Chapter Seven

Summary and Conclusion
Introduction

Now let us sum up what we have done in the earlier Chapters. For the purpose, summary of the findings made in the previous chapters is presented here first. Subsequently, conclusion derived from such findings is described. The study ends stating the areas requiring further investigation.

One of the basic objectives of accounting is to report how far an organization's goal is realised. It requires the measurement of the performances of an organization and effective use of the resources under its control. Accounting system of profit seeking organizations can meet these objectives, though to a limited extent, through Profit & Loss Account, Balance Sheet and other annual financial statements required for the purpose. But usually they do not measure and report the value of the HRs employed under such organizations. In case of NPOs, the problem is further aggravated. The accounting system here neither reports the achievements of the identified goals in terms of social welfare, nor reflects the value of the primary source from which the services rendered to the society flow out. This is why this study, as mentioned in Chapter one, evolves a system of accounting so that the basic goal for which the organization has been set up can be reflected, at least to some extent, in the annual accounting statements. But it requires (i) the measurement of the value to the NPO of selfless people associated with it; (ii) determination of the relative position of the value of HRs in comparison to other assets owned by the NPO; (iii) quantification of the contribution made by the selfless people engaged in the NPO; etc.

1. Vide Chapter - Six, page - 151
2. Vide Chapter - Six, page - 163
3. Vide Chapter - Five, page -141
It was also mentioned that such information is necessary to evaluate the performance of the NPO in terms of accounting indicators and to determine the contribution made by the funding agencies of the NPOs in providing services to the society.

I

Summary

With a view to achieving these objectives, we are in need of measuring the services rendered to the society by the welfare organizations, the sacrifices made by donors, employees and organizers on the one hand, and the value of the basic source of such services (i.e. people associated with the NPO in particular) on the other. This is why, Chapter One has described the objective of the study, stated the research methodology adopted and outlined the scheme of the work.

For the purpose of valuing HRs of a NPO, we were in need of discussing major HRA Models developed so far. That has been done through survey of literature in Chapter Two. Salient features of these models were compared, analysed and appraised. On examination it was found that even though the models are sophisticated in concepts, application of all of them to our present study is not feasible due to paucity of information. The Lev-Schwartz model\textsuperscript{4}, used by the few profit-seeking organizations, who have attempted to do so, across the world has been found to be suitable for our study.

Study of accounting system of a NPO sounds meaningless, if the existing commonly used accounting practices is not scrutinized. But accounting for welfare organization is not usually guided by enactments,

\textsuperscript{4} Vide Chapter - Two, page - 32
laws or rules and regulations promulgated by the professional or similar authoritative bodies. As a result, the accounting model commonly used (as published in Financial and Accounting Guide for Non-profit Organizations, 3rd ed. John Wiley & Sons, New York, and reported by Gross and Warshauer, partners Price Waterhouse) has been selected for our study. From the analysis it has been found that the system is designed to report the stewardship performance of an entity. In other words, it may be said that, the system is capable of reporting how far the restrictions imposed by the funding agencies have been observed in utilising the various funds entrusted to a welfare organization. But performance measures are not quantified in terms of organization's identified goals. But it should be the basic objective of accounting for a NPO (Trueblood Committee Report, Objective No. : 11). Hence, it may be inferred, the objective is not fully met.

To make up the shortcoming, the next Chapter i.e. Chapter Four, has attempted to develop a model where the performances in terms of organization's identified goals can to some extent be assessed and reported. It has also attempted to identify the various sections of the society who contribute for the generation of such services. On scrutiny it has been found that the employees, the organizers with the help of the donors generate such services. Now comes the question of the relative importance of the contributors of such services. For the purpose some ratios have been developed. This Chapter is primarily confined to establish theoretical foundation of the model. The next chapter is engaged to test the model through empirical evidence.

5. Vide Chapter - Three, page - 79-81
6. Vide Chapter - Four, page - 95
7. Vide Chapter - Four, page - 111-113
In Chapter Five, the basic objective was to measure empirically the value of the services generated by a welfare organization in a locality inhabited mostly by migrated poor people from East Pakistan (presently, Bangladesh). Though the locality lies within the suburban area of the city of Calcutta, in the province of West Bengal, India, the majority of the population are daily wage-earners who may expect themselves fortunate if they remain employed in one-quarter of a year. This is why, it is beyond their expectation to get the benefits of modern medical service as and when required. Under such circumstances the charitable dispensary run by the R K M B H R is of immense help to those hapless migrated people. In such cases, the cost of medicine in comparison to cost of other requirements for medical treatment is proportionately very low. Hence, the costs of services by the selfless professional physicians, attendants and office staff are not adequately represented in the traditional accounts. In fact, these people are indispensable for running such organizations. But the existing accounting system followed by the organizations portray neither the value of their services, nor the value of those people associated to these organizations. Through interviews the quantum of services rendered to these hapless people and the market value of these services in the area have been determined. Once such values are quantified and they are put in the accounting format, it becomes easier to find out the contribution made by the organizers. Afterwards, the contributions of the various sections, namely, employees, donors and organizers are analysed through ratios and attempt has been made to gauge effective use of the resources donated by the granting

8. Vide Chapter - Five, page - 135
9. Ibid, page - 136
authorities. Here margin ratio, operating ratio, salary service ratio etc. are computed to have a better understanding. In the unit under our study, the ratios are 0.9:1, 0.12 : 1 and 0.07 : 1 respectively. The margin ratio indicates the margin of social service over the financial cost incurred to obtain the service. In this organization the margin is 90%. The operating ratio refers to operating expenses to pay salary and cost of medicine per rupee of services. It is 12 paise per rupee of services. The salary service ratio is 0.07 : 1. It implies that cost of salary paid to the employees constitute only 7% of the net value of services rendered to the society. Other three ratios (i.e. employees' sacrifice to social services, donors' sacrifice to social service and the organization's sacrifice service ratio) represent the relative sacrifices of employees, donors and the organizers. In this organization the respective sacrifices are 54%, 10% and 36% of the net value of social services. These bits of information help pin point the relative importance of the people interested in these NPOs. The Service and Sacrifice Account of the unit clearly shows these issues. This account is capable of reporting only the flow of services received from the employees, but it does not quantify the value of the stock of such flow (as mentioned earlier) i.e. the value of human resources. That is discussed in next chapter.

Chapter Six, deals with the core of the problem. With a view to valuing the HRs, the main source from which the services originate, Lev-Schwartz model has been adopted. The various components of the model have been quantified on the basis of information collected through interviews and other means\textsuperscript{10}. The values of the services of these people, as

\textsuperscript{10} Vide Chapter - Six, page - 148
prevailed in the nearby market i.e. in privately-run nursing homes, polyclinics and hospitals run by the government are considered as the basis of such valuation. Once such resources are measured the balance sheet is drawn incorporating such values\textsuperscript{11}. Now, we are in a position to have a picture about the service generated, the sacrifices made by different sections of people, the value of the employees etc.\textsuperscript{12}. These bits of information help us in making, though in a limited manner, the effective use of resources under the behest of the organizers. For instance, we may want to know the relative importance of HRs and physical and monetary assets in the organizations. It may be desired to derive a relation between the value of HRs and donation received and between value of HRs and those of net social services. In our present study HRs constitute 97% while the physical and monetary assets together represent the balance i.e. only 3% of the total assets. Again, per rupee of donation there are HRs valuing Rs. 26.6. It is worth mentioning to note that with how little amount of donation, these persons try to serve the hapless people. As regards the effective use of HRs, it is evident that HRs amounting to Rs. 3 generate annually one rupee of net social services.

Analysis on the relation between sacrifices of employees and organizers to HRs provides an insight into the effective use of the resources. Here, per rupee of HRs, employees sacrifice 17 paisa, while organizers sacrifice 12 paisa. Besides, the relation between net social services and physical and monetary assets is a very important indicator as to the effective use of these assets. Here it is found that per rupee of these assets, the organization creates net social service worth Rs. 12.40.

\textsuperscript{11} Ibid, page - 151
\textsuperscript{12} Ibid, page - 158
Greater the ratio, higher the return on the donor's contribution. It is a valuable index of efficient use of the organization's physical and monetary assets. Similarly, a number of other ratios has been devised to critically analyse the performance of the people of the organization in terms of its identified goals of creating social welfare.

II

Conclusion

Now let us conclude. Should the existing system of accounting be discarded? The study does not propose so. It has been discussed earlier that contrary to earning profit, rendering of social service to the society, is the primary objective of NPOs. The services again is generated primarily by the people associated with the organization with the help of the funds contributed by the funding agencies. But the existing accounting system is totally engrossed in representing how far the funds entrusted are utilised as per the restrictions imposed by the donors. It is also observed that there is little scope of representing the value of HRs as well as value of services rendered by the various people associated with the organization. The information on the physical and monetary assets reported in the existing system cannot adequately speak of the achievements of the organization. Therefore, the accounting system of NPOs should be such as to give necessary information to the users. The proposed accounting system aims to serve the required purpose.

