



A COMPARISON STUDY ON IMPROVING BOTTOM-LINE THROUGH EMPLOYEE VALUE ADDITION IN INDIAN AUTOMOBILE INDUSTRY

KEYWORDS

value addition, bottom-line, automobile industry, employee, satisfaction

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ABSTRACT

India's automotive industry is one of the most competitive in the world. It does not cover 100 per cent of technology or components required to make a car but it is giving a good 97 per cent. Leading auto maker Maruti Suzuki expects Indian passenger car market to reach four million units by 2020, up from 1.97 million units in 2014-15. The Indian automotive sector has the potential to generate up to US\$ 300 billion in annual revenue by 2026, create 65 million additional jobs and contribute over 12 per cent to India's Gross Domestic Product, as per the Automotive Mission Plan 2016-26 prepared jointly by the Society of Indian Automobile Manufacturers (SIAM) and Government.

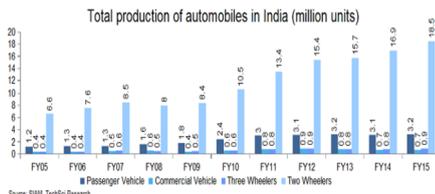
EMPLOYEE VALUE ADDITION: Every Automobile company is working towards improving their bottom line in many ways and this paper will be discussed about improving bottom-line through employee value addition with special reference to Indian automobile companies in India. The employee value addition is calculated as below mentioned method. Employee Value Added can also be used for the purposes of Determine management bonuses, Motivate management to achieve sales objectives & goals, corporate valuation for shareholders, bankers & lenders, Performance measurement of Business, Capital budgeting & investing decisions and Set organizational objectives & goals.

INTRODUCTION:

The automobile industry in India is expected to be the world's third largest by 2016, with the country currently being the world's second largest two-wheeler manufacturer. Furthermore, passenger vehicle production is expected to increase to 10 million in 2020 from 3.2 million in 2015. Automobile exports grew at a CAGR of 14.65 per cent during 2010-15. Passenger Vehicles, Commercial Vehicles, Three Wheelers and Two Wheelers grew by 6.89 per cent, 13.77 per cent, 18.69 per cent and 16.60 per cent CAGR during 2010-15. Two wheelers accounted for the largest share of exports at 69.4 per cent in 2015. Passenger vehicles comprised a sizeable 16.7 per cent of overall exports. Exports of three wheeler vehicles registered around 11.1 per cent share in exports in 2015.

Alternative fuel has the potential to provide for the country's energy demand in the auto sector as the CNG distribution network in India is expected to rise to 250 cities in 2018 from 125 cities in 2014. Also, the luxury car market could register high growth and is expected to reach 150,000 units by 2020.

Figure - 1



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| | | |
|-------------------------|------------------|-----------|
| Sales | Rs. 10000 | |
| Miscellaneous Income | Rs. 5000 | |
| Total Revenue | Rs. 15000 | ----- (A) |
| Material consumption | Rs. 7000 | |
| Employee cost | Rs. 2000 | |
| Administration expenses | Rs. 2000 | |
| Depreciation | Rs. 1000 | |
| Cost of sales | Rs. 12000 | ----- (B) |
| (A) – (B) = Profit | Rs. 3000 | |

Value Added = Net Sales - Cost of Bought Out Materials

Value Added = Rs. 15000 – Rs. 7000 = Rs. 8000

The Value addition includes profit, employee cost, administration expense and depreciation.

EBITDA

EARNING BEFORE INTEREST & TAX DEPRECIATION AMORTIZATION (EBITDA), a measure of a company's financial performance that looks at earnings before the inclusion of interest, taxes, depreciation, and amortization. EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. The EBITDA on sales formulated as follows,

| | |
|--------------------------|----------------------------------|
| EBITDA on Sales | = Profit + Depreciation |
| EBITDA on Sales | = Rs.3000 + Rs. 1000 = Rs. 2000 |
| Employee Value Additions | = EBITDA + Employee Cost |
| Employee Value Additions | = Rs. 2000 + Rs. 2000 = Rs. 4000 |

Total Number of employees in the financial years is 100 then, Employee Value Addition per employee = Rs. 4000 / 100 Employees = Rs. 40 is value addition per employee. In order to increase the value addition per employees companies are working towards increase the sales and minimising the expenses and also minimise the material consumption. Based on the above model, Indian automobile companies has been analysed in order to increase their EVA year on year basis and improve the share holders values.

REVIEW OF LITERATURE

A good many studies have been undertaken on value added (VA), its creation, distribution and its retention as VA has been the focus of both the managers and the academicians. This initiative is still going on.

