

# **PERFORMANCE MANAGEMENT**

## **SYLLABUS**

### **UNIT - I**

#### **Introduction**

HR as assets- Definition of Human Resource Accounting – Introduction to Human Resource Accounting – Human Resource accounting concepts, methods and applications – Human Resources accounting Vs other accounting.

### **UNIT-II**

#### **Human Resource Costs**

Measuring human resource cost -investment in employees-Replacement costs – determination of Human Resource value – Monetary and non-monetary measurement methods – Return on Investment approach.

### **UNIT-III**

#### **Human Resource Accounting System**

Developing Human Resource Accounting systems – Implementation of Human Resource accounting – Integrated of accounting with other accounting systems – Recent advancements and future directions in Human Resource Accounting.

### **UNIT-IV**

#### **Human Resource Audit**

Role of Human Resource audit in business environment - HR Audit objectives – Concepts – Components –Need- benefits –Importance –Methodology- Instruments – HRD scorecard – Effectiveness of HRD Audit as an instrument –Issues in HR audit – Focus of HR audit.

### **UNIT V**

#### **Human Resource Audit Report**

HRD audit report –Concept –Purpose –Role of HR managers and auditors –Report Design-Preparation of report –Use of Human Resource audit report for business improvement –Case studies.

## **UNIT I**

### **LESSON 1 - HUMAN RESOURCE ACCOUNTING**

Learning Objectives

Learning Outcomes

Unit Structure

- 1.1 HR as Assets.
- 1.2 Definition of Human Resource Accounting.
- 1.3 Introduction to Human Resource Accounting.
- 1.4 Human Resource accounting concepts, methods and applications.

Summary

Self-Assessment Questions

Further Readings

## **Learning Objectives**

After going through this unit, students should be able to understand the following concepts.

- To understand the role of HR.
- To understand HR as an asset for organisation.
- To understand Human Resource Accounting (HRA) and its present day relevance.
- To understand the methods available for Human Resource Accounting.
- Discover the areas where HRA can be applied in the organisation.

## **Learning Outcomes**

Completion of the lesson, students are able to demonstrate the concepts:

- Recall HR as an asset
- Definition and evolution of Human Resource Accounting.
- Able to explain managerial perspective on Human Resource Accounting
- Explain the methods of Human Resource Accounting.
- Identifying application of Human Resource Accounting.
- Basics of performance measurement.

## **INTRODUCTION**

Performance management is a branch of Human Resource Management. Performance management is an area which is evolving day by day. It is a Global concept, varying in all its dimensions from one part of the world to the other.

We all know the 4m's of organization. The resources of organization are money, material, machine and Men. In these M's, the last M, that is Men (Human Resource) play in all the other three areas. Men have to manage Money, Men have to procure materials, and again

Men have to convert the material in to products through machines. And the interesting part is these men, who manages other m's has to be managed again by men. Men and Management.

We call the people who deal with money as Finance department, people procuring materials as Purchase department, and the men with machines as Production dept. Now who take care of these men? There enters our role. Human Resource Management. Managing the human side, the 4th M of the organization.

Human Resource is the source of knowledge for the organization. It is the source of skill. It is the source of creative abilities. Talents. Growth. Employees keep the organization fresh and alive.

This important resource has to be managed carefully as they are not easily replaceable, like money or machines. Each employee is unique. One of its kinds. If a machine is obsolete or old, you can buy a new one, with the same efficiency or even more. But when an employee goes off, he goes with the experience and knowledge he gained from the organization. We lose something. Even though we can replace sometimes with a good one, still something we lose.

In the First lesson, we will learn about the role of HR as an asset for an organisation. We will also read the various definitions of human resource accounting and will get introduced to the concept of HRA in detail.

This lesson will also cover several methods used to calculate human resource accounting of an organisation.

In the second lesson the focus will be upon, how human resource accounting is different from other areas of accounting.

Before study the performance management we will recall the definition of Human resource management, important functions of Human Resource management and characteristics of HRM.

According to Decenzo and Robbins, “Human Resource Management is concerned with the people dimension” in management. Since every organization is made up of people, acquiring their services, developing their skills, motivating them to higher levels of performance and ensuring that they continue to maintain their commitment to the organization is essential to achieve organisational objectives.

In Human Resource Management we will be doing the process of acquiring, training, appraising and compensating employees. Also we will attend to their labour relations, health and safety and fairness concerns.

### **Functions of HRM.**

- conducting job analysis, which is determining the nature of each employee’s job.
- planning needs and recruiting candidates.
- Selecting candidates.
- Training the selected candidates.
- Managing wages and salaries to the employees, what we call as compensating the employees.
- Providing incentives and benefits to the employees.
- Appraising Performance.
- communicating to and from employees.
- Building employee commitment.
- Training and development for managers as well as employees.

### **Characteristics of HRM**

- Human Resource Management gives focus on the continuous development of the people. It is the expression of the unshakable belief an organization can improve only if the people working over there improves.

- Human Resource Management is a proactive function, it anticipates future needs through HR planning and acts accordingly.
- Human Resource Management takes into account its interfaces with all other parts of the organization.
- Human Resource Management view is ever widening and scope includes all possibilities of improving organization and people.
- Human Resource Management emphasizes on the satisfaction of higher needs for motivating people, such as autonomous work groups, challenging jobs, creativity etc.
- Human Resource Management is based on better performance is a source of satisfaction and high morale.

So, now we move on to our main content – “performance Management”

The basic understanding of Human Resource Management will now give us the knowledge to appreciate the importance of employee and their performance, and how the performance is essential to the development of the organisation.

### **Hostility to Traditional Appraisals**

Many people believe that appraisal systems have created more problems than they have solved; and question their very need in organizations. Experience has shown that appraisal is not a play-safe gimmick. If these are not handled properly, appraisals can do a lot of damage to an organization in the areas of employee morale, climate of trust and consequences for employee relations.

According to Healthfield, 'Second only to firing an employee, managers cite performance appraisal as the task they dislike the most'. She believes that the process of performance appraisal, as traditionally practiced, is fundamentally flawed' for the following reasons:

- It is incongruent with the values-based, vision-driven, mission-oriented, participative work environments favoured by forward thinking organizations today'.
- 'It smacks of an old-fashioned, paternalistic, top-down, autocratic mode of management, which treats employees as possessions of the company'
- Most of the time, appraisal reflects what the manager can readily recall, usually the most recent events.
- Almost always, appraisal is based on hunches and opinions as 'real performance measurement takes time and follow-up to do well'.
- Many organizations also ask the supervisor to make judgements based on concepts and words such as "excellent performance", "exhibits enthusiasm," and "achievement oriented".'
- Many managers are so uncomfortable in the judgement seat that 'performance appraisals are often months overdue. Despite the fact that annual raises are usually tied to performance evaluation, managers avoid doing them as long as possible. This results in an unmotivated employee who feels his manager doesn't care enough about him to facilitate his annual raise'.
- 'The manager knows he may have to justify his opinions with specific examples when the staff member asks and, lacking skill in providing feedback, often provokes a defensive response from the employee who may justifiably feel he is under attack. Consequently, managers avoid giving honest feedback, which defeats the purpose of the review'.
- 'The staff member whose performance is under review often becomes defensive. Whenever his performance is rated as less than the best, or less than the level at which he personally perceives his contribution, the manager is viewed as punitive'.
- 'Disagreement about contribution and performance ratings can create a conflict-ridden situation that festers for months. Most managers avoid conflict that will undermine work place harmony'.

- ‘In today’s team-oriented work environment, it is also difficult to ask people who work as colleagues, and sometimes even friends, to take on the role of judge and defendant’.
- ‘With salary increases frequently tied to the numerical rating or ranking, the manager knows he is limiting the staff member’s increase if he rates his performance less than “outstanding.” No wonder manager’s waffle, and in a department of an organization with which I worked 96 per cent of all employees were actually rated as outstanding.

For Moulton, ‘Performance appraisals are administered by human beings, most of whom are not experts in giving and receiving feedback’. He lists five reasons why performance reviews are so disliked by managers and managers alike:

1. **‘The fundamental premise.** Like it or not, the traditional performance appraisal systems most companies use are based on the work of behavioural scientists during the first half of this century, conducting tests on rats, dogs and pigeons. Unlike these animals, people think, develop their own logic, have their own views of life, and in reality, there is no comparison.’
2. **‘One size fits all.** Organizations that use one or two forms of pre-established performance criteria are missing the boat. Fundamentally, the skills people use in the myriad of jobs they perform are different. When a company attempts to force this fit, the form loses credibility with the manager and the employee.’
3. **‘The rating system.** Inaccurate performance ratings are often given in order to maintain a positive work group climate, or to avoid negative outcomes for their employees. An audit of one Fortune 500 company demonstrated that over 80 per cent of the reviews rated the employees as above –average performers. Could the company have that many high performers?’

He also finds fault with the traditional one-dimensional rating scales, often called ‘Likert Scales,’ that lump the ‘results team members get’, and the ‘actions they take getting those results’. To him, a manager who meets her targets could also be



abusive, 'resulting in high turnover, poor morale, or some other consequence' – and such situations require more than one dimension to capture.

4. **'Supervisor as Judge and Jury.** People hate to be judged. How often have you seen people actually take constructive criticism and make a significant change in their behaviour? Resistance is natural, compliance is a façade, and subjectivity is the issue. Besides, in this system, ratings are often inflated to prevent morale problems and relationship issues. If the result is inaccurate, why continue to do it?'
5. **'They are a waste of time.** Most managers, when forced to complete performance appraisals, will say, done for the year-another waste of time. Since the review was probably inaccurate, took a lot of time to develop, deliver, and caused a lot of stress, why bother?'

### **Other Common Problems and Complaints**

There are commonalities between what Heathfield and Moulton separately observe. Managers themselves are not strangers to the problems, complaints and protests that appraisals often invoke. Some of the ones most frequently voiced are:

1. Appraisal events take away too much of the appraiser manager's productive time. Appraising managee performance and potential is not seen as part of the normal managerial or supervisory function.

It is seen more as an imposition from the personnel or human resource functionaries meant to inform their specialist function, rather than day-to-day management or supervisory function of concerned managers. While it is true that managee performance or potential become manifest only on-the-job, techniques that will make appraisal procedures acceptable to managers are only those that facilitate their day-to-day supervision, control, and motivation roles.

