CHAPTER VII

CONCLUSIONS:

- *Summary of major findings and Recommendations*
CHAPTER VII

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The definition of human resource accounting which has been generally accepted by the accountants is given by the American Accounting Association Committee Report 1973. They have defined human resource accounting as "the process of indentifying, measuring and communicating information about human resource to decision maker". This may be called as a broad concept of human resource accounting. Many other definitions are given by different scholars which in one way or the other says that Human Resource Accounting is the measurement of cost and value of people for the organisation.

It may be noted that contributions discussed in this chapter are not exhaustive list of scholars in the field of human resource accounting, but an attempt has been to incorporate the major contributions.

The concept of Human Resource Accounting is still in the developing stage and there is a lot of thinking being done at different levels. Many scholars have contributed by way of developing models to measure the cost/value of Human Resource. These models can be classified in the following categories:

I. Monetary Models
   A. Cost Based Models
   B. Value Based Models

II. Non-Monetary Model

III. Statistical Based Models
1. Monetary Models

The models which incorporate the monetary aspect are called monetary models.

A. Cost Based Models

There are many cost based models which are given hereunder:

1. Acquisition cost method

Acquisition Cost or Historical Cost or Outlay Cost or Original Cost refers to the expenditure incurred by the Organisation in recruiting, hiring, training, familiarisation and developing human resources. It is just like the concept of original cost for other assets. The acquisition cost is capitalised and written off over the period for which the employee remains with the organisation. If the human asset leaves the organisation prematurely, the whole of the amount not written off is fully charged from the income of the current year. If the useful life is exceeds the original estimates, revisions are made in the amortisation schedule. This model was first developed by William C. Pyle assisted by R. Lee Brummet and Eric G. Flamholtz and was implemented in R.G. Barry corproation†, a leisure footwear manufacturer, Columbus, Ohio (USA) in 1969 on an experimental basis which was discontinued later.

This method has been development by Eric G. Flamholtz† in 1973 on the basis of the concept first suggested by Rensis Likert†. Under this method value of an individual to an organisation is measured by the amount that the organisation would have to pay to replace him. There is a dual notion of replacement cost i.e.
positional and personal. The former refers to the cost incurred to replace some one with a substitute capable of performing to the same degree in the same position while the later refers to the cost of replacing a person with a functionally equivalent substitute rather than the cost of replacing him with the best available substitute.

Hekimian and Jones proposed this method and defined opportunity cost as the value of an asset when there is an alternative use of it. They suggested a competitive bidding process by different divisions for the scarce employees in an organisation. The divisions bid amongst themselves for the services of the employee and he is allotted to the division making the highest bid. The successful bid price become part of the division's investment base.

Standard costs of recruitment, placing, training and developing per grade of employee are calculated and made up to date every year. The standard costs so arrived at for all human resources are terated as the value of human resources for accounting purposes.

It provides easy implementation and avoids complications of replacement cost method. The variances between actual and standard can be analysed and forms a basis for control. But the limitations of replacement cost also applies to standard cost method.

The capitalised historical cost of investment in human resources is converted into current purchasing power of money with the help of price index number's. if the index doubles than the value of human resource also doubles. The converted value becomes the value of human resource for amortisation in rest of the years. The increase or decrease is dealt in the same manner as in the case of replacement cost method.
HUMAN RESOURCE ACCOUNTING PRACTICES


Human Resource Accounting practices Regarding valuation of Human Resource in India, USA, UK, and Australia.

HUMAN RESOURCE ACCOUNTING PRACTICES REGARDING VALUATION

The Human Resource Accounting started in the early 1960's and the credit for the same goes to United States of America (USA). The "Milwaukee Braves, Inc.2" which was incorporated in 1962 to acquire "Milwaukee Braves Baseball Club" decided to treat in 1963 its investment in future team development as an asset to be capitalised and amortised over its expected useful life rather than as an expense in the period incurred.

