies confirm that there is direct/ indirect linkage between financial performances of the company. As well for proper implementation of any strategy its alignment with HR is very important. HRM include all the strategic, policies and practices for personnel management but originally HRM were used to disconnect with strategic thinking. However, in today's scenario this disconnection got blurred due to many theories proposed by veterans and scholars. Now, HRM is considered as one the important pillar of strategy formulation and implementation process. In one hand HRM is gaining the tag of SHRM, on the flip side it is still waiting for the considerable space in the major disclosure documents of the company.

Annual report is one of the important communication documents (Wanderley et al, 2008) i.e. considered as company's activities, policies and performance mirror

for external as well as internal stakeholders. Many future plans about the investment, new venture and utilisation of investor wealth etc are given in annual report of the company. Basically, plans related to finance, equity change, company branches and offices, research etc gain prime place in the annual report of the company based on law of financial statement of entities but company can voluntary disclose the information related to other issues (Dagiliene, 2010). Being the strategic asset of the organisation, HR issues still not get much importance in annual report of many companies. But, some companies give considerable attention to the HR plan and policies in their annual reports also. Many researchers suggested intellectual capital has strategic important in wealth creation (Bontis, 2002). Keeping this notion as a pivotal theme present study seeks to analyse the orientation of Indian as well as foreign companies towards the management of people thorough their public document i.e. annual report.

2. Literature Review

Human resource management has faced many paradigm shifts in terms of its importance, role and function in the organisation (Sonnier et al 2007). Many researchers always emphasised their role in terms in strategic partner (Baird and Meshoulam 1988, Schular and Jackson 1987 etc) .It becomes common refrains that HR is strategic business partner not an administrative expert, especially in researches but in real world this notion still facing

much challenges in many fronts. Just labelling the HR as strategic does not ensure its contribution towards the company goals and attainment of sustainable competency. It actually need operational to managerial level decision and actions.

Human resource management includes all activities related to management of people in any organisation. Previously, Human resource managers were used to be administrative expert and realm of HRM was just to manage the employee related problems in any organisation but now picture has been changed. Now HR becomes more strategic rather than administrative (Inyang 2010, Ulrich 1997, Lowler III & Mohrman 2003). The paradigm shift in the role and importance of HRM in the organisation has increase the onus of HR managers. Now it is seen as competitive advantage of business organisation. (Inyang 2010, Wei 2006, Leede & Looise 2005).

Annual report is the major disclosure document for any company that contain information worth for investors (Abeysekera, 2008). In common parlance, annual report is just considered as financial document, where all the information regarding the source and management of funds is given (Dagiliene, 2010) and other information disclosure depends upon the conviction of company's top management. Although many authors and veterans start supporting the inclusion of non tangible asset related information that has impact of company's competitiveness (Abesekera 2008, Abeysekera, 2006, Bontis 2002). Even scenario is also changing, companies are now taking annual report as a wholistic document for corporate affairs where all important programs policies and plan, has direct or indirect impact on companies financial health (Abhayawansa & Abeysekera 2008), included with relation to stakeholders. In research studies it has been widely used document for text analysis (Duriau et al 2007, Milne and Adler).

3. Research Objectives

Present study seeks to achieve the following research objectives

- 1) To compare the orientation of Indian as well as foreign companies towards HRM.
- 2) To analyse the importance given to HRM in annual report of the companies.

Following the above mention primary objectives, study is also intended to accomplish the following supportive/ secondary objectives-

- i) To explore the main HR issues cover in the annual report of the companies.
- ii) To analyse the importance given to HR manager in Indian as well as foreign companies.
- iii) To investigate the other importance of other issues like HR strategy/ future plan, HR issues etc given in annual report of the companies.

4. Research Hypotheses

Working Hypotheses (Alternate) of present study are-

RHo1: There is significance difference between the Indian and foreign companies in terms of orientation towards HRM.

Annual report is the one of the important document (Disclosure) that describe the company's present as well as the future course of action for all stakeholders. It includes all the information that has strategic importance for companies' point of view. Therefore, It can be a good medium for analysing the orientation of companies towards human resource management that can be measured by importance given to HR issues in that document.

RHo2: There is a significance difference between the Indian and foreign companies in terms of importance given to HR issues in annual report.

RHo2 (a) There is significance difference between Indian and foreign companies in term space provided to HR issues in annual reports.