2. Appraisals are poor instruments for managee comparison, thereby making an organization's human resource decisions and actions inconsistent and inequitable. This objection roots itself in the argument that personnel appraisals are carried out subjectively; and even if appraisers are not motivated or biased by ulterior considerations, it is not possible for them to apply uniform standards and criteria. Formal systems commonly in vogue might seem to reduce inconsistencies arising from these phenomena, but their influence seems to fall far short of the requirements of fair play. Some appraisers are naturally conservative, while others are more liberal. Even though individual appraisers are able to be fair and consistent in respect of the appraisee each one of them appraises, when these appraisals are seen in the larger context, across the appraisers, the comparisons become largely skewed or invalid.

3. Values and biases held personally by the appraising managers tend to function as organizational standards: to a lesser extent if explicit organizational standards exist and are widely known in the organization, but almost totally if such standards are either not in existence, or not widely shared. Further, for pragmatic reasons suited to a manager's organizationally assigned tasks or role, she may sometimes use standards that are organizationally and systemically inappropriate. As an example, while appraising certain high-performing specialist managers, the manager may be deliberately conservative, in the hope that these managers don't attract wide attention and thereby get moved out of her task group either vertically by promotion, or horizontally by transfer.

4. Managers don't know what constitutes performance, or what precisely is expected of them. Often, there is an actual (not merely perceived) communication gap between the managers and their appraising managers as to the standards used to appraise performance.

5. Managers are not authentic in providing performance feedback. Ambiguity around what constitutes performance also affects the manager's appraiser role, especially in regard to low performers. In the absence of concrete data with respect to a shortfall in performance, a natural problem arises for the manager in her task of providing feedback in respect of low-performing managers. As a result, some of them take the easy way out and either avoid giving low appraisals that may be hard to defend or withhold authentic feedback.

## **New in Performance Management.**

Performance management is another way of envisioning the totality of a manager's function. It views the managerial function holistically-not a random collection of activities that most managers recognize and undertake as their core function. It provides a systemic dimension to the managerial activities-high lighting their mutual inter-relatedness and interdependence. It emphasizes the dynamic, sequential and cyclical nature of these activities, essential to actualize their potential synergistic impact, which is the source of high performance and excellence. By implication, it also explains why focusing on only one or a few of these activities doesn't deliver the results wished-for. Any system needs certain pre-requisites to function smoothly. So does PFM. PM becomes easier to do and more productive to the extent that:

- It is used holistically, as a system.
- The relevant sub-systems are in place and accepted.
- The organization's philosophy and human environment is conducive to high morale.
- The manager is oriented to, and equipped with, high performing attitudes and leadership skills.

Performance management system represents a concrete form of participatory dyadic relationship between each manager's aspirations and roles, and the organization's objectives and activities. As such, an effective Performance management system can set into motion a tremendous ripple effect, releasing productive managee enthusiasm, high retention, and improved client satisfaction.

How is Performance management different from Appraisal systems? PM operationalizes the supervisory role of a manager to maximize performance. It is not something that a line manager has to do in addition to her normal chores. Properly implemented, it saves

the manager's time. Like any other change intervention, there can however, be a hump in activity during its initial implementation phase.

Several organizations use the term P/M to cover performance appraisal plus some related activities. Some others use parts of what I consider an integrated P/M system. Most organizations see P/M as a trouble-shooting tool for the fallouts of performance appraisal. Frequently, Performance management is offered as a remedy for problems that arise when traditional performance appraisal is practiced as a stand-alone system. I prefer P/M as neither systematization of nor mal managerial and supervisory tasks. I believe that such problems are due to a lack of supporting systemic infrastructure, and many of these should disappear, or become insignificant, when appraisal is used as part of a comprehensive Performance management system.

### **What is Performance?**

Performance means outcomes achieved, or accomplishments at work-the actual contribution of an individual or team to the organization's strategic goals, like stakeholder satisfaction, clean image, and economic sustainability. Some, like Campbell, believe that performance, as behaviour, should be distinguished from its outcomes, which can be facilitated or hindered by systemic factors. Brumbach<sup>15</sup> views performance more comprehensively by encompassing both behaviours and results. He considers behaviours as 'outcomes in their own right', which can be judged apart from results. Performance is an impact. The role of any managee can be seen in three parts: Being, Doing, and Relating.

Being concerns the competencies of the managee that are relevant to her performance. 'Chance', said Louis Pasteur, 'favours the prepared mind'. Most of all, being means that the managee has prepared her mind.

Doing focuses on the managee activities that are variably effective at different levels in the organization: that affect performance of other roles dependent on the managee output, and the organizational performance as a whole. As someone said, 'Ideas are funny little things. They won't work unless you do.'

'Relating' emphasizes the nature of relationships with members of the role network-vertical, horizontal or otherwise.

Performance is about optimally realizing one's potential. Whereas a managee's potential for a role is an input to the productive process, her performance is the output of the very same process. Improving performance is thus about identifying alternate ways of realizing potential better. Any performance framework would respond to the following sequence:

The first step is to know "performance". The literary meaning of performance is "an act of staging or presenting a play, concert or other form of entertainment."

As we take the word performance for Business administration, we can define performance as "the accomplishment of a given task with the set standards, precision, quality and fullness".

Popular industrial psychologist Campbell defines Performance as "behaviour of an individual towards the given task".

## **Performance Management**

Srinivas Kandula defines performance management as "process of designing and executing motivational strategies, interventions and drivers with an objective to transform the raw potential of human resource into performance".

"Performance Management is a systematic process by an Organisation to improve and evaluate the performance of its employees as individuals as well as groups."

In broader view, an organisational goal can only be achieved with the people in the organisation aligning their goals to them. The individual's goal often relates to the improvement of skills and knowledge he possess. If the individuals knowledge and skills can be improved through motivation or training or any other methods, the organisational performance increases and easier to attain the goal. The tough task is to make the employee understand the needs of his own self. A successful performance management is

- The employee's interests are understood by the employer and
- The employee understanding the requirements of the organisation, cooperating and accepting.

## **Principles of Performance Management**

Performance management can bring quality and effectiveness only when certain basic and fundamental principles are followed.

### **Transparency**

The system should be transparent, free from partiality, bias and discrimination among the employees. If not, the base of the system itself will not be strong to build anything above that. For example, work allocation, promotions, transfers, incentives, and bonus – if based on Performance management, then the system should be transparent and gives no room for employees to complaint.

### **Employee Empowerment**

Participative and empowered employees take the responsibility well. They develop the belongingness towards the organisation. Recognizing and rewarding the employees brings them together to work and achieve.

### **Organisational Values and Culture**

A fair treatment and ensuring due satisfaction to the employees, empathy and trust, respect and treating people equally – are all the foundations for the development of the Culture and values of the organisation, which reflects in overall output.

### **Amicable Workplace**

A work environment which attracts the employee rather than expecting the week end to be away from the workplace is the principle. The workplace should be congenial, warm and amicable to the employees. This helps in improving the quality of work life and balancing the work life.

## **Characteristics of Performance Management**

Performance management is a complex concept that encompasses different dimensions of the organisation and the people. Hence, the performance management has some pre requisites that should be included while designing a system.

## **Organisational Strategies and Goals**

The Organisational vision, mission and objectives need to be clearly and precisely laid down and communicated to all the employees to make them realise what the organisation expects from them. The need of imparting the expected performance in a broader view is essential to create a platform for employees to set their personal goals along with the organisational goals.

## **Planning**

A well planned act is half done by itself. Planning in detail the

- Availability of human resources
- Optimum utilization of resources
- Proper placement of employees

- Output needed to meet with the organisational goals
- Output needed from each individual employee
- Training needs
- Motivation and rewards will be the major helping guide to achieve the expected result.

## **Leadership**

The leadership plays an important role in the performance management system. Even though the system will try to put the people in the places of improvement, it comes to a point where the inner will of the employee will be the deciding authority to move on or not to move on.

Leadership is a simple solution, which can influence the followers, the employees, out of sheer respect, love, obedience, gratitude or adoration

Whatever we may name it, which can influence the employee to decide on the positive side. The pull and charisma of the leader is very important to implement a system of performance management.

## **Standardization of Evaluation Methods**

If the evaluation criteria and methods are not standardized, the management cannot say that they use them to hold the employees to a “standard.”

The aspects of performance that are to be measured must be uniform. Varying level of strictness or different methods of evaluation will only lead to lack of trust and faith on the system as well as on the organisation itself.

## **Cooperation, not Control**



The performance managers should understand that the system of performance management is to nurture the growth and potentiality to performance still better and not to control or exercise authority by finding faults. They should be able to convince the employees too, the concept of performance management is to help them do better and not just simply to report their progress or regress.

### **Validity**

Performance management systems should measure the valid tasks.

- The confusion in role clarity
- Assignment of substitutive tasks
- Task assigned on the initiation of employee
- Additional assignments
- Hard to hit targets
- Voluntary assignments taken by the employee

All the above should be considered with due wieghtage and all the above should be carefully handled in cases of non-accomplishment of the tasks.

### **Scope of Performance Management**

Employees are the most significant resource of an organisation. Performance management is the mirror that shows the commitment of the human capital to the organisation and to their assigned task. This system creates an opportunity for the top management to reward the excellent performance or reprimand unsatisfactory performance. This powerful system should be a tool to assess the overall performance of the organisation. This system not

only show case the individual performance of the organisation, but it is also a tool to measure the developing steps of the organisation as a whole towards its missions.

**The scope of the performance management includes the following:**

- providing employees a better understanding of their role and responsibilities
- Increase the confidence of the employees through recognizing their strengths
- Identifying training needs to overcome the weak areas
- Improve the relationships in the working areas
- Improve communication between superior and subordinates
- Improve teams and team spirit
- Improve commitment
- Succession planning through grooming subordinates to future managers
- providing space for personal reflections
- providing a platform for personal development
- providing assistance to achieve personal career goals
- Providing a better work environment and work place
- creating qualitative work environment

As proposed by management guru Marshall Goldsmith, organisations need to shift focus from performance ‘feedback’ to ‘feed forward’. The ‘feed forward’ approach emphasizes proactive and holistic performance management at individual, team and organisational levels.

**Significance of Performance Management**

Performance Management system is essentially evaluating and understanding the performance of the employees, but also it is an overall holistic process of a cycle of improving the performance of the individual human who has various interests, various potentialities, problems, ego, and thousand other traits. Hence, we can say that, performance management

tries to analyze and find the competency of the employees, identify the areas of performance lack, planning with system to encourage and enhance the performance for improvement.

