Chapter XI

Final Thoughts & Suggestions
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In this chapter, we have summarized the major findings of the study and it is presented in Section I. Section II consists of certain suggestions that have been proposed in order to bring about a resurgence in the theory and practice of human resource accounting. In Section III of this chapter, we have mentioned the future areas of research in the field of human resource accounting.

I. Major Findings of the Study

The main objective of this study is to analyze the influence of HRA information on managerial decision-making, and in consonance with the main objective of the study certain specific objectives have been formulated. We have framed separate chapters with respect to the different specific objectives identified for this study. In this section we are summing up all the major findings of the individual chapters. The major findings of this study are as follows:

1. After proper review of the HRA practices in Indian organisations, discussed under Section I of Chapter V, it has been observed that the concept of HRA has been appreciated by the accounting profession and by and large its usefulness has also been acclaimed in the literature but unfortunately, its application has not flourished throughout the world. The International Accounting Standard Board and the Accounting Standard Boards in different countries have not been able to formulate any specific accounting standard on measurement and reporting of cost and value of human resources of an organization. The legal recognition to the valuation and presentation of human resources in the annual accounts of business enterprises has also not been found anywhere else.

2. As revealed by the existing literature and on the basis of the information obtained from the annual reports of various companies, it has been found that fifteen organizations belong to the public sector and eight belonging to the private sector, i.e. twenty three companies (presented in Table 5.1), have adopted such a practice. Among the Indian IT companies, Infosys Technologies Limited, Satyam Computer Services Limited, KPIT Cummins Infosystems Limited (KPIT) have adopted HRA system and they have been disclosing HRA information in their published annual
reports. Further it has been observed that most of the Indian organisations are using the Lev and Schwartz Model for valuing their human resources.

3. With respect to the three IT companies, Infosys, Satyam and KPIT, having HRA system, it has been observed from the correlation matrix (Table 5.13) calculated with respect to certain variables selected for the study, that there is high positive correlation between TR and HR value which definitely reveals the HR efficiency of the organisation. The matrix also discloses that the TR and HR value of these three companies are positively correlated with very high values (Infosys: 0.99; Satyam: 0.98; & KPIT: 0.99), which indicates the HR efficiency in these three organisations. In other words we can say that the human resources are properly utilized in these organisations. The high positive correlation between NPAT and number of employees in all the three matrixes implies that the organisations have effective selection mechanism, proper allocation of tasks and optimal staff mix.

4. In Chapter VI, where we have made an attempt to see whether the organisations having HRA system are better performers in terms of organizational and HR performance or not, it has been observed that that the organisations having HRA system are better performers than the organisations not having the system. Among the five IT companies selected for the study, Infosys has been ranked number 1 and followed by Satyam, KPIT, TCS and HCL. The first three IT companies i.e. Infosys, Satyam and KPIT, have HRA practice in their organisations.

5. In Chapter VII, where we have made an attempt to evaluate the performance of the human resources through HRA information in NTPC Ltd., it has been viewed that although there was a declining trend in the relative importance of non-executives in the company organization, an overall increasing trend in the ratio of HR to TR indicating the growing importance of HR on the part of the company was noticed in the post-liberalization period under study. The overall performance of HR of NTPC Ltd. improved notably in the post-liberalization period. A more consistency in the performance of HR of the company during the post-liberalization period was also revealed in this study. The company was able to make its human organization stronger with full of skilled personnel having higher productivity in the post-liberalization period. The net outcome of all the performance measures used in this
study confirms a remarkable improvement in the performance of HR during the post-liberalization period. The operating performance of the company was positively as well as significantly associated with the performances of its executives and non-executives only in the post-liberalization period. Another notable outcome of the study is that the joint influence of the performances of executives and non-executives of the company on its operating performance was also very significant during the post-liberalization period. In fact, the company was able to achieve a very high profile regarding the performance of its human organization in the post-liberalization era by combating quite efficiently all the obstacles emanated from liberalization, globalization and competitiveness.

6. The most important reason for introducing HRA system, that has been identified in Chapter VIII, is - 'To improve the management of human resources from an organisational perspective by increasing the transparency of human resource costs, investments and outcomes in the management accounting rituals, such as profit and loss accounts, balance sheets and investment calculations'. Among the other reasons for introducing HRA system, the reasons ranked second and third are 'To help management plan and control the use of human resources effectively and efficiently' and 'To provide the organisation with a more accurate accounting of its return on total resources employed, rather than just the physical resources' respectively. From these three reasons ranked 1st, 2nd and 3rd, we can draw a general inference that HRA system may be adopted for the effective management of human resources.

7. 'The challenge of designing HRA systems which are capable of providing accurate and reliable information about human resources' is the major issue which inhibits the incorporation of the HRA system in an organisation. The other important reasons like- 'Lack of awareness about HRA', and 'Absence of income tax provisions regarding HRA' etc. are mentioned in Table 8.2 of Chapter VIII.

