CHAPTER - 7

CONCLUSIONS AND SUGGESTIONS

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I. CONCLUSIONS

Analysis and interpretations made and inferences drawn in the preceding chapters of the thesis lead to a number of upshots. Each is discussed further and concluded in the following paragraphs.

The major findings and conclusions of the present study are as under –

(A) EVALUATION OF MODELS

1. Selected industries under study except Grauer & Otis have followed Lev and Schwartz model with refinements as suggested by Flamboltz and Jaggi and Lau.

2. Under the comparative study of audited annual reports of the 20 apex Joint Stock Companies, 20% of the industries have not reported the name of the model and discount factor followed.

3. It is observed under the study that industries following HRA, their discount factor rate varies in between 10% to 15%. But they failed to provide any logic behind their selection of particular rate except by the ONGC following 12.5%, it is the rate on which government of India advances loan to it.

4. Under the Lev and Schwartz (1971) model, the value of human resources will be more or less increasing, even if organization continuously incurs losses.
5. The attitude and morale of the employees, the contribution of the employees to the organization; and as such factors are out of the purview of Lev and Schwartz model of human resource valuation.

6. The Lev and Schwartz has not considered the possibility of an employees leaving the organization prior the retirement.

7. The study shows that BHEL (Bharat Heavy Electricals Ltd.) is the pioneer industry in the field of HRA, which experimented with this Lev and Schwartz concept in 1974 – 75 and is still using the same model. BHEL do not consider labour as a cost but as a resource.

8. Analytical study shows the following appraisal of various models.

(i) Historical Cost Method:- The underlying assumption is that the present value of the series of services expected to be derived from the employees during their stay with the entity equal the amount spent for their selection, training etc.

(ii) The Replacement Cost Method :- It provides a major improvement over historical cost method, it cannot be applied in practice because of subjective information on the replacement cost of the present work force of employees.

(iii) The Opportunity Cost Method:- It neither considers the value and volume of services, nor make a provision to consider the discount factor. This model were not developed with the object of making them competent for bidding. Hence, the application of the model does not appear to feasible.
(iv) The Lev and Schwartz Model:- It is popularly known as Capitalisation of salary method. It is considered logical and practicable as it takes into account emoluments paid to the employees, their stay with entity and the discount factor while the entity and discount factor while capitalizing their earnings to have a measure of the HR value. It is assumed here that the volume of services expected to be derived from the employees from the data of appointment to the date of retirement follows a fixed pattern. This appears to be static to some extent. Despite such shortcomings this system can provide an objective assessment, to some extent, of HR value. That is why, the organization reporting HRA generally value their HR’s on the basis of this model.

(v) Economic Valuation Method :- As per this method, the value of the services provided by the individual during his service life rather than the salaries he receives, are capitalised for the purpose. The method is logically sound for it considers the benefit derived from the labour will always equal to the sacrifices made to acquire the services. Unlike, Lev and Schwartz model, here marginal rate of return of wages is not considered equal to the marginal rate of return of money. But the problem with the system is that it is difficult to have an separate measure of the value of services of individual employees.

The first hypotheses under study observed, “that most of the model appear logically sound in appropriate case, it is not possible to apply most of them in practice for lack of suitable data and inability to have objective measurement of all the variables mentioned in the models”. Therefore, the
hypothesis number one “The present pattern of the models to value human resource in the industries is satisfactory and is sufficient for fulfilling the needs concerned therewith” was not accepted.

(B) GROWTH PARAMETERS

1. Selected industries under study have not made satisfactory progress in the field of HRA. Growth parameters like recognition of HR as an asset, discounting factor / rate, HR depreciation system, HR audit. The number of industries showing HRA in their annual report in the year 1974 – 75 was only one (i.e. BHEL), whereas current figure is 20 where 11 belongs to public sector and 9 belongs private sector. But they have failed to bring any satisfactory model which is a bias free. It was because of the conventional accounting practices adopted and higher accounting cost involved.

2. Growth in respect of the recognition of HR as an asset is still remained as a rosy picture. However, the researcher has tried his level best to bring out scattered matter which plays a very important role in recognition of HR as an asset from surfing the 84,000 internet sides of the world. To consider HR as an asset it should certify the following four features of asset, viz.

(a) It should possess future service potentials.