Performance Management plays the vital role of identifying and enhancing the potentials of employees to fulfil the needs and requirements of the jobs assigned to them as well as to move upward them in his career ladder.

Performance Management helps the overall organisation's effectiveness and development by

- Effective business environment.
- Improved HR activities.
- Motivation.
- Improved Work Culture.
- Sustainable work force.
- Optimal utilization and productivity from the work force.
- Scope for continuous learning.

## **1.1 HR AS AN ASSET**

The million-dollar question that has been talked about in recent times is this – HAS THE VALUE OF HUMAN RESOURCE DEPRECIATED? This doubt has cropped up due to the pandemic taking down the workspace environment to shambles and serious questions about whether Human

resource actually contributes to performance in an organization. To counter these claims, here are some ways in which Human Resource contributes to excellence and perfection in an organization:

- i) Strategy and execution are two important features of HR that helps an organization put all of its future plans into motion.
- ii) The field of HR helps in economical and skilled division of labor, i.e.; manages the way work is planned and done. This is an important step in achieving total efficiency in administration while maintaining sufficient finances to meet demand and supply.
- iii) The field of HR plays an important role by acting as a bridge between the higher officials and the workers in an organization. It balances the concerns of both sides and values the ethics of the workers while also trying to meet the demands of senior management.
- iv) Human Resource is a special part of any organization as it acts a force of innovation and strength of the workplace while also maintaining and developing a culture of belonging and togetherness. It is the field of work which drives an organization to change and adapt every day.

Therefore, there is no doubt that Human Resource is an important and integral asset of any organization. It is a very unique field of work as it acts as a partner on strategies, handles effective administration, supports and advocates for progressive change and is integral to perfection in execution.

## **1.2 DEFINITION OF HUMAN RESOURCE ACCOUNTING**

Flamhoitz (1974) defined HRA as – ‘Accounting for people as an organisational resource. It involves measuring the costs incurred by business firms and other organisations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to the organisation’.

The American Accounting Association defined HRA as – “a process of identifying and measuring the data about human resources and communicating this data to interested parties.”

According to Stephen Knauf : "Human resource accounting is measurement and qualification of human organisation input such as training experience, requesting and commitment".

Ex: Major IT companies is recruited new employees due to the growth in the software sector.

The purpose of the recruitment of employees was based on:

1. Identification of new business opportunities.
2. Measuring the level of human resource to the tune of new business opportunities.
3. Planning and budgeting the human resources to acquire in accordance with requirements.
4. Then the acquired resources or mobilized resources should be appropriately controlled.

### **1.3 INTRODUCTION IN HRA**

#### **Human Resource Accounting**

With the importance of Human Resources now proven, we have come to the conclusion that people and their skills are a very important and integral part of any organization and it is a small-scale representation of the total worth of the institution. Furthermore, the extent to which these organizations can succeed depends on the knowledge, endurance, qualification and the skill that is possessed by the human resource that they are working with. Therefore, to understand and maintain a record on human resource, something known as Human Resource Accounting or HRA is used.

Human Resource Accounting (HRA) **'is a process of identifying and measuring data about human resources and communicating this information to interested parties.'** The main reason that HRA is a part of the system is to help the management to effectively plan, control and manage human resources and take necessary steps whenever the need arises. Another important feature of

HRA is that it is updated from time to time so that the information and data is up-to-date and indicative of the changes in resources.

The very idea of Human Resource Accounting is relatively advanced and is ever changing. Humans are not and should not be considered as an asset owned by the organisation. Human resource is the only asset which is based on beliefs and emotions unlike other materialistic assets. Therefore, HRA is a very important part of managing and accounting in today's day and age.

According to the great economist Alfred Marshal, the importance of human resource is defined as "Most valuable of all capital is that which is invested in human beings".

### **Human Resources Accounting and Audit (Human Resource Management)**

Human resource accounting is the procedure to recognize and report the investments made in the Human Resources of an Organization that are currently not accounted for in the conventional accounting practices. It is an expansion of the Accounting Principles of matching the costs and revenues and of organizing data to converse significant information. Normally, human resource Accounting (HRA) engages accounting for the organization's management and employees as human capital that provides future benefits. In the human resource accounting approach, expenditures associated with human resources are reported as assets on the balance sheet in contrast to the conventional accounting approach which treats costs related to a company's human resources as expenses on the income statement that decrease profit.

### **Concept and historical review of Human Resource Accounting**

In the decade of 1960, many researchers developed procedures of accounting for organizational human resource asset. It is based on the established notion that all expenditure of human capital formation is regarded as a charge against the revenue of the period as it does not create any physical asset. But this concept has changed and the cost incurred on any asset (as human resources) should be capitalized as it yields benefits quantifiable in financial terms. Human Resource Accounting indicates accounting for people as the organizational resources. It is the measurement of the cost and value of people to organization. It involves measuring costs incurred by private firms and public sectors to recruit, select, employ, train and develop employees and judge their economic value to the organization. Human resource accounting is a

complicated way to determine in financial terms the effectiveness of the personal manager activities and the use of people in an organization. It is process of accounting people as an organization resource. It attempts to place a value on the organizational human resources as assets and not as expenses. This method demonstrates the investment made by organization in the people and how the value of these people changes over a time. The possession of employee is compared with the substitute cost from time to time.

According to American accounting association committee, Human Resource Accounting is the process of identifying and measuring data about human resource and identifying and measuring data about human resource and communicating this information to interested parties. Likert (1971) explained that Human Resource Accounting serves several purposes in an organization. It provides cost/value information for taking management decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness. It permits management employees to scrutinize effectively the use of human resources.

Jasrotia (2004) emphasized the need for human resource accounting on India. The investigator concentrated on the remarkable shift from manufacturing to service rendering in the Indian economy where success of organizations depends on the knowledge and intellectual capabilities of personnel. The suggestion from the research was that Indian government should make the accounting and reporting of human resources mandatory for every organization just like as it is adopted in Denmark from the year 2015.

HRA provides effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved. It assists in the development of management principles by classifying the financial consequences of various practices. Main goals of Human Resource Accounting is to provide cost value information about acquiring, developing, allocating and maintaining Reallocating and maintaining HR, enable management to effectively monitor the use of HR, enable management to effectively monitor the use of HR, find whether human asset is appreciating or depreciating, find whether human asset is appreciating or depreciating over a period of time, assist in the development of effective management practices, to motivate

individual persons in the organization, increase their worth by training, in planning physical resource.

The human resource accounting is done to provide cost value information for making appropriate and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organizational objectives. Leading management scholar, Flamholtz (1979) explains the human resource accounting model as "psycho-technical systems" (PTS) approach to organizational measurement. This approach indicated that, the two functions of measurement are process functions in the process of measurement and numerical information from the numbers themselves. Therefore important role of human resource accounting is to present numerical measures. The HRA measurement process facilitates to increase recognition that human capital is vital to the organization's short and long-term productivity and expansion.

### **Uses of Human Resource Accounting**

Grojer and Johansson stated that human resource accounting is a political tool used to demonstrate mismanagement of human resource. It works as a pedagogical instrument for analysing and structuring, and used as a decision making aid to ensure that decision on HR are more rational from the management point of view.

### **Benefits of Human Resource Accounting**

There is several advantage of using human resource accounting. These include foresee the changes, provides different methods of testing , Increase productivity, brings high return, helps individual employee to aspire, provides scope for advancement, throws light on the strength and weaknesses of existing workforce and helps potential investors to judge a company.

### **Limitations of Human Resource Accounting**



Human resource accounting is not easy to value human asset. It results in dehumanizing human resource. There is no evidence. HR is full of measurement problem. Employees and Unions may not appreciate the ideas. This process is lack of Empirical evidence.

In India, companies do not give much consideration to issues related to human resource accounting. In India this concept is struggling for recognition and has not been initiated as a system. Indian companies act does not necessitate company to provide information related to workers cost in their annual report. Though, since last decade, there is awareness toward measurement and reporting of human asset. In India, Human resource accounting was first utilized in public sector by Bharat Heavy Electrical Ltd (BHEL) in financial year 1972-73. Afterward, other organization both in public and private organization started to provide information related to human resource in the annual report. Organizations that are using human resource accounting process are Infosys, Steel authority of India, Southern Petrochemicals, Industries Corporation of India Ltd, Mineral and Metals Trading Corporation of India Hindustan Zinc Ltd, Associated cement Companies Ltd, Madras Refineries Ltd, Oil India Ltd Oil and Natural Gas Commission and Cement Corporation of India.

To summarize, Human resource accounting evaluates the employees' performance in terms of costs and contributions of employees. The fundamental reason for developing HR Accounting is to reduce problems arising from the valuation of intangible assets. HRA provides an insight on employees as assets and a profile to the enterprise and thus improves its status. HRA investigates to keep intelligent human capital. Human resource accounting considers human resources as equivalent to other assets in the organization. They need investment over time to make them productive. Such investment relates to the recruiting, exercise, and development costs, which are capitalized and amortized over an assumed probably productive life for the human resource, taking into account attrition and eventual deterioration, HR Accounting system attempts to evaluate the value of human resources of an organization in a systematic manner and record them in the financial statement to converse their worth with changes in time.

## **Human Resource Audit**

Auditing has been a usual practice in the field of finance, particularly because it is a constitutional obligation. However, in case of Human Resource, there is no legal binding to implement auditing. Some of the companies favor the process of Human Resource audits. Human resource audit is a tool which appraises effectiveness of human resource functions of an organization.

### **Concept and scope of human resource audit:**

The Human Resource Audit is an organized official process, which is designed to investigate the strategies, policies, procedures, documentation, structure, systems and practices with respect to the organization's human resource management. It systematically and scientifically evaluates the strengths, constraints, and developmental needs of the existing human resources in order to improve organizational performance. The human resource audit is based on the principle that human resource processes are dynamic and must constantly be redirected and revived to remain responsive to the changing needs. Human Resource Audits are not regular practices aimed at problem solving. Instead of directly solving problems, HR audits, help in providing insights into probable causes for existing and future dilemmas.

### **Scope of human resource audit**

Human resource audit is conducted to ensure compliance, improve HR practices, train managers of company, prepare for potential government audit or litigation, gain an understanding of department's environment, and show a "good faith effort and correct errors. Basic principles of audits are to identify the Scope, develop a Questionnaire, collect Data, benchmark Findings, provide Feedback about Results, create Action Plans and foster Climate of Continuous Improvement.