Karl Marx viewed VA concept in almost similar way to national accounting concept of net national product or net value added. It is the value of gross product less expenditure on constant capital. Taking differently, value added is the sum total of variable capital (labourers' compensation) and pre-tax profit. He argues that it is the labour force which creates new value that cover both the cost of own wages and surplus value. Marx in his Das Capital has spelled out that workers devote enough labour-time to cover the cost of reproducing their ability to work and do extra work to generate income to the capitalists-landowners and others. As active and conscious factor in the production process-capital goods and gifts from nature (land etc) only facilitates the transformation of raw materials into products, but workers' physical productivity has the ability to produce (use-value) and to generate value productivity which can be sold for money.

Adam Smith (1974) says, "There is one sort of labour which adds to the value of the subject upon which it is bestowed; there is another which has no such effect. The former, as it produces a value, may be called productive; and the latter is, unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing".

The neoclassical economists reject the distinction between productive and unproductive labour as Arbitrary and irrelevant. All the factors of production (land, labour and capital) create wealth and add value; so they are also productive. If the value of a good is just what somebody is prepared to pay for, then regarding some activities as value-creating and others not is a purely subjective matter; any activity which produces anything, or generates an income, could be considered Productive, but the question that remains is how productive it is.

Yeung & Berman (1997) have conducted a study on 65 senior HR executives in California to measure the HR effectiveness and impact of HR. They hold that as the business competition increases and corporate resources shrink, all functions (finance, management and HR) require to demonstrate their value added and to seek resources for higher business leverage. It is observed that HR frequently fails to quantify its impact on business performance. There is no well-established linkage between HR and business and as such no accepted policy is there to measure the impact of HR. As a result, a sound policy should be framed to revamp HR to optimize business performance.

Philip & Somboon opine that HC is understood to constitute individual's capability, skill, knowledge and experience as employees and managers. Here HC assumes a wider concept than HR. Most importantly knowledge is emphasized in an individual perspective concerning job related knowledge. Now HC extends beyond the individual and covers a group where knowledge can be shared or exchanged to bring about coherence and to contribute to the financial performance.

Fitz-enzJac (2000) says that the management should develop a system of metrics that describes and predicts costs and productivity of workforce. The existing and popular practice of matching human capital and financial performance at the corporate level has been confined to the single gross measure-revenue per employee. It does not segregate the impact of workforce from leverage of other factors. Most HC metrics are the end point of large number of activities many of which are outside forces. The basic point is that the entire functioning of an organization oscillates around process between corporate goals and HR management. There should be a two-way approach to measure HC and its impact on enterprise performance- To develop a tactical-level metrics to measure improvements in human resource-based functions and to monitor HC impact on business objectives; to formulate a strategic-level metrics to show the impact of HC and corporate goals.

Fitz argues that HC has been acknowledged as organization's most important asset, yet in the case of evaluation of HC-there is a complete absence of quantification of relative value of human factor in profit equation.

Haller & Stolowy (1998) argue that because of the performance aspect of the value added notion, it could be a better option as basis for employee incentive scheme. In France this idea has prompted to adopt a value-added concept in the legal formula on minimum employee profit-sharing. But in Germany there was neither a legal requirement on employee participation, nor was a specific definition of value added. There was a wide variation among German companies regarding profit participation of employees. Although the use of value added as the basis for participation of employees in business performance has been being discussed since 1930s, till now financial income, not the value-added, is being used in this regard. The German trade unions, however, prefer increase in gross value added as a measure for potential increase in salaries.

METHODOLOGY

The primary objective of the study is that the application of the emerging techniques for performance measurement and valuation in Indian Automobile industry and to know the company's inclination to increase its employee value addition. In this paper there are two Indian automobile companies have been taken for this study namely Mahindra & Mahindra and Ashok Leyland. The published results of the year 2014-2015 accounting year has been taken as primary data for the study. The detail were analysed based the above model.