RHo2 (b) There is significance difference between Indian and foreign companies in term of inclusion of HR manager speech in annual report.

RHo2 (c) There is significance difference between Indian and foreign companies in term of inclusion of HR strategy in annual report.

RHo2 (d) There is significance difference between Indian and foreign companies in term of inclusion of major issues in annual report.

RHo2 (e) There is significance difference between Indian and foreign companies in term of total HRM investment given in annual report.

5. Research Methodology

Present study tries to analyse and compare the orientation of business companies towards the management of their most important asset i.e. their people. Content analyses (Qualitative as well as quantitative) of annual reports are done to find out the importance given to the HR issues and details. Non probability purposive sampling has been used for the selection of sample. ETIG data base (2012) (Top 500 ET companies) has been used to identify the foreign as well Indian companies. On the basis of foreign shareholding patterns (Foreign promoters, foreign institutional investors, foreign venture capital) 51 companies have been indentified, whose foreign shareholdings are more than 50 percent that are taken as foreign. And to equalise it 51 Indian companies also included in sample size irrespective of the industries. So that total sample size for this study is 102 (51 foreign companies + 51 Indian companies i.e. N= 102).

The data was obtained through the websites of the respective companies. Annual reports of all companies are downloaded from their official websites. After the literature review, discussion and interview with senior HR manager several variables identified for content analysis method. Annual report text has been analyse on the basis of following indicators-

- 1) Space provided to HRM issues in page numbers (Continues/ Scale variable)
- 2) Major Issues which are covered. (Continues/ Scale variable)
- 3) Future plan/ strategies for HR management (Categorical variable)
- 4) Words or speech of HR manager (Categorical variable)
- 5) Other HRM related terms as total HR investment (Categorical variable)

Firms orientation toward HRM have been measured on the 5 point Likert scale (On the basis of content analysis done for above dimensions)-

- 1) Administrative Activity
- 2) Employee advocate/ welfare activities
- 3) Change Management/ Personnel management
- 4) Business Partnership/ competitive advantage based activities
- 5) Strategic HRM/ Strategic partnership

The cumulative scale which have been used for calculation of orientation of firm is- (**Table 1**)

Firm which have got 13-12 points considered people management as strategic activity whereas 11-10 point considered it as resource management and respectively as depicted by table 1.

6. Data analysis and findings

A) Descriptive statistics of data- (Table 2)

Table 2 depicted that out of 102 companies 84.3 percent were form manufacturing sector and 15.7 percent form service sector. On the other hand, 83.3 percent companies give only 1-2 pages space to HR issue in their annual report and only 7.8 percent gives separate section to HR issues. Further analysis reveal that 80.4 percent companies' give financial investment related to HRM in their annual report as employee cost, expenses etc. On the flip side 100 percent of sample doesn't give any future plan/ HR strategy related information in their annual report.

Discussing the major HR issue covered in annual report it was found that 53.9 percent were form group1 i.e. employee management, expenditure etc and 14.7 percent covered issues related to performance management, training and development etc and only 6.9 percent given importance to term like SHRM, strategic HR, competitive advantage etc.

After collecting the above information firm orientation towards HRM is measured and table 1 revealed that 42.2 percent companies treat HRM as administrative activity and 35.3 percent treat it as employee welfare activity. Only 4.9 percent companies treating HRM as strategic activity.

B) HRM orientation of companies

(I) Space provided to HR issues in annual reports

In annual report HRM issue generally get ignored due to some preconception. Therefore, space given to HR issues in annual report is taken as one of major indicator of firm orientation. Mann Whitney test has been used to analyse the significance of difference as K-S test value (K-S value 4.837, Sig Value .000) indicate that data is not normal. (**Table 3**) (**Table 4**)

When we talk about the space provided to HR issues in annual report, foreign companies have slightly better

position to 13.9 percent has given separate section to HRM issues compare to Indian firm i.e. only 2 percent. Further analysis revealed that 70.6 percent foreign companies give 1-2 page to HR issue in opposite to Indian companies i.e. 96.1 percent (Table 3). Mann Whitney test value (Table 4) also indicates that ($U=975.5$, Sig value .001) that there is significance difference between Indian as foreign companies in term of space provided to HR issue in their annual report.

(ii) Words/ speech of HR manager

Speech and words of HR manager is also taken as one indicator to get the role played by HR manager in that particular company. Analysing the variable 'word/ speech of HR manager in annual report' both Indian as well as foreign companies have worst condition, none of them has words/ speech/ message of their HR manager.

(iii) Future plan for HR (HR strategy)

Future HR strategy has been also taken into consideration. (Table 5)(Table 6)

Table 5 clearly shows that 96.1 percent foreign companies do not disclosed their HR strategy/ future plan. However 100 percent Indian companies do not give any space do their HR plan/ strategy in their annual report. Test statistics (Chi-Square 2.040, Sig value .153) (Table 6) doesn't reject the null hypothesis that there is no significance difference between foreign and Indian companies in term of inclusion of HR strategy/ future plan in their annual report.

(iv) Major HR issues covered

After analysing the space major issue that has been covered is outlined to get better insights of the firm orientation towards HR. (Table 7)(Table 8)

Table 7 reveals that 43.1 percent of foreign companies covered term related to employee cost/ expenditure and management and only 9.8 percent covered issue like strategic HR, alignment etc compared to Indian companies with 64.7 and 3.9 percent respectively. K-S test value (K-S value 3.241, Sig Value .000) shows that data is not normal and non parametric test has been performed. According to this parameter foreign companies also seems to be in better position compare to India companies and test statistics ($U=939.5$, Sig value 0.008) is also indicate a significance difference between foreign and Indian companies in term of major HR issues covered in their annual report (Table 8).

(v) Other HRM related terms

Above all mention indicators, other may also be considered if seems important from the perspective of research objectives. (Table 9)(Table 10)

Comparing foreign and Indian companies in term of HR investment disclosure in their annual report shows that 88.2 percent Indian companies doesn't disclose anything about their financial figure related to HRM whereas 72.5 percent foreign companies shows similar tendency (Table 9). However 27.5 percent foreign companies' gives information related to their HR investment. Further, test statistics (Chi Square 3.98, Sig Value .046) (Table 10) also indicate that null hypothesis is rejected (Sig Value .046) that is there is no significance difference between Indian and foreign companies in terms of HR investment given in annual report.

(vi) Firm Orientation towards HR- (Table 11) (Table 12)

Considering the above dimensions companies orientation towards HRM has been derived and it was found that 23.5 percent foreign companies treat HRM as administrative/ legal activity compare to their counterpart as 60.8 percent (Table 11). Further analysis reveals that 39.2 percent foreign companies takes management of people as employee welfare activity and 15.7 percent considered it as management of people and asset compare to Indian companies with 31.4 percent, 5.9 percent respectively. At the end it was found that only 7.8 percent foreign companies and 2.0 percent Indian companies treat HRM as strategic activity. As K-S test value (K-S value 2.66, Sig Value .000) shows that data is not normal. Thus Mann Whitney test has been performed and test statistics (Table 12) also confirm that there is a significance difference ($U=695.00$, Sig value .000) between foreign and Indian companies in term of orientation towards HRM.

7. Result and discussion

Data analysis clearly shows that whether it is foreign company or domestic company, HR still need the real status of strategic partner. Both types of companies have poor condition in term of disclosure related to HR issues and practices. Although foreign companies have gained slightly better position compare to their counterparts domestic companies. Whereas, Indian companies

generally used the following statements to get rid of disclosures norms related to HRM-

"Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this Report. However, in pursuance of Section 219(1) (b) (iv) of the Companies Act, 1956, this Report is being sent to all the Shareholders of the Company excluding the aforesaid information and the said particulars are made available at the Registered Office of the Company. The Members interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company."

Data also reveals that in many indicator both types companies has shown worst results. Still in many companies HR is considered as management of people only, not a strategic partner. There are various benefits of inclusion of HRM as major part in companies' annual report. Some are-

- 1) External stakeholders get relevant information about the company HR policies and practices.
- 2) Internal stakeholders will also get accurate information about the future orientation and expectation of company from the employees.
- 3) Inclusion of HR issue in annual report will improve the disclosure and transparency status of company.
- 4) As researches suggest that HR is having indirect linkage with the financial performance of the company and it worth to be included in the major document of company.
- 5) It vouches the strategic status of human resource management in the particular company.

8. Conclusion

Days are gone when human resource was used to be the administrative activity only. In changing scenario managing human resource competitively is the key for sustainable development and growth. Business organisation has realised the importance laid down by the word competency with special reference to their human resource. Just changing the labelling from HRM to Strategic HRM is not sufficient for materialising the real benefit of Strategic HR. It requires top level consideration to ground level execution. Participation and consideration in every sphere of company affairs like annual report etc give new impetus to HRM.