In United Kingdom (UK) disclosures about human resource information are embodied in the statutory requirement governing company account. The relevant and important point are given below:

Companies Act, 1967 (Section 18) requires for companies which employ 100 or more people to state the average number of UK employees and their aggregate remuneration during the year in the director's report.

The code of Conduct for Companies with interest in South Africa (Cmd.7233) requested that the annual reports should provide information about employment
practices of subsidiaries and associated companies with respect to black workers in South Africa.

Companies (No. 2) Bill of 1981 Schedule I. Part III Section 56 requiring the separate disclosure of wages and salaries, social security costs and other pension costs.

Health and safety at work Act 1974 provides for regulations requiring companies to disclose information in the directors, report about the arrangement for securing the health, safety and welfare of employees at work place.

HUMAN RESOURCE COST AND VALUE

This Chapter provides an analysis of the results to understand the perceptions of Human Resource regarding Human Resource cost and value. Twenty statements related to human resource cost and value were asked from the respondents were asked to tick mark the appropriate number ranging from 1 to 5 on a five point scale, viz.

1. Strongly agree
2. Moderately agree
3. Agree
4. Moderately disagree
5. Strongly disagree

The data generated from these statements has been classified into four sectors as explained in Chapter 1 and Chi-square test has been used to lest whether there is significant difference of opinion between the respondents of four sectors or not.
The scales index (mean) has been calculated to find the average score on five point scale to make the analysis easier.

The organisation intends to retain HR and the benefits from the human resource to the organisation is for a long period than a year.

The profit and loss account and the Balance Sheet based on historical cost and matching of cost Balance Sheet based on historical cost and matching of cost and revenue principle can not show a true and fair view unless cost aspect of HR is duly incorporated. The benefits from HR will accrue for a long period of time, hence the cost incurred on HR: acquisition, development and retention should be properly capitalised and only duly allocated portion should be incorporated in the Profit and Loss account. The capitalised portion of HR cost should be shown in the Balance Sheet on the basis of expected future benefits as we show assets purchased under hire purchase scheme in the Balance Sheet.

The value of Human Resource is purely related to the contributions made by the Human Resource for the organisation which is more relevant for Management Accounting instead of financial accounting based on historical cost and matching of cost and revenue.

The replacement cost and opportunity cost of Human Resource is relevant for Human Resource turnover and retention decisions respectively and should be used for taking managerial decisions in this regard.

The analysis of the results interpreted above supports the hypotheses number one, four, five and six given in chapter one. Hence all these hypotheses are accepted which can be summarised as the organisation intends to retain the existing human resource until the useful service life of human resource and hence the acquisition,
development and retention costs of human resource does not comply the matching of cost and revenue principle of accounting as per the current accounting treatment practices. Chapter three reveals that all the costs related to the human resource are fully debited to the current year income statement in the sample organisations.

HUMAN RESOURCE DEVELOPMENT

The training and development of human resource is an important activity in any organisation. It has become essential as all types of jobs in the organisation generally require some type of training and development for efficient and effective performance.

"Training is the act of increasing the knowledge and skills of an employee for doing a particular job". Training is a continuous process which improves the performance of an employee. It includes learning of techniques which are required for better performance of defined tasks.

Human Resource Development is the process of increasing the knowledge, skills and capabilities of the people in the organisation. It means growth of an individual in all respects. Development of human resource includes "all those activities and programmes, which have substantial influence on changing the capacity of the individual to perform his present assignment better and in so doing are likely to increase his potential for future management assignments".

This chapter analyses the perceptions of the respondents regarding various aspects of training and development in organisations. The respondents were asked several questions and that the data generated from these questions has been classified into four sectors as explained in chapter 1 and Chi-square test has been used to test whether there is significant difference of opinion between the respondents of four
sectors or not. The scale index (mean) has been calculated to find the average score on five point scale to make the analysis easier.

HUMAN RESOURCE RETENTION

This chapter deals with the different aspects of retention of human resource in the organisation broadly classified under two heads namely.

I. Organisational efforts to retain human resource.
II. Degree of satisfaction of human resource.

Part-IV of the questionnaire deals with the former classification and Part-V deals with the latter. The results generated through Part IV and V of the questionnaire have been analysed in this chapter. Thirty statement in Part-IV and thirty one in Part-V, were asked from the respondents. The respondents were asked (both in Part-IV and V) to tick mark the appropriate number ranging from 1 to 5 on a five point viz.

1. Strongly agree
2. Moderately agree
3. Agree
4. Moderately disagree
5. Strongly disagree

The sample classification and the statistical technique used has been explained in chapter one which is applicable for this chapter also.

A. SUMMARY OF MAJOR FINDINGS

The study has classified various aspects pertaining to Human Resource into three broad Categories:
I. Acquisition of Human Resource
II. Development of Human Resource
III. Retention of Human Resource

The information pertaining to these findings are shown at various places in the thesis. In total 192 tables and 154 graphs are made to make the presentation better.

I. ACQUISITION OF HUMAN RESOURCE

1. The accounting practices of the sample organisations reveal that almost all the organisations debit fully to the profit and loss account the cost incurred on acquisition and development of Human Resource.

2. The criteria for showing assets in the Balance Sheet is long term benefits rather than ownership of the asset.

3. Human Resource serves the organisation for a long time hence it makes a case for showing it in the Balance Sheet and the cost of acquisition should be allocated over the period of benefits.

4. The profit and loss Account and the Balance Sheet based on historical cost and matching of cost and revenue principle can not show a true and fair view unless cost aspect of Human Resource is duly incorporated.

5. The salaries and other compensation paid to the Human Resource in an organisation is actually the cost incurred by the organisation and value to the individual from his point of view. Whereas Value of Human Resource for the organisation is the contributions made by him her for the organisation which is useful for management accounting.

7. The service contract between the employee and the organisation binds both the parties and the liability to pay arises at that time. hence Human Resource should be shown as Assets like the ones purchased on hire purchase basis are being shown in the Balance Sheet. Further a proper allocation of acquisition, development and retention cost incurred on Human Resource should be charged from the profit and loss account and the balance be transferred to the Balance Sheet.

II. DEVELOPMENT OF HUMAN RESOURCE

1. The facilities regarding training and development of Human Resource is satisfactory but identification of training and development needs is to some extent subjective rather than systematic and objective.

2. The skills of Human Resource improve after attending training and /or development programme. Approximately 29% improvement was found in the 20 skills tested before and after attending training and development programme. The combined scale index (Mean) increased from 3.2484 to 4.1908 which is about 29%.

3. The respondents are fairly satisfied with the training and development programme attended and the rating is fairly high with the combined scale index of 1.9152 which is closer to moderately agree with no significant difference between different sectors.
4. The support of top management in training and development programmes is 'to some extent only' which is reflected in the combined scale index of 3.3 involving twelve variables.

5. The duration of benefits from updation, learning, training and development programmes in terms of increase in productivity is generally for a period more than a year and on an average it is between two three years.

III. RETENTION OF HUMAN RESOURCE

1. The organisation intends to retain Human Resource while acquiring, deploying and development them. the organisation provides. Other facilities like housing, medical, transport, LTC, canteen, recreation, etc. also to retain the existing Human Resource. In turn, the organisation gets the benefits like, punctuality, healthy human resource, etc.

2. The Human Resource satisfaction level can be viewed by the combined scale index of 3.3 app. Which can be termed as 'satisfied to a little extent' The important feature is that there is no significant difference between different sectors as Chi-square value is not significant in any of the variables.

B. CONCLUSION

1. The organisation intends to retain Human Resource and the Human Resource responds to the efforts of the organisation in this regard. Hence it can be concluded that Human Resource stays in the organisation for a relatively longer period provided he/she is satisfied with the compensation and other facilities available to him.