The main intent of audit in human resource is to clarify desired practices of HR work and roles within the organization (HR Department, Line Managers), to establish a baseline for future improvement, to evaluate current effectiveness, to standardize practices across multiple sites within a division or company, to assess current knowledge and skills required of HR practitioners and to improve performance levels to key customers within the organization.

**There are two types of audit that include internal and external audit.**

Internal audit: The internal audit is conducted by the company's own staff as a part of their control activities.

External audit: The external audit is conducted by outsiders specifically employed for this purpose. The advantage is to get the employed for this purpose is unbiased evaluation by competent people of the manpower management function.

## **HR Audit**

### **Preparation for an Audit**

Auditor Engagement: If using internal resource, it is better to employ them formally with clarity on scope and select persons who are non-political or those who are not high on hierarchy. Also, if internal persons are auditing there must be training in auditing.

Data gathering: Completion of a self-assessment questionnaire significantly expedites the audit process and allows for better audit planning.

On-site access: The on-site portion of the audit is the most important.

**Human resource audit process:** The human resource audit process is conducted in different phases. Each phase is designed to build upon the preceding phase so that the organisation will have a very strong impression of the HR function. The general process of conducting an audit includes seven key steps that are to determine the scope and type of audit, develop the audit questionnaire, collect the data, benchmark the findings, provide feedback about the results, create action plans and foster a climate of continuous improvement.

**Scope and type of the audit:** To reveal the needed information, it is vital to establish exactly what areas should be targeted for check. If the organization has never audited its human resource function, or if there have been current significant organizational or legal changes, the audit team can carry out a comprehensive review of all human resource practice areas.

Alternatively, if concerns are limited to the sufficiency of a particular process or policy, the audit must concentrate a review of that particular area.

**Develop the audit questionnaire:** In next step, it is important to invest enough time in developing a comprehensive document that obtains information on all the subjects of the inquiry. A list of specific questions must be composed to ensure that the questionnaire is complete.

**Collect the data:** The next stage includes the actual process of assessing specific areas to collect the data about the company and its human resource practices. Audit team members will use the audit questionnaire as tool to review the specific areas identified within the range of the audit.

**Benchmark the findings:** To completely review the audit findings, auditors must be compared with human resource benchmarks. This comparison will offer insight into how the audit results compare against other similar size of firms. Typical information that might be internally benchmarked includes the company's ratio of total employees to HR professionals, general and administrative costs, cost per new employees hired, etc. Benchmarking might include the number of days to fill a position, average cost of annual employee benefits, absenteeism rates.

**Provide feedback about the results:** In this step of the audit process, the audit team must review the data and give feedback to the company's human resource experts and senior management team in the form of findings and recommendations. Findings normally are reduced to a written report with recommendations prioritised based on the risk level assigned to each item. From this final analysis, framework for action can be developed that will help determine the order in which to address the issues raised. In addition to a formal report, it is significantly important to examine the results of the audit with employees in the human resource department, as well as the senior management team, so everyone is conscious of needed changes and approvals can be obtained promptly.

**Create action plans:** In this step, it is crucial actually to analyse the information identified as a result of an audit. The company must generate action plans for implementing the changes proposed by the audit, with the findings separated by order of importance: high, medium and low. It really increases legal risk to conduct an audit and then fail to act on the results.

**Foster a climate of continuous improvement:** At the end of the audit, it is essential to constantly observe and improve the company's policies, procedures and practices so that the organization never stop to keep improving. This will make certain that the company achieves and retains its competitive advantage. In the process of continuously monitoring human resource systems, it is to ensure that they are updated with latest information and to have follow-up mechanisms built into every one of them. Similarly, it is important to keep track of the audit findings/changes made, turnover, complaints filed, hotline issues, employee survey results to recognize trends in the company's employment-related issues. Identifying problematic issues, growth areas or declining problem spots can assist in the decision of where to allocate time, money and take preventive measures.

## **HR Audit**

### **Approaches to Human Resource Audit**

There are five approaches for the purpose of evaluation of HR in any organization. These include Comparative approach, outside authority, Statistical, Compliance approach and Management By Objectives (MBO).

main steps of the audit is to Define desired HR practices for your organization, Assess current practices against the criterion that you have established, Analyze the results, and establish improvement goals and take action.

**Comparative approach:** In this approach, the auditors identify Competitor Company as the model. The results of their organization are compared with that Company/ industry.

Outside authority approach: The auditors use standards set by an outside consultant as benchmark for comparison of own results.

Statistical approach: Statistical measures of performance are developed considering the company's existing information.

Compliance approach: Auditors review past actions to calculate whether those activities comply with legal requirements and industry policies and procedures.

Management by objectives (MBO) approach: This approach creates specific goals, against which performance can be measured, to arrive at final decision about organization's actual performance with the set objectives.

### **Benefits of Human Resource Audit**

Human resource audit has many advantages. Human resource audit helps to find out the proper contribution of the HR department towards the organization. It enhances the professional image of the HR department of the organization, reduces the HR cost, motivates the HR personnel, find out the problems and solve them smoothly, provides timely legal requirement. Human resource audit has effective Performance Appraisal Systems and Systematic job analysis. It has smooth adoption of the changing business attitude.

To summarize, Human resource audit denotes people and the processes that are responsible for efficient working in organizational functions. Human resource audit can qualify its effectiveness within an organization. Human Resource audits may achieve many objectives, such as ensuring legal compliance; helping maintain or improve a competitive advantage; establishing efficient documentation and technology practices; and identifying strengths and weaknesses in training, communications and other employment practices. Human Resource auditing is something that many companies do yearly, just as they audit their financial information.

This gives them an accounting of their personnel and the efficiency with which the organization as an entity deals with its people, from recruiting to firing. Human resource audit helps senior management to guarantee compliance with wage-and-hour laws and the myriad of other employment and benefits-related statutes. It examines the effectiveness and costs of HR policies and practices and their role in the organizations strategic planning and benchmark actual against desired performance and develops an action plan for addressing shortfalls. HR audit saves money by identifying and correcting inefficiencies and compliance problems. This process allows a company to get a general thought of where it stands so that it can rectify any potential problems and plan for the future. Human Resource Accounting benefits the company to determine how much investment it has made on its employees and how much return it can anticipate from this asset.

## **Evolution of Human Resource Accounting**

The importance of human resource accounting evolved in the post Second World War period, due to rapid industrialization. After the Second World War, the countries in the globe indulged in the process of speedy recovery and reconstruction. Countries like Japan, Germany, and Korea which had been destroyed during the war required to stand in their own legs not accepting any aid from other countries. After 20 years countries like Japan, Germany, and Korea became major players on the global stage through the embedded quality of international trade.

It was a hard task for all countries not only to develop the domestic economy but also to compete in international trade. The economic development and prosperity attained in these countries, unequalled by most countries, is only on account of the importance given to human resources.

The traces of a rudimentary HRA can be found in the Medieval European practice of calculating the cost of keeping a prisoner versus the expected future earnings from him. The prisoners in those days were seen to be the general property of the capturing side. Consequently, after the victory, a quick decision regarding whether to capture a prisoner or to kill him had to be taken based on the costs involved in keeping him and the benefits accruing

from killing him. However, these represented very rough measurements with limited use. The development of HRA as a systematic and detailed academic activity, according to Eric G Flamhoitz (1999), began in the sixties. He divides the development into five stages.

These are:

First Stage (1960-66): This marks the beginning of academic interest in the area of HRA. However, the focus was primarily on deriving HRA concepts from other studies like the economic theory of capital, psychological theories of leadership – effectiveness, the emerging concepts of human resource as different from personnel or human relations; as well as the measurement of corporate goodwill.

Second Stage (1966-71): The focus here was more on developing and validating different models for HRA. These models covered both costs and the monetary and non-monetary value of HR. The aim was to develop some tools that would help the organisations in assessing and managing their human resource/asset in a more realistic manner. One of the earliest studies

Third Stage: (1971-76): This period was marked by a widespread interest in the field of HRA leading to a rapid growth of research in the area. The focus in most cases was on the issues of application of HRA in business organisations. R.G. Barry's experiments contributed substantially during this stage (R.G. Barry Corporation, 1971).

Fourth Stage (1976-1980): This was a period of decline in the area of HRA primarily because the complex issues that needed to be explored required much deeper empirical research than was needed for the earlier simple models. The organisations, however, were not prepared to sponsor such research. They found the idea of HRA interesting, but did not find much use in pumping in large sums or investing lot of time and energy in supporting the research.

Fifth Stage (1980 onwards): There was a sudden renewal of interest in the field of HRA, partly because most of the developed economies had shifted from manufacturing to



service economies and realized the criticality of human assets for their organisations. Since the survival, growth and profits of the organisations were perceived to be dependent more on the intellectual assets of the companies than on physical assets, the need was felt to have more accurate measures for HR costs, investments and value.

An important outcome of this renewed interest was that unlike the previous decades, when the interests were mainly academic with some practical applications, from the mid-90s, the focus has been on greater application of HRA to business management. Different types of models to suit the specific requirements of the organisations have been developed, incorporating both the tangible and the intangible aspects. Also, larger number of organisations actually began to use HRA as part of their managerial and financial accounting practice.

### **Purposes of Human Resource Accounting (HRA)**

- HRA helps the organisation to plan a budget for human resource expenses well in advance which include acquisition cost, training cost, cost for expansion of the human assets, salaries and wages etc.
- Human resource accounting is one of the best ways to measure the expenses done by an organisation on the human resource and the exact value of these resources.
- All the decisions regarding to manpower working in a particular organisation are based on the HRA.
- Once the management has calculated the information about the human assets of the organisation, they start considering it as an important part of all their decisions.
- The HRA system helps the management of any organisation to judge the employees on the basis of their performance and their standards and provide them with incentives accordingly.

- In order to estimate the value of human resources an organisation has to follow certain principles and procedure as per the standards set by the Human Resource Department.
- In case there are any upcoming changes in the value of the human assets working in the organisation. Human Resource Accounting gives an indication to the authority in advance so that appropriate step can be taken to preserve most valuable human assets of the organisation.

### **Nature of Human Resource Accounting**

- It facilitates valuation of HR and recording it in the books of accounts. Records are maintained in order to meet the changes taking place in Human Resource from time to time.
- HRA tells information about the financial statement of the organisation for communication purpose.
- HRA measures cost incurred by organisation in recruitment, selection, training and development of employees and helps in increasing their economic value to the organisation.
- Human Resource Accounting is a process of identifying human resources. Personnel working in the organisation from top level management to lower level fall in the category of HR personnel.