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Table- 1

Firm Orientation	Space (Points)	Speech (Points)	HR Strategy (Points)	Investment (Point)	Major Issues (Points)	Total (Points)
Strategic activity/ partnership	4-5	1-0	1-0	1-0	4-5	13-12
Resource Management	3-4	1-0	1-0	1-0	3-4	11-10
Management of People/ workforce	3-4	1-0	1-0	1-0	3-2	9-8
Employee Advocate/ welfare activity	2-1	1-0	1-0	1-0	2-1	7-6
Administrative / Legal Activity	1	1	1	1	1	5

Table- 2 Descriptive Statistics of Data

		Frequency	Percent
Company is operating in which sector	Manufacturing Sector 86	84.3	
	Service Sector	16	15.7
	Total	102	100.0
Space provided to HRM issues and information in page numbers	1 to 2 pages	85	83.3
	2 to 4 pages	8	7.8
	4 to 6 pages	1	1.0
	More than 6 pages	-	-
	Separate section	8	7.8
	Total	102	100.0
HR investment given in financial terms	No	82	80.4
	Yes	20	19.6
	Total	102	100.0
Future plan/ strategy for HRM	No	100	98.0
	Yes	2	2.0
	Total	102	100.0
Major issues covered in annual report	HR Expenditure/ employee management/ expenditure/ practices/ cost benefits	55	53.9
	employee welfare/ talent retention/ Workforce management	14	13.7
	performance management/ appraisal/training/ skills enhancement	15	14.7
	Leadership development/ culture improvement/ team building/ motivation	11	10.8
	SHRM/ strategic HR/ 7 partnership/ competitive HRM/ Sustainable	6.9	
	Total	102	100.0
Firm orientation towards HRM	Administrative/ Legal Activity	43	42.2
	Employee Advocate/ Welfare	36	35.3
	Workforce/ People management	11	10.8
	Human Resource Management	7	6.9
	Strategic HRM	5	4.9
	Total	102	100.0

Table-3 Types of company * Space provided to HRM issues and information in page numbers
Cross tabulation

			Space provided to HRM issues and information in page numbers				Total
			1 to 2 pages	2 to 4 pages	4 to 6 pages	Separate section	
Types of company	Foreign	Count	36	8	0	7	51
		% within Types of company	70.6%	15.7%	0.0%	13.7%	100.0%
		% within Space provided to HRM issues and information in page numbers	42.4%	100.0%	0.0%	87.5%	50.0%
	Indian	% of Total	35.3%	7.8%	0.0%	6.9%	50.0%
		Count	49	0	1	1	51
		% within Types of company	96.1%	0.0%	2.0%	2.0%	100.0%
		% within Space provided to HRM issues and information in page numbers	57.6%	0.0%	100.0%	12.5%	50.0%
		% of Total	48.0%	0.0%	1.0%	1.0%	50.0%
Total		Count	85	8	1	8	102
		% within Types of company	83.3%	7.8%	1.0%	7.8%	100.0%
		% within Space provided to HRM issues and information in page numbers	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	83.3%	7.8%	1.0%	7.8%	100.0%

Table-4 Test Statisticsa

	Space provided to HRM issues and information in page numbers
Mann-Whitney U	973.5
Wilcoxon W	2299.5
Z	-3.375
Asymp. Sig. (2-tailed)	0.001
Kolmogorov – Smirnov Z	4.837
Asymp. Sig. (2-tailed)	.000
a. Grouping Variable: Types of company	

Table -5 Types of company * Future plan/ strategy for HRM Cross tabulation

			Future plan/ strategy for HRM		Total
			No	Yes	
Types of company	Foreign	Count	49	2	51
		% within Types of company	96.1%	3.9%	100.0%
		% within Future plan/ strategy for HRM	49.0%	100.0%	50.0%
		% of Total	48.0%	2.0%	50.0%
	Indian	Count	51	0	51
		% within Types of company	100.0%	0.0%	100.0%
		% within Future plan/ strategy for HRM	51.0%	0.0%	50.0%
		% of Total	50.0%	0.0%	50.0%
Total		Count	100	2	102
		% within Types of company	98.0%	2.0%	100.0%
		% within Future plan/ strategy for HRM	100.0%	100.0%	100.0%
		% of Total	98.0%	2.0%	100.0%