8. On the basis of the responses received from the 42 executives, it has been observed that the HRA information is mainly used by the management, and it is followed by the shareholders, employees, financial analyst, creditors, customers and government (presented in Table 8.3). It is revealed that the HRA information is used mainly by the management and the employees i.e. the internal stakeholders.
9. Table 8.4 of Chapter VIII reveals that among the different bases used for HR valuation, ‘remuneration payable to the employees’ is the most preferred one and it is followed by the company’s economic value added, the company’s value added income, and the company’s net earnings.

10. With respect to the prevailing Indian HR disclosure practices in public sector, it can be concluded that NTPC Ltd. was one of the best companies in India, which had a unique presentation of HRA information. The mode of presentation, specially reporting of HRA information through pie charts, graphs and bar diagrams definitely enhanced not only the quality of such disclosure but also the usefulness of it to its users. However, HR information was disclosed by the company as supplementary information in its annual reports.

11. The executives’ opinion on the various facets of HRA system reveals that they do acknowledge the importance of the system, but the problems associated with the HRA system, like the designing/computational aspects, lack of awareness, etc., prevents them from adopting it.

12. The findings of Section I of Chapter IX reveal that the HRA information have moderate level of influence on managerial decision making since the mean values of the items selected for the study varies between 3 and 4, where 3 indicates ‘neither agree nor disagree’ and 4 indicates ‘agree’.

13. From the mean values of the items identified for this study, it has been observed that the mean value ranges between 3.0952 and 4.0952. Out of the 40 variables selected for the study, with respect to 17 variables the executives have not expressed their opinion in favour or against, as the mean values of these variables are less than 3.5. The influence of HRA information on managerial decision making has been accepted with respect to the rest 23 variables since their mean values are more than 3.5. One more interesting finding is that the mean value is not less than 3 for a single variable, which implies that none of the executives disagreed with the utility of HRA information in managerial decision making.

14. From the Frequency Table 9.3, in Section I of Chapter IX, we can observe that 48, i.e. 3 percent of the responses indicate ‘strongly disagree’ with respect to the various variables selected for the study. 207 responses which represent 12 percent of the total
number of responses have been related to ‘disagree’. With respect to some of the variables the respondents were unable to give their opinion, and that represents 31 percent (511) of the total responses. However, 577 responses i.e. 34 percent of the total responses imply ‘agree’ regarding the statements expressed in the questionnaire. 20 percent of the responses have been expressed with respect to ‘strongly agree’. Almost 54 percent of the responses relating to ‘agree’ and ‘strongly agree’ indicate that the HRA information can be used for various decisions that we need to undertake in an organisation. From the number of response received in favour of the statements provided in the questionnaire we have drawn a general inference that the HRA information does influence managerial decision making process.

15. The decision areas vis-à-vis HRA information have been identified on the basis of the output of the principal component analysis, which has been carried out in Section II of Chapter IX. The different factors with respect to which we can use HRA information has been categorized into eight different components, and they have been phrased in our study as follows:

a. Decisional Factors;
b. Utilization Factors;
c. Resourcing Factors;
d. Developmental Factors;
e. Organisational Impact Factors;
f. Motivational Factors;
g. HR Facilitator/Maintenance Factors; and
h. HR Allocation factors.

16. On the basis of the results of the different statistical tests carried out in Section III of Chapter IX, it has been observed that there is a significant difference between the perceptions of the HR and Non-HR executives with respect to four variables which are as follows:

- Evaluation of alternative investment opportunities;
- Analysis and Selection of new business opportunities;
- Cost benefit analysis of any proposal; and
- ROI on Management Development Programmes.
17. From the analysis of the tests outputs in Section IV of Chapter IX, we have been able to identify seven variables with respect to which there is significant difference in opinions of the executives from public and private sector organisations. The differences have been observed in case of the following variables:

- Facilitate HR decision making,
- Provides numerical information about HR,
- Facilitate HR Planning,
- Conserving/Retaining HR,
- Efficiency of HR departments,
- Estimation of standard replacement cost, and
- Corporate mergers and acquisitions

18. It has been observed in Section V of Chapter IX, that there are significant differences between the opinions of the executives from the manufacturing and service sector. The differences have been noticed with respect to six variables which areas follows:

- Facilitate HR decision making,
- Facilitate HR Planning,
- Allocation/Placement of HR,
- Conserving/Retaining HR,
- Efficiency of HR departments, and
- Removing Employees’ grievances.

Among these six variables, three are related to acquisition of HR which can be well justified by the specific HR acquisition problems related to the manufacturing and service sector.