From the case study, it has been found that the physical and monetary assets constitute only 3% of the total assets, whereas the balance is represented by the HR assets of the organization. This information is very much useful to the funding agencies to take

13. Vide Chapter - Three, page - 57
14. Vide Chapter - Three, page - 61
15. Vide Chapter - Six, page - 163
rational decisions on future resource allocation. Moreover, of the total volume of service generated by the entity, the selfless people provided 56%. The organization contributed 34% while the donors contributed the balance. The donors allocate their funds to the welfare organization not on the basis of their sound solvency position. It is expected, they donate on the basis of the degree of dedication of the human forces associated to the entity. For instance, in the unit under study, the HRs comprise 97% of the total assets (i.e. aggregate of physical and monetary assets and HR assets). It is the portion of HRs that matters to the grantor. The value of other assets should not be considered so much important here. More the sacrifices, it is expected, more will be the inflow of funds from the grantors. More the association of the selfless people with the entity, more will be benefitted the hapless people through enjoying the services, emanating from such organization. Accounting for HRs of these entities, the author thinks, will help the grantor to have information to these ends. A list of other ratios (as mentioned in Chapter Six) like return on investment, margin ratio, turnover ratio, operating ratio, efficiency ratio and various assets turnover ratios will provide sufficient and useful information to the interested parties to have an insight into the welfare activities of a NPO.

The study does not discard the traditional accounting system (though it may appear to be so) rather it aims to provide such information which the traditional system usually does not provide. The study, does not aspire to provide a system which may compete with the traditional accounting system. On the other hand, the suggested system may be used as a supplement to the existing one to make the information system complete, more informative and useful.

16. Vide Chapter - Five, page - 141
17. Vide Chapter - Six, page - 159
We should, however, be cautious about the subjectivity in the estimates presented in the statement. Maximum efforts should be given to formulate the measurement technique so that the scope of personal judgement in measuring the variables in the model will be minimised.

The study cannot be claimed to be a full proof one. It is a humble attempt to find out whether it is possible to provide additional information to measure and report how far the goal of an entity has been achieved. The accounting model suggested in the study, if adopted, the author thinks, additional information so derived will be of much use to the various user groups for evaluating the performance of welfare organizations.

Suggestions for further Investigation

For the purpose of our research work in measuring the value of HRs associated with NPOs, we have considered the voluntary health and welfare organizations, where the number of selfless people and the degree of their dedication are of much importance. A detailed discussion on the value of them to the entity has been made in Chapter Six. Now let us make an attempt to suggest some related areas where further investigation should be persuaded.

(i) The performance of a voluntary health and welfare organization is very much depended on the collective efforts of the funding agencies, the selfless employees and the organizers. But these organizations come into existence only because of the service motive of the organizers. Once organized, these entities function with the funds provided by the funding agencies and the active participation of the employees. Sacrifices made by the HRs i.e. the selfless employees (the
doctors, assistants and wardboys) are considered here. As the organizers are part and parcel of such entities, value of these people to the organization should also be represented in the balance sheet to make it perfect and more informative. Research in this direction is warranted.

In profit seeking organizations also values of the employees (both executives and non-executives) alone are measured and shown in the balance sheet. But does it fully portray the human resource assets of the organization? The value of the organizers (i.e. the Board of Directors) to the entity should also be highlighted in the balance sheet.

(ii) Since application of Lev-Schwartz model requires estimation of its various components, the presence of subjectivity in these estimates may frustrate the very objective of the investigation. That is why enquiries to be made how the impact of subjectivity in the estimates of the quantum of services, market value of these services, discounting factor and similar items can be minimised.

(iii) Analysis based on data of a single year has some importance. But it would be more useful if inter-period comparison of performances of an individual unit is done. This will help to have an idea about the trend of the activities of welfare organization. Investigation on the direction is most desirable.

(iv) Inter-unit comparison is of much use to have an idea about the relative performance of the organizations. The granting agencies are usually confronted with the dilemma as to where they should allocate how much of their funds. Enquiries to this end will provide an idea on the effective use of resources bestowed to the individual units.

18. The Supplementary Annual Report published by the few Organizations and practised the concept of HRA, shows the value of their HRs, by considering the executives and non-executives of their organizations only.

19. Vide Chapter - Six, page - 149
(v) NPO does not mean welfare organization alone. It embraces clubs, associations, government institutions, educational institutions. The objectives of all these organizations are not identical. But it is a fact that efficient running of such organization is dependent on the effective and collective participation of the associated people. Hence, necessary account similar to Service and Sacrifice Account as designed in the present study should be evolved, so that it may commensurate with the respective objective of the organization. That apart, value of these people to such entity should also be made to make the annual reports complete. Investigation to this end will throw much light in the area.

Studies in these areas are to some extent based on subjective estimates. That may limit the usefulness of the evaluation, but there is no doubt, that provides an indication as to what direction the entity is heading to.