## **Procedure of Human Resource Accounting**

Procedure 1 : HRA Objectives

Procedure 2 : Developing HRA Measurements

Procedure 3 : Developing HR Accounting Database

Procedure 4 : Pilot Testing the System

Procedure 4 : Pilot Testing the System

Procedure 5 : Implementing the Human Resource Accounting System

### **Procedure 1: Objectives of HRA**

Every organisation has to accomplish a certain set of goals. These goals and the organisational requirements are the foundation for setting the objectives of the human resource accounting system.

### **Procedure: Developing HRA Measurements**

There are two methods by which human resource accounting measurement can be used.

Monetary or Non-monetary methods can also be used as standard for measuring the cost or value or both of human resources.

Monetary methods are based on cost or economic value of human resources. Under these methods human resources of an organisation are translated into a common denominator, i.e., money on which organisational decisions are taken.

Non-monetary method is taking the account of the changes in the effectiveness of individuals, groups and the organisation from time to time; the behavioural scientists have developed some non-monetary methods in HRA.

Either the management can go for one particular measurement method or a number of methods for the measurements.

Before implementing any of these methods the validity and consistency of this method must be checked.

### **Procedure 3: Developing HR Accounting Database**

The human resource accounting system is based on certain factors such as time management sheet, the cost of each employee working in the organisation, various psychological factors etc. These factors form the database of HRA system.

### **Procedure 4: Experimental Testing the System**

Experimental testing means pre-checking the working of the system before finalising it as a part of the organisation. Management co-ordination and co-operation throughout the process of pilot testing is essential for its success.

### **Procedure 5: Implementing the Human Resource Accounting System**

Finally, organisation introduced the entire workforce and staff with a new accounting system. The importance and different methods of HRA are specified to the employees so that they become familiar with the new concept and accept it wholeheartedly.

### **Managerial Perspective on Human Resource Accounting**

Some important features that are of importance of Human Resource Accounting and some of the ways in which it helps the management to make informed decisions are:

- Planning the utilization and usage of human resources efficiently.
- Calculation of expenditure that will be spent in the development of the present human resource through training and skill classes, while also keeping in mind the benefits that will be derived by the organisation.
- The phasing and allocation of human resources through transfers, promotions and training of human resources.
- Identification of over boarding labour costs, low profitability on investments and improper expenditure and make plans to control and minimize the costs.
- Prevention of high labour turnover and taking measures to contain and diagnose the situation.

*Students Attention*

*The manager is usually interested in understanding and assessing the inner strength of the firm. Such inner strength does not merely depend on the physical assets owned and possessed by the firm. In case the human resources, specially the managerial resources at the disposal of the firm are impartially and systematically valued and disclosed in the financial statements, it will be valuable information for persons interested in making long-term investment in the firm.*

## **1.4 HUMAN RESOURCE ACCOUNTING METHODS AND APPLICATIONS**

Human resources cannot be valued in accordance with the Generally Accepted Accounting Principles (GAAP). The economic value approach does a meaningful valuation of human resources through two different methods.

Economic value approach of valuing the human resources is classified into two different methods:

- 1) Historic cost method and
- 2) Earning method.

### **Historic method**

The Historic method values the human resources on the basis of various costs that will be incurred by the organisation and this type of calculation has been around for a really long time. Some of the costs that come into account while using this method are:

- 1) Cost of acquisition
- 2) Cost of Hiring
- 3) Cost of Recruiting
- 4) Cost of Transfers, Development and Training

### **Earning Method**

The second method is a different method from the previous one, which values the human resource on the basis of earnings capitalization.

Earnings capitalization denotes the earning potential of the human resource during the future.

It is an expression of future earning potential of human resources.

### **Earning Cost Method**

The standard costs are compared with the actual, to study the variation of the acquisition, training, developing and separation.

### **Present Value of Future Earnings Method**

Lev and Schwartz founded the present value of future earnings method. This is one of the popular methods in India, which discounts the future earnings of human resource into present value till the retirement age.

$$V_y = \frac{I_t}{(1+R)^{t-y}}$$

$V_y$  = Human capital value of a person up to y years old

$I_t$  = the personal annual earnings up to retirement

$R$  = discount rate specific to the person

### **Adjusted Discounted Future Wages/Efficiency Ratio Model**

$$\text{Efficiency Ratio} = \frac{\text{Actual Average Earnings of the firm}}{\text{Normal Earnings of all firms}}$$

This is another method finding out the value of the individual through the discounting of future compensation. The value is on the basis of efficiency ratio. It is as follows.

Efficiency Ratio = 1: The firms' average rate of return equals the rate of return of the economy. It means that the value of human resource is at par with the industry.

If Efficiency Ratio > 1: The firm's return is higher than the normal earnings. The value of the human resource is more than the industrial average.

If Efficiency Ratio < 1: The firm's return is lower than the normal earnings. The value of the human resource is less than the industrial average.

## **APPLICATION OF HUMAN RESOURCE ACCOUNTING**

Following are the areas where HR accounting can be implemented in an organisation.

- **Employment**

HRA helps the concerned corporation in the employment and constructive usage of Human Resources. For example, it helps in the planning of physical assets for usage by using the human resource available as a basis for calculation. It helps the management to take decisions on transfers, promotions, skill development and the termination of certain human resources.

- **Measurement Of Performance**

Human Resource Accounting helps the managing department of any firm to easily manage the data and numbers that are in concern of human resources. The methods available help them to measure performance of any factor like customer satisfaction, punctuality, quality control, etcetera.

- **Calculation Of Monetary Gains**

Actually, one of the main reasons that HRA was conceived was to take data and information of the performance of human resources and turn them into quantifiable and comparable numbers. Therefore, using HRA anyone can compare the numbers invested in human resources and the profitability that is being harvested.



## **HUMAN RESOURCES ACCOUNTING AND ITS ADVANTAGE**

- HRA helps in giving valuable information to the management for effective planning and managing human resources.
- HRA helps in measurement of standard cost of recruiting, selecting, hiring and training people and organization can select a person with highest expected realizable values.
- Human resource accounting can change the attitude of managers completely, thereby, they would try to maximize the expected value of human resources and effective use of human resources in the organization.
- 4. HRA also provides necessary data to devise suitable promotion policy congenial work environment and job satisfaction to the people.

## **SUMMARY**

- ✓ Human Resources Accounting (HRA): The process of identifying, measuring and communicating data about human resources.
- ✓ Historical Costs Method: It takes into account all costs of recruitment, hiring, training and other initial costs involved in the development of human resources, i.e. employees.
- ✓ Economic Value Method: Human resources are valued on the basis of the contribution they are likely to make to the organisation during the period of their employment.
- ✓ Present Value Method: measures human resources by attributing an employee's value to the organisation as an equivalent to the present value of his remaining earnings.
- ✓ Resource: An object, which can provide expected future services. Hence, objects, which do not have expected future service potential cannot by definition, be resources.
- ✓ Human Resource Information System: It is a software solution, which offers the ease of maintaining the record of employees' information. The information kept confidential under this system are usually regarding payroll, accounts function, business transactions, etc.

## **SELF ASSESMENT QUESTIONS**

### **Short Answer Questions.**

- 1) Define Human Resource Management
- 2) Define Human Resource Accounting.
- 3) Write the historical background of Human Resource Accounting.
- 4) Write the methods for Human Resource Accounting.
- 5) What is the relevance of implementing HRA in an organisation?
- 6) Write the role of HRA in the Indian companies.
- 7) Short note on historical method of accounting?
- 8) Write a short note on cost of acquisition of employees.
- 9) How does human resource accounting helps management in taking key decisions?
- 10) What do you mean by earning capitalisation?
- 11) Write a brief note on Return on Investment (ROI).

### **Long Answer Questions.**

- 1) How does Human Resource function helps to provide excellence in an organisation?
- 2) Explain the various costs involved in Historical Costing method under HRA.
- 3) Enumerate the methods under economic costing method of HRA.
- 4) Compare and contrast the present value of future earnings method and Adjusted Discounted Future Wages/Efficiency Ratio Model of HRA.
- 5) What could have been the state of organizations had there been no implementation of Human resource accounting?
- 6) As a HR manager, in which areas, can human resource accounting be implemented?

### **FURTHER READINGS**

- 1) Bashker D Biswas (2012), Compensation and Benefit Design: Applying Finance and Accounting Principles to Global Human Resource Management Systems, FT Press.
- 2) Bashker Biswas and Steven Director (2013), How to Use Finance and Accounting in HR (Collection), FT Press.
- 3) D. K. Bhattacharyya, (2009), Human Resource Planning, Excel Books.
- 4) Michael Chatfield and Richard Vangermeersch (2014), The History of Accounting (RLE Accounting): An International Encyclopedia, Routledge.
- 5) M. P. Pandikumar (2007), Management Accounting Theory and Practice, Excel Books.

## **LESSON 2 - HR ACCOUNTING VS. OTHER ACCOUNTING**

Learning Objectives

Learning Outcomes

Unit Structure

2.1 Concept of Accounting

2.2 Financial Accounting

Evolution of Financial Accounting

Definition of Financial Accounting

Managerial Perspective on Financial Accounting

2.3 Cost Accounting

Evolution of Cost Accounting

Definition of Cost Accounting

Managerial Perspective of Cost Accounting

2.4 Management Accounting

Evolution of Management Accounting

Definition of Management Accounting

Managerial Perspective on Management Accounting

2.5 Human Resource Accounting vs. other Accounting Methods

Summary

Self-Assessment Questions

Further Readings

## **LEARNING OBJECTIVES**

After going through this unit, students should be able to understand the following:

- Distinction between human resource accounting and other forms of accounting
- Evaluate human resource accounting and other accounting

## **LEARNING OUTCOMES**

Completion of the lesson, students are able to demonstrate the concepts:

- The concept of accounting and able to explain evolution of financial accounting.
- To discover the basics of financial accounting and analysing managerial perspective on financial accounting.
- Define cost accounting and explain its managerial perspective
- Able to explain the basics of management accounting
- Differentiate human resource accounting and other accounting methods

## **INTRODUCTION**

Accounting is a means by which necessary financial information about business enterprise is communicated and is also called the language of business. Many users need financial information in order to make important decisions. These users can be divided into two broad categories: internal users and external users.