RESULTS & DISCUSSIONS

The value addition per employee is close to 20 Lakhs and 19 lakhs per employee in case of Ashok Leyland and Mahindra & Mahindra respectively. On Account of material consumed by Ashok Leyland is 72.8 %, The employee cost is 8.7% on sales, Administration expenses is 10.1%, Depreciation is 3% and cost of sales is 94.6%.

| EMPLOYEE VALUE ADDITION | ASHOK LEYLAND | MAHINDRA & MAHINDRA |
|-------------------------|---------------|---------------------|
| SALES | 13562 | 38945 |
| OTHER INCOME | 124 | 849 |
| REVENUE | 13687 | 39794 |
| MATERIAL CONSUMPTION | 9965 | 27955 |
| EMPLOYEE COST | 1184 | 2317 |
| ADMINISTRATION EXPENSES | 1386 | 4500 |
| DEPRECIATION | 416 | 975 |
| COST OF SALES | 12952 | 35747 |
| PROFIT | 735 | 4047 |
| VALUE ADDED | 3721 | 11839 |
| EBITDA | 1151 | 5022 |
| EBITDA % | 8 | 13 |
| EVA | 2335 | 7339 |
| NO OF EMPLOYEES | 11204 | 38046 |
| EVA PER EMPLOYEE | 2084175 | 1928981 |

Mahindra & Mahindra has consumed 70% of material consumption on the revenue, The employee cost is 6%, administration expenses is 11%, depreciation is 2% and the cost of sales is 90%. When compared to both the companies, Mahindra & Mahindra has advantage in cost of sales and that leads to profit of 10.2% on Cost of Sales. The companies have taken steps to maintain the cost to improve the EVA and the details as follows.

ASHOKLEYLAND:

- Material Cost, the Company could contain cost increases to 0.5% during the year. The Company had to concede around 1% towards commodity cost increases during the year which was offset by 0.5% saving through internal cost reduction measures.
- Staff Cost Employee expenses are up by 18% predominantly reflecting the full year impact of the last year's wage settlements at all manufacturing locations, withdrawal of 5% salary cut for executives as well as higher provisioning requirements for bonus and performance related compensation consequent to better performance the next year.
- Other expenses could be contained at 10.1% of revenue from operations in current year as against 12.2% last year primarily due to various cost reduction initiatives undertaken during the year.
- Depreciation for the year was at Rs. 416 crores which is higher than last year reflecting the higher number of working days and shifts as well as increased provisioning requirements as per revised useful life prescribed by the Companies Act, 2013.
- Finance cost decreased to Rs.394 crores during the year from Rs. 453 crores in the previous year reflecting lower working capital levels as well as repayment of the term loans from proceeds of Qualified Institutional Placement (QIP) received during the year.
- Capital Employed Total capital employed by the Company increased by 4% from Rs.12, 808 crores to Rs.13, 311 crores reflecting the increase in activity levels.

MAHINDRA & MAHINDRA

The total expenditure during the year as a percentage of net sales/Income from Operations is 92.5% as compared to 91.1 % in the previous year. Material Cost, the decrease in material cost as a percentage of sales is mainly due to benign commodity prices, better mix and continued cost reduction initiatives undertaken by the Company.

Personnel Cost, the increase in personnel cost is mainly due to annual increments and increased contribution to provident and other funds. Other Expenses as a percentage of net sales and operating income shows an increase over the previous year. The expenses have increased mainly on account of marketing related expenses on incentives, advertisement and sales promotion to support and enhance sales in a challenging market and for brand building.

Depreciation and Amortisation, the increase in depreciation and amortisation is mainly due to revision in useful lives based on Schedule II of the Companies Act, 2013 and impact in the current year due to full year depreciation on assets capitalised in the previous year and depreciation on assets capitalised during the year. Finance Costs, the interest expense for the year ended is lower mainly due to repayment of loans.

Exceptional Items, the profit in the current year is on account of profit earned on sale of shares of Mahindra Logistics Limited and Mahindra First Choice Wheels Limited. It is also due to the excess of fair value of Tech Mahindra Limited (TML) shares received over cost of investment in Mahindra Engineering Services Limited (MESL), on

account of the merger of MESL with TML. In the previous year, it was on account of profit earned on sale of shares of Mahindra Logistics Limited and Mahindra Two Wheelers Limited.

CONCLUSION

The study has been conducted on the basis of calculations made in financial reports. Certain confusions may creep in about the modes followed. But to adhere to the reported values these data are strictly pursued. Salary should have a close correlation with the surplus value generated by the workforce. This surplus after meeting the committed costs (finance costs and depreciation) should be awarded to the workforce otherwise there might be scope for high labour turnover and unrest which are prejudicial to the interest of the enterprise. Weighted surplus of value added may be used as a measure for workers contribution to the financial performance of the business. So, from the study concluded that a rational compensation policy for the workforce should take into account the capability of the workers to generate value, not confining to merely on profitability or turnover (sales). A sound HR management policy at the same time should focus on development of HR through training, refreshing and retaining the employees with a view to enjoying a competitive advantage over rival concerns through additional profits over the accepted normal.

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