(b) It’s value should be measurable.

(c) It should be acquired through transaction.

(d) It should be owned by an organization.

Researcher has given logical supporting answer in the thesis with the reference of different proponents of all over the world to qualify HR as an asset by considering the above features.
3. The apex industries failed to make any progressive growth in respect of appropriate HR discount factor. Still discounting rate remained subjective concept in the industries which varies in between 10% to 15%. Where Cement Corporation of India (CCI) and Madras Refineries Ltd. following highest discount rate (15%), followed by ONGC, Engineers India Ltd and Oil India Ltd. (average rate 10%).

4. Sample industry as well as other apex industry listed on BSE and NSE have not mentioned the adoption HR depreciation system neither in their annual report nor any case study revels about the same.

5. Progress in the field of HRA audit is almost absent in the sample as well as in the apex Joint Stock Companies because there is no guidelines from ICAI, Company Law Board and Indian Companies Act, 1956. Therefore, the hypothesis number two “The Joint Stock Industries in India are growing in numbers to show HRA in their financial statements” was partially accepted.

(C) EVALUATION OF ROLE OF ICAI AND INDIAN COMPANIES ACT, 1956 IN RELATION TO HRA

1. The Accounting Standard Board (ASB) of Institute of Chartered Accountants of India (ICAI) has brought out accounting standards on most of the important areas in accounting and has ensured their implementation by making accounting standards mandatory. The most regretting fact is that the ICAI has not been able to bring any definite accounting standards on measurement and reporting of human resource cost and value. The non-disclosure of HRA information in the financial statements distorts net income disclosed by profit and loss account, total assets figure in the
balance sheet and also distorts computation of rate of return on capital employed because it's components namely net income and total assets are distorted.

Secretary Research Committee (Anuradha Jain), ICAI, Indraprastha Marg, New Delhi - 110002 vide letter dated 14 – 02 – 2001 (RES / MISC) has given following statement on HRA with reference to my letter dated 23 – 01 – 2001. “We may inform you that the Institute has not held any meeting on HRA nor there any plans to hold the same in the near future”.

Senior Executives (Mr. K. P. Unnikrishnan), ICWA, Western India Regional Council, Janambhoomi Marg, Fort, Mumbai 400101 vide letter dated 01 – 02 -2001 (57 (c) / 2000 – 2001 / 207 ) has given the following statement on HRA with reference to my letter dated 23 – 01 – 2001. “We have not conducted any meeting on the topic HRA, so there is no question of providing any information on it”.

However, the researcher has also made correspondence with The Company Law Board, New Delhi, CPA (Certified Public Accountant), New York, CIMA, England but no reply is received till date relating to HRA.

2. Section 217 (2A) of the Indian Companies Act, 1956, requires that the companies to give the particulars of employees drawing Rs. 12,000 per month. These particular includes name of the employee, designation and nature of duties, salary withdrawn, qualification, age of the employee, experience, date of commencement of employment and particulars of last employment held by the employees, As far as HRA is concerned the disclosure of particulars of employees in fulfillment of statutory requirement of sec. 217 (2A) is not sufficient to draw any conclusion.
Therefore, the hypothesis number three "The present system for the HRA suffers from many limitations, like no proper guidelines / Accounting Standards for HRA from ICAI and Indian Companies Act, 1956" was accepted.

(D) EVALUATION OF TRUE AND FAIR VIEW

1. Section 211(5) of the Indian Companies Act, 1956 provides that:

   (a) Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of the financial year and shall subject to the provisions of this section be in the form set out in part I of schedule VI or as near there to as circumstances admit.

   (b) Every profit and loss account of a company shall give a true and fair view of the profit or loss of the company of the financial year and shall comply with the requirements of part II of schedule VI.

The word "true and fair view" have not been defined in the companies Act, 1956. Exact meaning of true and fair view will have to await a judicial pronouncement. The balance sheet under schedule VI is complete silence as regards to the disclosure of value of human assets is concerned.