It helps the business to have knowledge of its financial position and understand its sources of revenue and expenses. This gives a better understanding of the business to the management and shows how the business can be grown while maintaining customer satisfaction.

### **2.1 CONCEPT OF ACCOUNTANCY**

#### **Definition of Accounting**

Accounting can be defined as a process of reporting, recording, interpreting and summarising economic data. The introduction of accounting helps the decision-makers of a company to make effective choices, by providing information on the financial status of the business.

The American Institute of Certified Public Accountants (AICPA) had defined accounting as the “art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof”.

Today, accounting is used by everyone and a good understanding of it is beneficial to all. Accountancy acts as a language of finance. To understand accounting efficiently, it is important to understand the aspects of accounting.

**Economic Events-** It is a consequence of a company has to undergo when the number of monetary transactions is involved. Such as purchasing new machinery, transportation, machine installation on-site, etc.

**Identification, Measurement, Recording, and Communication-** The accounting system should be outlined in such a way that the right data is identified, measured, recorded and communicated to the right individual and at the right time.

**Organization-**In refers to the size of activities and level of a business operation.

**Interested Users of Information-** It is about communicating important financial information to the customers, according to which they will make the correct decision.

## **Fundamentals of Accounting**

**Assets-** The economic value of an item which is possessed by the enterprise is referred to as Assets. To put it in other words, assets are those items that can be transformed into cash or that generates income for the enterprise shortly. It is useful in paying any expenses of the business entity or debt.

**Liabilities-** The economic value of an obligation or debt that is payable by the enterprise to other establishment or individual is referred to as liability. To put it in other words, liabilities are the obligations that are rising out of previous transactions, which is payable by the enterprise, through the assets possessed by the enterprise.

**Owner's Equity-** Owner's equity is one of the 3 vital segments of a sole proprietorship's balance sheet and one of the main aspects of the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}.$$

It depicts the owner's investment in the trade minus the owner's withdrawal from the trade + the net income since the business concern commenced.



## **Objectives of Accounting**

The main objectives of accounting are:

### **To maintain a systematic record of business transactions**

Accounting is used to maintain a systematic record of all the financial transactions in a book of accounts. For this, all the transactions are recorded in chronological order in Journal and then posted to principle book i.e. Ledger.

### **To ascertain profit and loss**

Every businessman is keen to know the net results of business operations periodically. To check whether the business has earned profits or incurred losses, we prepare a “Profit & Loss Account”.

### **To determine the financial position**

Another important objective is to determine the financial position of the business to check the value of assets and liabilities. For this purpose, we prepare a “Balance Sheet”.

### **To provide information to various users**

Providing information to the various interested parties or stakeholders is one of the most important objectives of accounting. It helps them in making good financial decisions.

### **To assist the management**

By analysing financial data and providing interpretations in the form of reports, accounting assists management in handling business operations effectively.

## **Characteristics of Accounting:**

The following characteristics can be drawn from the definition of Accounting:

### **Identifying financial transactions and events:**

Accounting records only those transactions and events which are of financial nature. So, first of all, such transactions and events are identified.

### **Measuring the transactions**

Accounting measures the transactions and events in terms of money which are considered as a common unit.

### **Recording of transactions**

Accounting involves recording the financial transactions in appropriate book of accounts such as Journal or Subsidiary Books.

### **Classifying the transactions**

Transactions recorded in the books of original entry – Journal or Subsidiary books are classified and grouped according to nature and posted in separate accounts known as ‘Ledger Accounts’.

### **Summarising the transactions**

It involves presenting the classified data in a manner and in the form of statements, which are understandable by the users. It includes Trial balance, Trading Account, Profit and Loss Account and Balance Sheet.

## **Analysing and interpreting financial data**

Results of the business are analysed and interpreted so that users of financial statements can make a meaningful and sound judgment.

## **Communicating the financial data or reports to the users**

Communicating the financial data to the users on time is the final step of Accounting so that they can make appropriate decisions.

## **Different Branches of Accounting**

The following are the main branches of accounting:

### **(a) Financial accounting:**

Financial Accounting is that branch of accounting which involves identifying, measuring, recording, classifying, summarising the business transactions, i.e. it involves the steps from Identifying, Recording of transactions to Summarisation, and communicating the financial data.

### **(b) Cost accounting:**

Cost Accounting is that branch of accounting which is concerned with the process of ascertaining and controlling the cost of products or services.

### **(c) Management accounting**

Management accounting refers to that branch of accounting which is concerned with presenting the accounting information in such a way that helps the management in planning and controlling the operations of a business and in decision making.

## **2.2 FINANCIAL ACCOUNTING**

One of the most important aspects of business right from the start of civilisation has been financial accounting. Every corporation, firm, organisation or conglomerate has a basic sense and foundation of financial accounting to look into its business.

### **The evolution of Financial Accounting**

The evolution of Financial Accounting can be traced back to the time when barter system was followed worldwide. With sea routes and seafarers increasing day by day, trade and business started flourishing not only inside continents but between them too. Thereafter, the whole world became involved in a worldwide global economy. All of these developments, transactions and business have valid evidence and with it we have come to know the practices and customs that were followed by the traders of a past era.

With increasing business across continents, a need for collecting the data in a structural manner arose quickly. Therefore, Financial Accounting was born. It is said and believed that the first instance of such accounting practices was used in Middle Eastern Countries around 7000-7500 BC. The main changes in accounting were brought forth by Luca Pacioli (1447-1517), known as 'The Father of Accounting' after the release of his book 'Summa de arithmetica' which contains the first ever public description of the double-entry bookkeeping system.

### **Definition of Financial Accounting**

According to Guthman and Dougal define "Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business."

According to J.F. Brandley define “Financial management is that area of business management devoted to a judicious use of capital and a careful selection of the source of capital in order to enable a spending unit to move in the direction of reaching the goals.”

According to Massie define “Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.”

The process of preparing financial statements that companies’ use to show and report their financial performance and position to people outside the company such as Investors, creditors, shareholders, tax reporters and customers is known as Financial Accounting.

Financial Accounting uses monetary funds as a base of calculating economic performance. In the process, the business transactions and financial statements of the company are recorded, summarized and reported in a completely economic point of view.

### **Managerial Reasons to Maintain Financial Accounting:**

From the perspective of the management and managers, financial accounting is a method by which they can keep the company in check. The ways through which Financial Accounting helps them are:

- Helpful in decision making as financial accounting keeps them updated with the present position on checks and balances.
- Checking the profits and losses incurred by the different branches of a firm and taking informed decision after calculating the Return of Investment.
- Evaluation of the current position of finances in the business at strategic intervals (every fiscal quarter) and reporting the data.
- Maintaining the records and data in a systematic and regularised way.
- Calibrating the profits that come in from the business and plan strategically on the spending and distribution of funds between departments.

- Determine the state of the assets owned and making timely plans (both short-term and long-term) on the credit and requirements that the company needs.

## **2.3 COST ACCOUNTING:**

In simple terms, the systematic recording of all the costs that a business incurs and using that data to improve the institution's performance is known as Cost Accounting. This branch of accounting has been evolving ever since Financial Accounting became a norm in all sorts of businesses.

### **Evolution of Cost Accounting**

Before the industrial revolution and the age of mass production, the businesses that were present were too small in scale. They did not have huge, large-scale transactions and exchanges as we have today, and therefore there was no need for a standardised method as such for cost accounting. Data was noted and stored, albeit being kept in a very precise and accurate way.

However, after the boom and arrival of comprehensive industries and factories, an accurate method of reliance was required to monitor the monetary branches of a firm. Therefore, around the end of 17th century and leading into the early 18th century (1890s – 1920s), an early derived method of Cost Accounting was becoming the norm in many conglomerates and corporations. With the dawn of World War I and World War II, the importance of cost accounting grew along with the participating countries' financial plans.

### **Definition of Cost Accounting**

Cost accounting is the process where all the costs incurred by a business are recorded in such a way that it can be used productively to improve and manage its assets. The process of cost accounting is a very demanding and heavy work. It requires the ability and skill of a

manager to apply various costing techniques and methods to standardise the way of collecting data and accounting in all the factors of costs.

The properties of cost reduction, accounting of costs, profitability of different assets and the predictability of future losses can be prepared for early with the help of cost accounting. The method of cost accounting varies from firm to firm as no two organisations are the same? The different finances that a business spends on varying costs are grouped into different divisions of costing. Some different types of costing that are included in the process of cost accounting are direct costing, Operation costing, Unit costing, Process costing, et cetera.

### **Managerial Perspective on Cost Accounting**

- Cost accounting gives us reports which provide detailed information about the different areas of an organisation and the profitability these areas provide. If a particular division is reported to be unprofitable, the management can make an informed decision due to the presence of cost accounting.
- With cost accounting, the pricing of new products and revision of the price of existing products becomes easier for the management. With swift and popular decisions, this can help the company in adding more customers and prospective buyers.
- In Cost accounting every factor of production, marketing, transit and all the other costs incurred until the end is taken into consideration. With this, the management can locate the losses and wastages and can improve the overall efficiency. Plans related to the cost of materials, time taken in production, utilisation of assets and many other elements can be put in motion with ease.

## **2.4 MANAGEMENT ACCOUNTING**

Management accounting as a new branch of accounting is of recent origin. As businesses grew bigger, the need for a new type of accounting was felt. Computerization also

took place to process voluminous data and for timely submission of reports. To assist the managers discharge all its functions i.e., planning, organization, staffing, direction and control efficiently with the help of accounting information, management accounting was developed.

Let us have a look at the origin of this field of accounting as well:

### **Evolution of Management Accounting**

The origin of management accounting can be traced back from industrial revolution in 19th century. During this early period, most firms were tightly controlled by a few owner-managers who borrowed based on personal relationship and their personal assets. Since there were no external shareholders and little unsecured debt, there was little need for elaborate financial reports. In contrast, managerial accounting was relatively sophisticated and provided the essential information needed to manage the early large scale production of textile, steel and other products.

### **Definition of Management Accounting**

The following are some definitions of management accounting:

"Management accounting is concerned with accounting information that is useful to management."— R.N. Anthony

"Management accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and in the day-to-day operations of an undertaking."— Anglo American Council of Productivity

"The application of accounting and statistical techniques to the specific purpose of producing and interpreting information designed to assist management in its function of promoting maximum efficiency and in envisaging, formulating and coordinating future plans and subsequently in measuring their execution."—Association of Certified Accountants

In sum, we can say by going through these definitions, that management accounting by the use of various techniques provides information useful for planning and controlling the



progress of an organization towards its goals efficiently. The accountants generate the information for the use of management.

### **Managerial Perspective on Management Accounting**

Management accounting assists and supports managers in the organisation by serving them in following ways:

- Management accounting helps in decision-making such as pricing, make or buy, acceptance of additional orders, selection of suitable product mix, etc. These important decisions are taken with the help of marginal costing technique.
- IT lends a hand in planning includes profit planning, preparation of budgets, programmes of capital investment and financing. Management accounting assists in planning through budgetary control, capital budgeting and cost–volume–profit analysis.
- Management accounting uses various tools and techniques like budgeting, responsibility accounting and standard costing. A sound organizational structure is developed to facilitate the use of these techniques.
- Management is provides managers with up-to-date information through periodical reports. These reports assist the management in the evaluation of performance and control.
- The functional budgets (purchase budget, sales budget, overhead budget etc.) are integrated into one known as master budget. This facilitates the manager in clearly defining departmental goals and co-ordination of their activities.
- Management accounting is a convenient tool for evaluation of performance. With the help of ratios and variance analysis, the efficiency of departments can be measured.

Management accounting assists the management in the location of weak spots and in taking corrective actions.

- Management accounting presents information in a simple and purposeful manner. This facilitates quick decision-making.
- Management accounting includes appraisal of social and economic forces and government policies. This appraisal helps the management in assessing their impact in the business.

## **2.5 HUMAN RESOURCE ACCOUNTING VS. OTHER ACCOUNTING METHODS**

HRA is different from other accounting methods: This is classified seven Basis of Difference.

1. Growth and Origin
2. Definition
3. Objectives
4. Scope Nature of transaction
5. Nature of transformation
6. Duration of information reporting
7. Profit analysis and
8. Limitation

## 1. Growth and Origin

<b>HUMAN RESOURCE ACCOUNTING</b>	According to Falmholtz (1999), the development of HRA as a systematic academic activity began in 1960's.
<b>FINANCIAL ACCOUNTING</b>	Accounting was practiced in India twenty three centuries ago as is clear from the book Named "Arthashastra" written by Kautilya, King Chandragupta's minister.
<b>COST ACCOUNTING</b>	The growth and origin of cost accounting dates back to fourteenth century.
<b>MANAGEMENT ACCOUNTING</b>	Management accounting evolved in the middle of 20th century. Hence it is of recent growth and origin when compared to cost accounting.

## 2. Definition

HUMAN RESOURCE ACCOUNTING	Human resource accounting is the process of identifying and reporting the investments made in the human resources of an organisation that are presently not accounted for in the conventional accounting practices.
FINANCIAL ACCOUNTING	Reporting of the financial position and performance of a firm through financial statements issued to external users on a periodic basis.
COST ACCOUNTING	Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy
MANAGEMENT ACCOUNTING	Cost accounting is a process of collecting, analyzing, summarizing and evaluating various alternative courses of action.

### 3. Objectives

HUMAN RESOURCE ACCOUNTING	To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organisational objectives.
FINANCIAL ACCOUNTING	The objective of financial accounting is external reporting mainly to owners, creditors, tax authorities, government and investors
COST ACCOUNTING	The purpose and objective of cost accounting is internal reporting to management
MANAGEMENT ACCOUNTING	The main objective of management accounting is to provide useful information and data to management for decision-making.

#### 4. Scope Nature of transaction

HUMAN RESOURCE ACCOUNTING	HRA extends its scope to the areas of human resource planning; there include recruitment, training and development, staff costing, redundancy, collective bargaining and accommodation.
FINANCIAL ACCOUNTING	Accounting has got a very wide scope and area of application. Its use is not confined to the business world alone, but spread over in all the spheres of the society and in all professions.
COST ACCOUNTING	Cost accounting has narrow scope as it covers matters relating to ascertainment of cost and control of cost.
MANAGEMENT ACCOUNTING	It has a wide scope in as much as it covers the areas of financial accounting, cost accounting, taxation, etc.

## 5. Nature of Transformation

HUMAN RESOURCE ACCOUNTING	Human resource accounting included all costs incurred in increasing and upgrading the employees' skill sets and knowledge of human resources. The output that an organization generated from human resources was regarded as the value of its human resources.
FINANCIAL ACCOUNTING	This is to be maintained compulsorily by forms of business organisations. The preparation of accounts must be in accordance with the statutory provisions of Companies Act and Income Tax Act.
COST ACCOUNTING	Cost accounting is maintained voluntarily. In some cases government has directed some companies to maintain cost accounts to improve efficiency of business or industry.
MANAGEMENT ACCOUNTING	Management accounting is concerned purely with the transactions relating to future.

## 6. Duration of the information reporting

HUMAN RESOURCE ACCOUNTING	HRA can deliver its results once in a year to the organisation, so that's its efficiency can be judged.
FINANCIAL ACCOUNTING	Generally, financial accounting provides financial information once a year.
COST ACCOUNTING	Cost accounting furnishes cost data at frequent intervals i.e., reports are daily, weekly and monthly.
MANAGEMENT ACCOUNTING	Management accounting does not follow a definite duration and format. Instead, when the data needs to be presented depends upon the need of the management.

## 8. Profit analysis

HUMAN RESOURCE ACCOUNTING	Human resource accounting discloses profits which organisation has made through the contribution of human resource department specifically.
FINANCIAL ACCOUNTING	Financial accounting discloses profit for the entire business as a whole.
COST ACCOUNTING	Cost accounting shows the profit for each product, process or operation.
MANAGEMENT ACCOUNTING	Management accounting serves the needs of only internal management system.



## 9. Limitation

HUMAN RESOURCE ACCOUNTING	There is no proper clear-cut and specific procedure or guideline for finding cost and value of human resource of an organisation. The systems which are being adopted have certain drawbacks
FINANCIAL ACCOUNTING	Deliberate manipulation of financial statements that is geared towards achieving predetermined results (also known as 'window dressing')
COST ACCOUNTING	Procedures of cost accounting followed by different organisations are different for different products. There is no uniformity. There is also possibility of difference in pricing material issues for production.
MANAGEMENT ACCOUNTING	Management Accounting collects the basic data mainly from the records as maintained by financial and cost accounting. Hence, it starts to work on the basis of the data as supplied by the other branches of accounting. If those basic data are incorrect, then the entire effort of the Management accountant becomes useless.

## SUMMARY

- ✓ Human Resources Accounting (HRA): The process of identifying, measuring and communicating data about human resources.
- ✓ Historical Costs Method: It takes into account all costs of recruitment, hiring, training and other initial costs involved in the development of human resources, i.e. employees.
- ✓ Economic Value Method: Human resources are valued on the basis of the contribution they are likely to make to the organisation during the period of their employment.
- ✓ Present Value Method: measures human resources by attributing an employee's value to the organisation as an equivalent to the present value of his remaining earnings.
- ✓ Resource: An object, which can provide expected future services. Hence, objects, which do not have expected future service potential cannot by definition, be resources.
- ✓ Human Resource Information System: It is a software solution, which offers the ease of maintaining the record of employees' information. The information kept confidential under this system are usually regarding payroll, accounts function, business transactions, etc.

## **SELF-ASSESSMENT QUESTIONS**

### **Short Answer Questions**

1. Write a short on the term costing.
2. Define management accounting.
3. Differentiate between human resource accounting and management accounting.
4. Write a short note on evolution of financial accounting.
5. Difference between human resource accounting and human resource management.
6. List the significance of human resource accounting in disbursing information related to various HR activities in an organisation.
7. Distinguish between financial accounting and human resource accounting.
8. Human resource accounting is a distinct field of study. Indicate, the rationale behind introducing this branch of knowledge.
9. How HR accounting extends its scope to HR planning?
10. Find out and list the other branches of accounting, which are used in companies other than those, discussed in the lesson.
11. Explain how HR accounting system can reinforce strategic decision in organisation.
12. Human resource accounting is a waste of money and resources. Do you agree? Give reasons in support of your answer.

### **Long Answer Questions**

1. Describe the significance of accounting for present day managers. How it differs from HR accounting.

2. Establish a link among all the four branches of accountancy.
3. Is it necessary that all four branches of accountancy should be practised in an organisation?  
Discuss.
4. Explain the evolution of human resource accounting.
5. Enumerate on the managerial perspective of both management and financial accounting for managers.
8. “Cost accounting is becoming more and more relevant in the emerging economic scenario in India”. Give a contrast in context to HR accounting.
10. “Accounting has become an essential tool of modern management”. Comment on this statement.

**FURTHER REFERENCE:**

Dr.Dilip B. Patil, Dr. Dinesh D. Bhakkad (2010), Redefining Management Practices and Marketing in Modern Age, Athrav Publications

R.K. Patra (2010), Human Resource Accounting in Public Enterprises: A Case Study, Himalaya Pub. House.

Bashker D. Biswas, Steven Director (2013), How to Use Finance and Accounting in HR (Collection), FT Press.

Vijayakumar, Accounting for Management, Tata McGraw-Hill Education.

Alan Price (2011), Human Resource Management, Cengage Learning.

## **UNIT II**

### **LESSON 3 - HUMAN RESOURCE COST**

Learning Objectives

Learning Outcomes

Unit Structure

- 3.1 Measuring Human Resource Cost.
- 3.2 Investment in Employees.
- 3.3 Replacement cost.
- 3.4 Determination of Human Resource Value
- 3.5 Monetary and Non- Monetary methods
- 3.6 Return on Investment approach.

Summary

Self-Assessment Questions

Further Readings

## **LEARNING OBJECTIVES**

After going through this unit, students should be able to understand the following:

- To understand the importance of measuring human resource cost.
- To gain knowledge about the investment in employees in an organisation.
- To know the concept of return on investment approach.

## **LEARNING OUTCOMES**

Completion of the lesson, students are able to demonstrate the concepts:

- How to measure human resource cost.
- Concept of replacement cost.
- Explain determination of human resource value.
- Differentiate monetary and non-monetary methods.
- Determine return on investment approach.

## **INTRODUCTION**

In the previous lesson, we carry out detailed study of Human Resource Accounting vs. other accounting systems like Financial Accounting cost Accounting and Management Accounting. It is very clear to the students through the issues addressed under each accounting system.