19. In chapter X, we have obtained that the different executives who have responded to our questionnaire have been categorized into four distinct groups on the basis of their human capital orientation. We have applied cluster analysis for categorizing the executives. The four different categories of executives are as follows-

- Moderate Human Capital orientation,
- Weak Human Capital orientation,
- Strong Human Capital orientation, and
- Ambiguous Human Capital orientation.
Each category/cluster of executives varies significantly with respect to their opinion on the influence of HRA information on managerial decision-making. But the basic presumption made about the HR and Non-HR managers with respect to their orientation towards HR, is found to be wrong. In the study it has been observed that the information about the cost and value of human resources are valued by both the HR and Non-HR managers. Since it has been observed that 32 out of 42 executives belong to the clusters referring to strong and moderate human capital orientation we can draw an inference that most of the executives value HR information and perceive the HRA system to have an influence on the effectiveness of managerial decision making process in organisations.

The major findings of the study reflect the importance of the human resource accounting system and its role in managerial decision making. From this study we can also know about the different decision areas where the information generated by the HRA system can be utilized. These findings will definite help the senior managers, HR professionals and academicians for proper understanding about the HRA system and its utility in internal management of an organisation.

II. Suggestions

The suggestions that have been proposed for the resurgence of the theory and practice of HRA are as follows:

1. Considering the significance of human resources in modern organisations, proper initiation should be taken by the governments as well as professional bodies both at the national and international levels in respect of formation of specific accounting standard and suitable valuation models on the measurement and reporting of value of human resources.

2. We should concentrate on the effective management of human resources through proper HR practices for gaining competitive advantage. The utility of HRA system is not confined to the internal stakeholders only, it is extended to the external parties also. It’s like a sword with sharpness on both the edges. HRA system can be used as an effective tool for strategic human resource management. The information generated by the HRA system gives us necessary information about the human resources’ contribution to the attainment of corporate goals. In other words, it provides us information about the
alignment of the HR strategy with the corporate strategy. HRA is one of the leading indicators which drives the lagging indicators (such as financial metrics) by helping the managers to make today's decisions with precision and focus on the future outcomes. As a human resource measure it helps us to legitimately track human resources' contribution to firm performance, i.e. helps in measuring the HR-firm performance relationship. HRA system can add value to the organizational performance and thus provide sustainable competitive advantage. Considering all this, we can say that adoption of HRA system is imperative.

3. The companies having computerized HRIS system can easily adopt a part of the HRA system by customizing their HRIS system in tune with the HRA practice they intend to adopt. The computational hazards involved in the HRA system can be reduced to great extent. So our suggestion is that the executives of the companies having computerized HRIS system should be made aware about the utility of HRA system and the way the HRA can be incorporated in their organisation with ease and less expense. This suggestion is in tune with the following words of Flamholtz- "an organisation with a computer-based human resource information system is in a fine position to develop System V capability", i.e. the highest level of human resource accounting capability (Flamholtz, 1999, p. 289).

4. Initiatives should be taken by the researchers, academicians, business consultants, and authoritative bodies both at the national and international level to promulgate the HRA practice among the corporations for the larger interest of the economy.

A consensus has emerged among scholars and practitioners alike that the business environment has become more competitive than in the past because of globalization. In order to survive in this era, businesses have to focus even harder on their competitive strengths so as to develop appropriate long-term strategies. The practices and systems which have evolved over time in a relatively stable environment context are inadequate to meet the challenges posed by the complex and dynamic business environments of today (Khatri, 2000, p.336). We should have policies and practices which can give us a competitive edge. HRA can serve as tool to measure the critical aspects of human resource performance and thus it should be adopted as a vital component of an organisational control system. Human resource accounting practice as an effective tool for human resource management is no more a choice
but a compulsion for majority organisations. We should develop a new management paradigm where the human resources are considered as important as the other assets of the company. This can really change the HRA scenario, and ultimately the performance of many organisations.

III. Future Research Areas

While thinking about the future research areas, the first thing that comes to mind is that this research approach should be carried out with a larger sample of companies. It can also be carried out with respect to corporations belonging to a particular sector to have a better understanding of the influence of HRA information on managerial decision making since the HR information needed widely varies with the nature of business.

This study is based on the perceptions of the executives of various corporate houses. It would have yielded better results if it was carried out in the companies which have or had the HRA system, since the executives of those organisations could have given better responses because of their awareness about the system.

In this study we have followed a particular research methodology to understand the influence of HRA information on managerial decision making. There must be other research methodologies through which the same issue can be studied to put forward more interesting findings. More number of variables can be included for a further study.

In the field of human resource accounting, more research studies should be carried out with respect to valuation and disclosure of HR information.

The results from this study and the suggestions proposed will definite contribute to a better understanding of the human resource accounting system and will assist the managers to design an HRA system furnishing the required information to them essential for effective decision-making.

References: