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COMPARATIVE ANALYSIS OF HUMAN RESOURCE ACCOUNTING PRACTICE IN ONGC & HPCL: OIL & NATURAL GAS CORPORATION LIMITED AND HINDUSTAN PETROLEUM CORPORATION LIMITED

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ABSTRACT

In the modern industrial system, the productivity of any company is the result of the combined efforts of all factors like men, material, machinery and money. Unlike other factors of production, Human Resource (HR) is an active factor and controls all other factors and coordinates them to get the maximum output at minimum cost. In the emerging economic scenario, one of the important ingredients in the field of accounting and finance is Human Resource Accounting. The concept of "investment" in employees: the human capital of the enterprise, push forward a view that one is looking for a profit to be gained from the investment and therefore the focus is on the development of employees for a specific purpose to gain. To ensure growth and development of any organization, the efficiency of employees must be accounted in the right perspective. Human resource accounting is one of the latest concepts adopted by Indian companies in recent times. In view of the growing importance of HRA, many public and private companies in India are voluntarily disclosing information about their human resources. Hence, an attempt is being made for comparative analysis of Human Resource Accounting practice in ONGC & HPCL companies. A comparative study was conducted among different variable which affect on human resource value in both the companies.

KEYWORDS

variables, comparative analysis, annual reports, human resource accounting.

INTRODUCTION

In the modern industrial system, the productivity of any organization is the result of the combined efforts of all factors like men, material, machinery and money. Unlike other factors of production, Human Resource (HR) is an active factor and controls all other factors and coordinates them to get the maximum output at minimum cost. Human Resource Accounting (HRA) is not a new issue in the management field. Rensis Likert (Carme, BV and Soledad, MG, 1999 p. 386) initiated research into true HRA in the 1960s. He emphasized the significance of long-term planning of qualitative variables which results in greater benefits in the long run. The resources theory (Conner, 1991) considers HR in a more explicit way and states that the competitive position of a firm depends on its specific assets which are its HR. A talented team can make a firm more productive than others with the same technology (Carme, Bv and Soledad, MG, 1999 p. 386). Unfortunately; the accounting profession has always neglected the contribution of these vital resources. It very easily ignores HR, though it recognizes physical property like buildings, production plants and machineries by showing them as assets on the balance sheet. In recent literature an attempt is being made to recognize the Human Resource Accounting practice in ONGC & HPCL.

In India Human Resource Accounting Practices was initiated by the public sector giant BHEL and SAIL back in the 1970's. The importance of the contribution of Human Resources was recognized by other service, technology and other knowledge based sectors and as a result many other public and private sector companies are reporting HRA information in their financial statements. They are (CCI), (MMTC), (ONGC), (NTPC), (EIL), (OIL), (HPCL), (HSL), (HZL), (INFOSYS) etc.

OBJECTIVES OF THE STUDY

1. To examine the prevailing HRA reporting practices in ONGC & HPCL.
2. To enlist the items of human resource information to be disclosed in the annual reports.
3. To examine model used for the valuation of human resources in ONGC & HPCL.
4. To derive conclusions and suggest measures for improvement of HRA practices in ONGC & HPCL.
5. To help the management improve human resource management by analyzing investment in HR.

SCOPE OF THE STUDY

In the present study, HRA practices followed by ONGC & HPCL have been examined for the period from the financial year 2001-02 to 2008-09.

PERIOD OF THE STUDY

The period of the study is selected eight consecutive years which are from the financial year from 2001-02 to 2008-09. The study is mainly based on published annual reports of by ONGC & HPCL.

RESEARCH METHODOLOGY

The study is mainly based on the secondary data's. The secondary data are extracted from the sources like annual reports, different books of management accounting, journals, and research papers, previous research findings and website of ONGC & HPCL.

To investigate the efficiency of the HRA model adopted by ONGC & HPCL, the study is carried out by analyzing the behaviour of all the important variables indicating efficiency and profitability and after that descriptive analysis, Hypothesis testing and comparative analysis of two companies is done.

HYPOTHESES DEVELOPMENT

The main purpose of the research is to study the comparative analysis of HRA practice in ONGC & HPCL. This information will help the management and investors in decision making and to improve the quality of financial statements.

HYPOTHESIS 1: There is no significant difference between mean values of different variables of ONGC & HPCL during the period from 2001-02 to 2008-09.

HYPOTHESIS 2: There is no significant difference in human resource accounting reporting practices in ONGC & HPCL.

HYPOTHESIS 3: Both the companies ONGC & HPCL do not follow human resource accounting and reporting practices.

HYPOTHESIS 4: ONGC & HPCL companies do not follow Lev & Schwartz model for valuation of human resources.

HYPOTHESIS 5: Human Resource Accounting may help in formulation of personnel policy.

DISCLOSURE RELATING TO HUMAN RESOURCE ACCOUNTING BY ONGC & HPCL

The information disclosed is useful to companies to attract capital from the external investors. In recent years, the studies conducted are concerned with disclosure research and is taking a user approach. Very few authors carried out disclosure studies taking a company approach.

To understand the process and issues underlying the disclosure practices followed by ONGC & HPCL and to understand the different variables and their frequency of use, the data analysis is undertaken.

TABLE 1.1: RA PRACTICES IN ONGC & HPCL DURING THE PERIOD FROM 2001-02 TO 2008-09

Public Enterprise	HRA Introduced	Valuation Model Used	Discount Rate (%)
ONCC	1981-82	Lev & Schwartz	12
HPCL	Not Reported	Lev & Schwartz	8

Source: Annual Reports of ONGC & HPCL up to March 2009

Table 1.1 shows HRA practices in ONGC & HPCL during the period from 2001-02 to 2008-09. ONGC had introduced HRA reporting since 1981-82, While HPCL had not reported year of introduction of HRA practice. Both the companies had adopted Lev & Schwartz Model for Human Resource Valuation. The discount rate for valuation is also reported by both the companies.

BEHAVIOURAL ANALYSIS: This section studies the behaviour of individual variables over the period of our study. The present analysis uses the Index number analysis.

THESE VARIABLES ARE:

1. Total Number of Employees
2. Average Age of Employees
3. Manpower Cost per Employee
4. Discount Rate
5. Human Resource Value per Employee
6. Turnover per Employee
7. Value Added per Employee
8. Return on HRV
9. Profit After Tax

DESCRIPTIVE SUMMARY

Both the companies have experienced changes in almost all the variables. Therefore, to check the nature of change, the volatility analysis has been carried out using standard deviation (SD) and volatility coefficient.

As human resources are the only active asset of the organization it is important resource of the business. Therefore, in the first section the behaviour and in second section volatility of variables are studied individually. In both the studies and analysis relationship of HRV with all these variables was carried out.

CONCLUSION DESCRIPTIVE STATISTICS

1. ONGC

- (i) Variability - At ONGC variable total number of employees, is highly variable and manpower cost per employee has low variability.
- (ii) Volatility – Total Number of Employees is more stable with low volatility and value added per employee variable has less stability with high volatility.
- (iii) HRV per Employee is highly correlated with return on HRV per employee.
- (iv) HRV per Employee is highly negatively correlated with total number of employees.
- (v) Average of Employees is not disclosed so analysis is not possible.
- (vi) Regression results with respect to all variables are statistically significant.
- (vii) The value of coefficient with respect to manpower cost per employee (4.667) is high which will decrease the value of HRV per employee. Unit change in this variable will lead to unit change in HRV per employee at ONGC, assuming other factors to be constant.

2. HPCL

- (i) Total Number of Employees is highly variable among all variables and manpower cost per employee show very low variability.
- (ii) Average Age of Employee variable is more stable and turnover per employee variable is less stable.
- (iii) HRV per Employee is highly correlated with return on HRV per employee.
- (iv) HRV per Employee is poorly correlated with value added per employee.
- (v) HRV is highly negatively correlated with total number of employees, indicating adverse effect on HRV per employee.
- (vi) The value of regression coefficient with respect to manpower cost per employee variable is highly positive, which implies that one unit change in this variable would lead to (11.125) unit change in HRV per employee at HPCL, assuming other factors to be constant.
- (vii) Regression results with respect to financial variables are statistically significant.

HYPOTHESIS TESTING (T-TEST): ANOVA TEST: VARIABLES OF HPCL & ONGC

H₁: There is no significant difference between mean values of different variables of HPCL & ONGC during the period from 2001-02 to 2008-09.

TABLE 1.2: GROUP STATISTICS IN HPCL & ONGC DURING THE PERIOD FROM 2001-02 TO 2008-09

	Company	N	Mean	Std. Deviation	Std. Error Mean
Total Number of Employees	HPCL	6	10981.33	294.060	120.050
	ONGC	6	37063.67	2583.125	1054.556
Manpower Cost Per Employee	HPCL	6	.0583	.00983	.00401
	ONGC	6	.0367	.01751	.00715
HRV per Employee	HPCL	6	.7280	.14579	.05952
	ONGC	6	.7180	.08085	.03301
Turnover per Employee	HPCL	6	6.0517	1.79260	.73183
	ONGC	6	1.1133	.40791	.16653
Value Added per Employee	HPCL	6	.4900	.08222	.03357
	ONGC	6	.9350	.46350	.18922
Return on HRV per Employee	HPCL	6	.7280	.14579	.05952
	ONGC	6	.7260	.07787	.03179
Profit After Tax per Employee	HPCL	6	.1133	.04885	.01994
	ONGC	6	.3150	.11879	.04849

TABLE 1.3: P – VALUE IN HPCL & ONGC DURING THE PERIOD FROM 2001-02 TO 2008-09

Variable	t-value	degree of Freedom	p-value
Total Number of Employees	-24.574	10	.000*
Manpower Cost per Employee	2.643	10	.025*
HRV per Employee	.147	10	.886
Turnover per Employee	6.580	10	.000*
Value Added per Employee	-2.316	10	.043*
Return on HRV per Employee	.030	10	.977
Profit After Tax per Employee	-3.846	10	.003*

Table 1.2 shows the mean and p-value of different variables. At 5% significance level, p-value is 0.00<0.05. Therefore, null hypothesis is rejected and alternate hypothesis is accepted. Which prove that there is significant difference between mean values of different variables of HPCL & ONGC.

There is significant difference in mean values of total number of employees (.000*), manpower cost per employee (.025*), turnover per employee (.000*), value added per employee (.043*) and profit after tax per employee (.003*), between HPCL and ONGC companies. The p – values for these variables are less than 0.05. The differences of other variables, HRV per employee (.886) and return on HRV per employee (.977) are not significant.

H₂: There is no significant difference in human resource accounting reporting practices in ONCC & HPCL.

It is found under the study that there is significant difference in human resource accounting reporting practices in ONGC & HPCL.

H₃: Both the companies ONGC & HPCL do not follow human resource accounting and reporting practices.

It is found that at present ONGC and HPCL follow human resource accounting and reporting practices.

H₄: ONGC & HPCL companies do not follow Lev & Schwartz model for valuation of human resources.

It is found that both the companies ONGC & HPCL had followed Lev & Schwartz model for valuation of human resources.

H₅: Human resource accounting may help in formulation of personnel policy.

It is found that Human resource accounting is not helpful in formulation of personnel policy. The employees should be clearly informed the existing human resource valuation system so that they are aware of the same in advance.

FINDINGS

1. One of the first attempts to estimate the value of human resource in monetary terms was made around 1691 by Sir William Petty.
2. In India, the first initiative in the direction of human resource accounting and valuation came from the public sector giant BHEL from the financial year 1974-75.
3. There are several approaches or models for valuation of human resources. All these models have different backgrounds and different theoretical foundations. ONGC & HPCL had adopted economic valuation concept and accepted the model suggested by Lev & Schwartz. Further, the study indicates that ONGC & HPCL had distributed human resources and their value category wise.
4. It was observed that ONGC and HPCL had more number of employees that is 33035 employees in ONGC and 11246 employees in HPCL up to March 2009.
5. It was observed that, ONGC - divides its total staff into two main groups technical – executive & non- executive and non- technical – executive & non- executive. HPCL- divides its total staff into two main groups – management and non- management employees.
6. It was found that ONGC had not disclosed average age of employees, while at HPCL – average age for 2002 & 2003 is 42 years, 2004 & 2005 is 43 years, 2006 is 44 years and for 2009 it is 44 years.
7. It was observed that both the companies under the study had catalogue the employees group wise, total and group wise HRV and total.
8. Comparatively it was observed that ONGC & HPCL had variable discount rate 7%, 8%, 11% & 12%.
9. Comparatively it was observed under the study that, overall increase in Human Resource Value in ONGC and HPCL during the period from 2001-02 to 2008-09 is 1.49 times and 2.09 times.
10. It was observed that among 7 variables identified for the study, total number of employees' variable is found highly variable in both the companies, at ONGC it was (2288.500) and HPCL (325.025). While, manpower cost per employee variable is found least variable at ONGC (0.017) and HPCL (0.009).
11. More stability or volatility was shown by the variable total number of employees at ONGC (0.063) While, average age of employee variable show more stability at HPCL (0.020). Low stability was shown by the variables, value added per employee at ONGC (0.439).
12. The variables which are highly correlated are, return on HRV per employee (0.999**) at ONGC, return on HRV per employee (1.000**) at HPCL
13. The variable which is highly negatively correlated is total number of employees at ONGC (-0.890*) and HPCL (-0.770).

LIMITATIONS OF THE STUDY

1. The study is limited to ONGC & HPCL companies only.
2. The present study is limited for a specified period of eight years from 2001-02 to 2008-09.
3. This study is mainly based on secondary data from published annual reports, websites and literature. The limitations of secondary data influence the study.

CONCLUSION

In the present comparative study among ONGC & HPCL, an attempt has been made to evaluate the Human Resource Accounting practices in two companies. Human resource valuation is the most confusing and critical problem for companies in India. Accounting bodies, professionals, experts and Government should take steps to frame the guidelines for the effective and proper valuation of human resources.

After study, it can be concluded that both the companies under the study had made sincere efforts to value and disclose the Human Resource Accounting information in their annual reports.

But, at this stage it suggested to both the companies that a lot can be done and improved in the present situation and uniformity in valuation and disclosure is needed, for better understanding and decision making of investors.

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