2. Actually the company law treatment of total expenditure incurred on the HR development is expanding of such expenditure in profit and loss account fully in the year when incurred. This results in violating of matching principles that current years sales revenue should be matched with current years expenditure to arrive at current years profit. The concept of materiality (A.S. – I) is impaired because by charging total expenditure of human resource development which will benefit in future years, in profit
and loss account of current year. Profit figure is substantially suppressed and true and fair view of profitability and financial position of the entity is actually not disclosed by the profit and loss account and balance sheet. The point to be noted is that expenditure incurred by the companies in India on HR training and development is significant and material enough because its knowledge can change ones impression about the profit situation. Therefore, the hypothesis number four "The present form of balance sheet lacks in maintaining optimum level of quality (i.e. fails to give any place to human resource), and it needs improvement for showing true and fair view of financial position of an industrial unit" was accepted.

(E) RATIO ANALYSIS

1. HRD Expenditure per Employee ratio is very less (Otis Rs. 774 and Grauer Rs. 612) in case of the company it should be at least Rs. 2,500/- in order to convert semi-skilled labour (Otis 48% and Grauer 25%) of both the company to skilled one by introducing gradual process of in-house and on the job training programme.

2. Human Resource Value per Employee ratio is very less in case of Grauer (Rs. 96,600) as compared to Otis (Rs. 1,23,595) it is because of lesser amount wages offered to staff and workers (average Rs 7,500 p.m.) where as the same figure of Otis is average Rs. 14,000 p.m.

3. Gender Ratio of female workers in case of both the industry is very adverse (Otis 0.62% and Grauer 2.85%) it is because of both the units re manufacturing plant.

4. Ratio of Age to HRV is quite reasonable in both the firm, except in the age group of 21 – 30, Otis employees holds only 2% of the share. It is
because of VRS and no new recruitment at workers level. Company should take of this fact in order to maintain its future workforce.

The HRV hold by workers in Otis company is very high (i.e. 54%) whereas in case of Grauer it is only 8%. It is because of Grauer (Kandivli, Mumbai) is a corporate office as well as maintenance unit.

5. **Quality Ratio** shows that Otis company should undertake indoor and on the job training in order to improve the percentages of skilled labour (i.e. 42%). Human Resource Accounting ratios can act as an important measuring yard stick tools in the hands of HRD manager. HR ratios can provide the future solutions of the present HR problems at industrial level. Therefore, **the hypothesis number five** that

"The various ratios relating to human resource stock / value are essential in order to take better decisions regarding efficient utilization of human resource" **was accepted.**

**(F) HUMAN RESOURCE DEPRECIATION SYSTEM**

1. The principal variables are noticed during the research, which directly affect depreciation of human assets, such as absenteeism, strikes and lockouts, skill obsolescence, labour turnover and industrial accidents.

2. From the analytical study of selected industries, it has noticed that no single industry has shown any calculation regarding HR Depreciation, it is because of HR is not regarded as an asset in the conventional accounting.

HR Depreciation is another important aspect of Human Resource Accounting that has not received any attention in the earlier HR cost and value based models. Therefore, the **hypothesis number six** "The present
standard set up for the HR Depreciation is sufficient to cater the present and future need" was not accepted.

G) EVALUATION OF SELECTED INDUSTRIES AT GLANCE

1. For the purpose of HRA, both the sample industry are grouping its employees into four categories, namely Category ‘A’ includes Executives and Unskilled workers. While Category ‘B’ includes Artisans and Skilled and Unskilled workers. Whereas Category ‘C’ includes clerks and office staff. Category ‘D’ includes supporting technical staff. Further, employees of all these categories are divided into five age groups, namely, 21 – 30, 31 – 40, 41 – 50 and 51 – 58.

Following human resource value is calculated with respect to 12% P. V. Discount factor by applying Lev and Schwartz model as suggested by Institute of Chartered Accountant of India.

Inter firm comparison of HRV of Grauer and Otis

<table>
<thead>
<tr>
<th>Age</th>
<th>Executives</th>
<th>Workers</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Otis</td>
<td>Grauer</td>
<td>Otis</td>
</tr>
<tr>
<td>No. HR Value (Rs)</td>
<td>No. HR Value (Rs)</td>
<td>No. HR Value (Rs)</td>
<td>No. HR Value (Rs)</td>
</tr>
<tr>
<td>21-30</td>
<td>06 08,13,462</td>
<td>13 22,28,772</td>
<td>01 0.00,89,596</td>
</tr>
<tr>
<td>31-40</td>
<td>31 54,34,982</td>
<td>21 45,46,710</td>
<td>65 0.66,77,190</td>
</tr>
<tr>
<td>41-50</td>
<td>33 63,74,511</td>
<td>16 37,32,080</td>
<td>122 1.32,06,012</td>
</tr>
<tr>
<td>51-60</td>
<td>13 20,94,444</td>
<td>13 25,72,115</td>
<td>16 0.14,47,168</td>
</tr>
<tr>
<td>Total</td>
<td>83 1,47,17,399</td>
<td>63 1,30,79,677</td>
<td>204 2.14,19,966</td>
</tr>
</tbody>
</table>

| ↓ | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ |
| 26% | 37% | 26% | 55% | 63% | 54% | 18% | 08% | 11% | 09% | 56% | 37% |
2. The productivity of both the company heavily depends upon the employee group of 31 – 40 and 41 - 50 in the category ‘B’ and category ‘C’. This is due to the fact that employees of category ‘A’ are not directly involved in the production process as they are concerned with decision making process.

3. Horizontal Analysis

A. Executives & Supervisors

(a) In both the company executives and supervisors hold 26% of the share in the total workforce.

(b) Whereas in both the company higher level holds 37% of human value in Otis and 55% in Grauer. The value of human resource in Grauer was very high because of selected research unit was a corporate office.

B. Artisans, Skilled, Unskilled, Technical and Supporting staff.

(a) Whereas the ratio of workers category in the both the company was 63% (Otis) and 18% (Grauer). The percentage of workforce in Grauer was very less, it is because of VRS. No doubt VRS were also introduced in Otis, but major response were received from clerk and staff section.

(b) The level of human value percentages hold by Otis in case of workers was very high (54%) because the selected research unit was the production site, whereas the percentage of human value of workers category in Grauer was only (08%).
C. Clerk & Office Staff

(a). The share of clerk and office staff in both the company during the research was 09% (Otis) and 37% (Grauer). The share of staff in the total work force of Otis was very low because of VRS. The proportion of staff in Grauer was very high because of low response for VRS, and the research unit was a corporate office so its quite obvious to have large number of clerical staff to look after the corporate work.

(b). The level of human resource hold by both the company in case of Clerical staff was 09% in Otis and 37% in Grauer.

4. Vertical Analysis:-

(a). Under vertical analysis of Grauer company, work force (20% of total strength) in age category of 21-30 holds 21 % value (i.e. Rs. 50,33,497) of total human capital (i.e. Rs. 2,36,67,716). In case of Otis this figure is only 02% (i.e. Rs. 9,03,058). Having such a low human capital in the fertile age (21-30), is a alarming indicator for the Otis company, it has to maintain its future human stock. Study shows that Otis had only 7 (i.e. 2%) employee in this age category (Higher Level = 6 + Lower Level = 1), it seems that company may have stopped the new recruitment at workers level. It may be due to the reason of trade union where 74.30% (i.e. 240 employees out of 323) of the workers and office staff are union member.

(b). The work force in the age category of 31-50 holds 88% of human capital (i.e. Rs. 3,52,95,779) in the Otis company. Where as same
figure in Grauer Company was 66% (i.e. Rs. 1,55,53,334), the overall difference was 22% in this particular experienced age.

(c). The work force in the age category of 51-60 was 10% in the Otis Company (Higher Level = 4% & Staff and Workers = 6%) and were holding 10% of the human capital (Higher Level = 5% & Workers and Staff = 5%) Rs 37,22,508. Where as the same figure in the Grauer; 9% of he work force was under this category (Higher Level = 5.30% & Workers and Staff = 3.70%) and was holding 13% of the total human resource value.

Therefore, the hypothesis number seven, “The performances of the selected Joint Stock Industries in respect of following HRA is not satisfactory”, was accepted.

II. SUGGESTIONS

1. ICAI and Company Law Board should take initiatives to bring guidelines and Accounting Standards on HRA. Company Law Board should make amendments in section 217(2A) of the Indian Companies Act, 1956 regarding the disclosure of HR information.

2. UGC and ICAI should under take compulsory research work / project on HRA to attain its end result.

3. Finance Ministry should 100% exempt the expenditure made on the development of HRA, by considering it as equal to Y2K problem.

4. The heavy amount incurred on the recruitment, selection, placement, training and development of the personnel is generally treated as revenue expenditure in conventional accounting and transferred to
profit and loss account of the period concerned. In fact, such expenditure should be capitalised and shown in the balance sheet.

5. End result of HRA should not affect the sensitivity of the workforce, as machines never react to an over or under valuation of its capacity, but an employee will certainly react to such distortion. As a result, such study should be carried out at a group-wise or team-wise level rather than on an individual because it may not be possible to identify the contribution of a single member in a task assigned to a group, only then HRA can attain its ultimate aim.

6. Economic value model in terms of the discounted present value of expected future earnings attributed to HR has major scope in the future. If research is directed towards this model, the fruitful result can be achieved in future.

7. The concept of human asset and lease accounting both lacks in ownership. Lease financing involves the acquisition of the economic usage of an asset through a contractual commitment to make periodic lease payment to lessor who owns the assets. Thus both human resources and leased resources are of the same value to an organization because of their productivity or usefulness. But the existence of that productiveness being dependent upon the continuance of a stream of payments over a time and not on any form of ownership interest. So, when lease is shown in balance sheet even if the ownership is not with the firm, on the same theme human asset can also be recorded in the balance sheet.
8. Once the human resource is got the status of human capital / assets, further research should carried on over Human Resource Management Accounting where the impact of human capital on fund flow, cash flow, working capital analysis etc. should be studied in details.

9. HRA can form a part of economic value added (EVA) reporting, it will be an attempt to resolve to overcome the limitation of traditional accounting measurement criteria by correlating with shareholder’s wealth and responsive action of a company’s manager.

10. The value of an individual calculated by using Lev and Schwartz model, is the value of an individual to the individual himself rather than to the organization. So effort should be made to bring the value of HR from business point of view.

11. In future inflation adjusted human resource cost practice should be developed, so for the next generation researcher it will be a major challenging issue.

12. The reporting of HR values in corporate financial reports should be made mandatory as it is quite useful for making managerial and HR investment decisions. Actually, it is an investment in people and not the people them selves which are an organizations human assets. HRA information can be given in supplementary statement, or directors report likewise current cost informations.

13. Besides accounting a precise system for the audit of HR and their values should be adapted. In this respect, the auditor should vouch for the safety, correct valuation and proper accounting for these valuable resources.
14. HRD department in the industry should take initiative and diversify its working budget to establish intellectual department under sub head of HRD.

15. For the better supervision and implementations of HRA, HR audit should be introduced for that ICAI should take initiative to issue guide lines regarding HR audit.

16. The following additional important ratios can help a lot to tackle the present HR problem. Moreover, the HR manager can put their view in front of the higher level with the help of calculated ratios.

1. Turnover / Human Assets Ratio

\[
\text{Turnover} \quad \frac{\text{-----------}}{\text{Human Assets}}
\]

2. Turnover / Fixed Assets Ratio

\[
\text{Turnover} \quad \frac{\text{----------}}{\text{Fixed Assets (Net)}}
\]

3. Net Profit per Employee Ratio

\[
\text{Net Profit (B.T.)} \quad \frac{\text{--------------------}}{\text{No. of employees}}
\]
4. Business per Employee Ratio

Net Sales

\[ \text{Net Sales} \]

\[ \text{No. of Employees} \]

5. Salary & other benefits to Human Resource Value (HRV) Ratio

Salary & Other benefits

\[ \text{Salary & Other benefits} \]

\[ \text{HRV} \]

6. Value - Added to Human Resource Value Ratio

Value – Added

\[ \text{Value – Added} \]

\[ \text{HRV} \]

7. Employee cost to Human Resource Value

Employee Cost

\[ \text{Employee Cost} \]

\[ \text{HRV} \]

\[ \times 100 \]

8. Return on HRV

Net Profit (excluding extra ordinary income)

\[ \text{Net Profit (excluding extra ordinary income)} \]

\[ \text{HRV} \]

\[ \times 100 \]

9. HRD Expenditure per Employee Ratio

HRD Expenditure

\[ \text{HRD Expenditure} \]

\[ \text{No. of Employees} \]

10. HRV per Employee

HRV

\[ \text{HRV} \]

\[ \text{No. of Employees} \]