2. Training and Development programmes results in increase in productivity which is relatively stable and last for a period more than a year, hence the cost incurred on these programmes should be capitalised and allocated over a period of benefits received.
3. The profit and loss Account and the Balance Sheet based on historical cost and matching of cost and revenue principle can not show a true and fair view unless cost aspect of Human Resource is duly incorporated. The benefits from Human Resource will accrue for a long period of time, hence the cost incurred on Human Resource: acquisition, development and retention should be properly capitalised and only duly allocated portion should be properly capitalised and only duly allocated portion should be incorporated in the profit and loss account. The capitalised portion of Human Resource cost should be shown in the balance sheet on the basis of expected future benefits as we show assets purchased under hire purchase scheme in the Balance Sheet.

4. The value of Human Resource is purely related to the contributions made by the Human Resource for the organisation which is more relevant for Management Accounting instead of financial accounting based on historical cost and matching of cost and revenue. Hence it is of no practical relevance to use cost as a surrogate measure of value of Human Resource for showing it as additional information which some of the organisation are doing.

5. The replacement cost and opportunity cost of Human Resource is relevant for Human Resource turnover and retention decisions respectively.

6. Acquisition cost or Historical cost or outlay cost or original cost refers to the expenditure incurred by the organization in recruiting, hiring, training, familiarization and developing Human Resources.

7. The acquisition cost is capitalised and written off over the period for which the employee remains with the organization.

8. The descriptive information containing statistics about Human Resources are collected, used and presented under statistical based method of Human Resource.

9. The replacement cost and opportunity cost of Human Resource is relevant for Human Resource turnover and retention decisions respectively.
10. The value of Human Resource is purely related to the contribution made by the organization which is more relevant for management accounting instead of financial accounting based on Historical cost and Matching of cost revenue.

C. RECOMMENDATIONS

1. The institute of Chartered Accountants of India (ICAI) and the Government of India should take initiative by making regulatory provisions regarding Human Resource Accounting and may take into consideration the recommendation of the study given below. The Academia may also investigate further dimensions of this problem in addition to absorbing the recommendations which are relevant to ICAI and the Government of India from their academic point of view.

2. There should be a separate accounting head of Human Resource Asset in the Balance Sheet and sub heads of acquisition cost, development cost and retention cost and all the costs pertaining to the Human Resource should be covered.

3. The allocated portion of acquisition, development and retention cost should be taken to the profit and loss account of the current year.

4. The value of Human Resource is purely related to the contributions made by the Human Resource for the organisation which is more relevant for management Accounting instead of financial accounting based on historical cost and matching of cost and revenue. Hence it is of no practical relevance to use cost as a surrogate measure of value of Human Resource for showing it as additional information which some of the organisations are doing.

5. The replacement cost and opportunity cost of Human Resource is relevant for Human Resource turnover and retention Disions respectively and should be used for taking managerial decisions in this regard.
6. Human Resource accounting and employees turnover may basis for assessing employees relations and working relations in the industries.

7. The companies employees turnover and HR development expenditure may be used in calculating credit rating of the company which is used by financial institutions investors employees and public at large.

8. The BHEL should be adopting the following procedure in calculating the value of human asset. Information on gradewise, agewise breakup from all units are collected and consolidated as a whole.

9. A career chart is prepared based on the information relating to human asset. In this connection, for each grade & age group, retirement plan is computed i.e. the number of persons retiring in each grade at each age group.

10. The Mathura Refinery on the one hand has stepped up payment to its employees and the social hands and on the other, the employees have given their best to improve productivity.

**FUTURE AREAS OF RESEARCH**
Research is a continuous ongoing process and one researcher can only add a drop in the ocean. Some of the possible areas of further research may be as follows.

1. Measurement of value of Human Resource by developing a model based on the contributions made by the Human Resource for the organisation which they are serving.

2. Replication of this study in organisations following purely Japanese style of management particularly the life time employment aspect.

3. Replication of this study in organisation following purely American Style of management particularly the contractual appointment aspect.