Table- 6 Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.040 ^a	1	.153
N of Valid Cases	102		
a. 2 cells (50.0%) have expected count less than 5. The minimum expected count is 1.00.			
b. Computed only for a 2x2 table			

Table-7 Types of company * Major issues covered in annual report Cross tabulation

			Major issues covered in annual report					Total
			Related to Employee cost/ expenditure	Employee welfare	Performance management	Leadership development	SHRM	
Types of company	Foreign	Count	22	7	7	10	5	51
		% within Types of company	43.1%	13.7%	13.7%	19.6%	9.8%	100.0%
		% within Major issues covered in annual report	40.0%	50.0%	46.7%	90.9%	71.4%	50.0%
		% of Total	21.6%	6.9%	6.9%	9.8%	4.9%	50.0%
	Indian	Count	33	7	8	1	2	51
		% within Types of company	64.7%	13.7%	15.7%	2.0%	3.9%	100.0%
		% within Major issues covered in annual report	60.0%	50.0%	53.3%	9.1%	28.6%	50.0%
		% of Total	32.4%	6.9%	7.8%	1.0%	2.0%	50.0%
Total		Count	55	14	15	11	7	102
		% within Types of company	53.9%	13.7%	14.7%	10.8%	6.9%	100.0%
		% within Major issues covered in annual report	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	53.9%	13.7%	14.7%	10.8%	6.9%	100.0%

Table-8 Test Statistics^a

	Major issues covered in annual report
Mann-Whitney U	939.500
Wilcoxon W	2265.500
Z	-2.643
Asymp. Sig. (2-tailed)	.008
Kolmogorov – Smirnov Z	3.241
Asymp. Sig. (2-tailed)	.000
a. Grouping Variable: Types of company	

Table -9 Types of company * HR investment given in financial terms Cross tabulation

			HR investment given in financial terms		Total
			No	Yes	
Types of company	Foreign	Count	37	14	51
		% within Types of company	72.5%	27.5%	100.0%
		% within HR investment given in financial terms	45.1%	70.0%	50.0%
		% of Total	36.3%	13.7%	50.0%
	Indian	Count	45	6	51
		% within Types of company	88.2%	11.8%	100.0%
		% within HR investment given in financial terms	54.9%	30.0%	50.0%
		% of Total	44.1%	5.9%	50.0%
Total		Count	82	20	102
		% within Types of company	80.4%	19.6%	100.0%
		% within HR investment given in financial terms	100.0%	100.0%	100.0%
		% of Total	80.4%	19.6%	100.0%

Table 10 Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.980 ^a	1	.046
N of Valid Cases	102		
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 10.00.			
b. Computed only for a 2x2 table			

Table- 11 Types of company * Firm orientation towards HRM Cross tabulation

			Firm orientation towards HRM					Total
			Adminis- trative/ Legal Activity	Employee Advocate/ Welfare	Workforce/ People management	Human Resource Management	Strategic HRM	
Types of company	Foreign	Count	12	20	8	7	4	51
		% within Types of company	23.5%	39.2%	15.7%	13.7%	7.8%	100.0%
		% within Firm orientation towards HRM	27.9%	55.6%	72.7%	100.0%	80.0%	50.0%
		% of Total	11.8%	19.6%	7.8%	6.9%	3.9%	50.0%

	Indian	Count	31	16	3	0	1	51
		% within Types of company	60.8%	31.4%	5.9%	0.0%	2.0%	100.0%
		% within Firm orientation towards HRM	72.1%	44.4%	27.3%	0.0%	20.0%	50.0%
		% of Total	30.4%	15.7%	2.9%	0.0%	1.0%	50.0%
Total		Count	43	36	11	7	5	102
		% within Types of company	42.2%	35.3%	10.8%	6.9%	4.9%	100.0%
		% within Firm orientation towards HRM	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	42.2%	35.3%	10.8%	6.9%	4.9%	100.0%

Table 12 Test Statistics ^a

	Firm orientation towards HRM
Mann-Whitney U	695.000
Wilcoxon W	2021.000
Z	-4.321
Asymp. Sig. (2-tailed)	.000
Kolmogorov – Smirnov Z	2.66
Asymp. Sig. (2-tailed)	.000
a. Grouping Variable: Types of company	