In this lesson, students will be able to learn the significance of measuring Human Resource Cost. What are the various forms of investments, undertakes for their employees? Also, Students understand the concept of replacement cost and its role in an organisation. The issues regarding determination of human resource value, monetary and non-monetary measures that an organisation applies and the noteworthy return on investment approach is also explained in this lesson.

### **3.1 MEASURING HUMAN RESOURCE COST:**

Measuring Human Resource costs is key component of Human Resource Accounting. It is a study of the finances and cost that is incurred by the human resource assets of an organization. With sustainability and efficiency becoming the main objectives of modern companies, managing manpower and the amount spent on human resources has taken center stage. For this to happen periodically, measurement of costs regarding human resources is important. Therefore, during measuring different activities are grouped under different cost heads and then individual costs are identified and diagnosed.

With the measurement of costs being categorized into easily accessible data forms, the top management can easily review and monitor the operational costs and financial spending. This helps immensely when a company is trying to cut corners and helps the organization to realize its long term goals.



### 3.2 INVESTMENT IN EMPLOYEES:

The money that is put into the recruitment, holistic development, increments and other costs of the employees of an organization is the investment done in employees. This also includes the allowances, salary, special funds and any other remuneration that the organization may give the employees. The basic remuneration costs that are incurred by almost every organization are:

- ✓ Basic scale of Pay
- ✓ Bonuses
- ✓ Overtime Pay
- ✓ Dearness Allowance
- ✓ Conveyance Allowance

However, most companies have a structured program in place to calculate the pay scale of employees and it usually depends on the skill and level of qualification of the employee. To add to this, organizations usually help employees through contributions to medical benefits, insurances, pension fund, sickness allowances, et cetera. With the level of competition in today's world, some highly-skilled employees also receive different competitive remuneration from different firms.

Certain organizations give priority to experience rather than skill sets. In these types of firms, the basic pay is equal to all of the employees with the same qualifications and are given the same bonuses. Here, the hierarchy depends on the work experience and not based on how efficient or perfect a job is done by the employees. This is useful to some firms as this helps in retaining their employees for a long time as the employees would be the first in line to receive promotion and additional bonuses, if they have the required work experience.

With the whole world becoming a '**Global Village**' with technological developments and worldwide opportunities, the trend of moving to other countries in search of work has

spread far. Nowadays, many students and professionals move to other countries in search of job opportunities and vacancies.

This poses a new set of problems and advantages to organizations. Usually, economic migrants are seen as an additional cost to the firm and the management tries to reduce these costs, but the type of skill sets and ideas these expatriates bring to the table is unmatched. Therefore, organizations try to find a sweet spot and balance the costs incurred and try to acquire specialized expatriates for their firm. This has become a complex issue for the management and the decision making regarding this has become crucial for organizations.

To conclude, all the offers and pay packages that a company gives out to its employees over their basic pay is seen as additional costs and are termed as an *Investment*. However, the management of these companies should devise a correct representation of these costs and should see that the costs don't go out of hand. Modern firms like *Tesla*, *Google* give out options to own stocks of the company as an added bonus to selected executives while firms like *GoDaddy and Whole Foods* give this option to all of their employees as a newer method to instill a sense of belonging to their employees.

Therefore, the management boards of these organization look to reduce their cost burden and at the same time try to retain employees that are young and talented. The process of finding the right balance is very important and elements that profit the organization as well as the employees are the need of the hour. Many firms actually offer Group Pension Schemes, Group Maturity Funds that benefit both the parties in the long run.

### **Recruitment Costs**

The first step that organizations take in the investment for human resource is for recruitment. It is a major spending amount for the company in the investment for employees. It includes the amount that is spent for costs of recruitment, advertising, head hunting, interviewing, recruitment and orientation when the new employees join. However, these costs can be brought down considerably if the planning is done efficiently and the specification for the job is well-defined.

Also, there are many agencies that can help in the process of recruitment. With these agencies, the employees with specialized qualification and skills can be employed for a short contract. To note, many companies also search deeply inside their own human resources to give out promotions are to increase their contract period. This method is known as 'Internal Hiring'. Therefore, companies need to look at both the options of internal and external hiring when the management is looking to fill vacant positions.

### **Training Costs**

After the recruitment of new employees, companies also need to spend a considerable part of their budget to train and update these new recruits to suit their new roles. This is a very important part of employee recruitment as it could immensely help the organization in the long run. Some of the costs that form up the budget of training cost are:

- ✓ Cost of Course Materials
- ✓ Teaching and facilitator fees
- ✓ Cost for development of training videos and workbooks
- ✓ Rental fees for equipment and facilities needed, if any
- ✓ Cost for administrative services
- ✓ Cost for training evaluation

There are various different types of employee training and it varies slightly from one another. Therefore, it is advisable to pre-plan and devise a budget that is to be spent on training. Calculating the total cost that is incurred, both directly and indirectly can help the firm to accurately preserve the amount spent on training.

The method of employee training that each organization chooses can be done efficiently by comparing the pros and cons of each method. Of course, there is no precise way to cater to the needs of employee training that a firm requires. Therefore, while managing training costs, organizations also need to keep in mind the benefits that they would reap from the employees during their tenure at the firm.

## **Cost Benefit Analysis of Training**

Cost benefit analysis is cover the following aspects

### **Indirect Cost of Training:**

Costs incurred in support of training. For example, a pro-rated amount of staff support, administrator salaries, etc. Many administrative costs and utilities related to the training activity.

### **Direct Cost of Training:**

Direct cost of training is includes

The training provider's fee

The cost of training materials, if they are not included in the course fee

Travel and accommodation costs for participants, if necessary

Development of training materials, if appropriate.

### **Expanded Skill Cycle:**

It is critical to competent performance. The skill cycle consist of the following skills:

**Cognitive skills** – Ability to comprehend a problem

**Psycho motor skill** – Ability to discriminate colour tone, size, shape etc. to the degree necessary. It largely helps in perception.

**Reactive skill**– Ability to notice the signs and events occurring.

**Interactive skills** – Ability to notice the responses (including non-verbal responses) of other people.

### **Costs and Benefits of Training:**

It includes design and development costs, promotional costs, faculty costs, materials and facilities costs.

Benefits which training renders for employees can be summed up as follows:

- ✓ Increases job satisfaction and morale among employees
- ✓ Increases employee motivation
- ✓ Increases efficiencies in processes, resulting in financial gain
- ✓ Increases capacity to adopt new technologies and methods
- ✓ Increases innovation in strategies and products
- ✓ Reduces employee turnover

### **Relative Costs and Benefits of Training:**

Blended training is a new concept that combines various types of training and information communication to achieve the most effective performance gains in the most efficient manner. It enables in:

- ✓ Providing the skills, knowledge, and support when and where they're needed.
- ✓ Takes advantage of many learning methods.
- ✓ Reinforces knowledge and sustain performance over a longer period of time than traditional training solutions.

### **Relocation Costs**

This applies to only certain organizations that have work out of different bases that are located in different cities, states or countries. These types of organizations usually rotate their employees between these bases as a policy. This helps the company to manage vacancies and forms a bond between the different bases of the firm. Such decisions also impact the company financially as the company mostly pays the employee for their relocation. This includes costs related to travel allowances, housing allowances, disturbance allowances, bonuses due to relocation and/or promotion, et cetera.

## **Employee Separation Costs**

The termination, resignation or the relocation of the employee may add up to incur additional costs to an organization. These costs are usually termed as Separation Costs and Employee Separation almost always results in some costs that are incurred by the organization. As an employee separates from a firm, several costs are associated with the action such as:

- ✓ Amount spent on benefits that should reach the employee
- ✓ Amount spent on the process to replace the lost human resource
- ✓ Amount spent on the training, development and inclusion of the new employee, if any

However, employee separation also gives certain advantages to the organization. New and young recruits can be placed in vacancies, the pay scale is reduced considerably as new employees usually have little experience and the employees who perform poorly are being removed from the workspace.

## **Support Costs**

The costs that are spent on the support systems that are put in place by organizations for the benefit of all the employees are placed under the division of Support Costs. Some of these services are compulsory as mandated by the government, while some services are put in place by the individual efforts of organizations. So, usually the support costs are divided and calculated in two different heads, one for statutory services and the other for voluntary services. Some support services that companies offer to their employees are Medical allowances, Health insurance, Free Parking, Housing allowances, et cetera.

## **Personnel Management Costs**

The maintaining of Human Resource Information Systems, Record Keeping, Salary and pay for the employees that work in maintaining these records and other overall expenditures come under Personnel Management Costs. Most organizations look to outsource the process of

Personnel Management as it help to keep the costs low as services like recruitment, training, payments and auditing are all done easily by the firms these processes are outsourced to.

### **3.3 REPLACEMENT COST:**

The money spent by organizations when replacing the resources, which is usually based on the current value approach, is termed as Replacement Cost. This replacement cost method was taken into practice by the Indian Public Sector during the mid-late 2000s. The cost of replacement occurs only when the need of replacing a human resource arises. The cost of replacement is split into two different cost heads, i.e.

1. Positional Replacement
2. Personnel Replacement

#### **Positional Replacement**

The type of replacement is which a position is replaced, rather than the personnel or person is termed as positional replacement. The cost that is taken into consideration is only the amount spent on replacing the position. In this method, the cost of replacement is added by including the costs of acquisition, development, training, and the termination of the person previously occupying the position, if any.

*Example: The cashier and bank teller positions at many banks have been replaced by the introduction and development of Automatic Teller Machines (ATMs). This replacement includes the cost of development, replacement, maintenance and briefing of the software and hardware of ATMs.*

## **Personnel Replacement**

The cost of replacing a person from his position by another is a very difficult process as the skills and characteristics that each employee possesses differs considerably from one person to another. The method to find out the cost of replacing a person is also a complex and burdensome process.

*Example: When Jack Dorsey (Co-Founder of Twitter) unexpectedly stepped down as the CEO of Twitter in late November 2021, he was replaced by Parag Agrawal. Agrawal was promoted from his position of Chief Technology Officer at Twitter.*

### **3.4 DETERMINATION OF HUMAN RESOURCE VALUE:**

In any kind of organization, the human resource or assets that the organization owns is the representation of its employees. One of the basic qualities that a successful company carries is a very educated, skillful and knowledgeable workforce. Even though a big chunk of an organization's budget goes towards the salary, services and costs related to its employees, is considered an investment rather than as a liability. To determine the value of human resource, their performance is evaluated thoroughly. The advantages that the determination of human resource value carries are:

- ✓ It helps the management in planning the future expected cost to be spent on its workforce. This total budget then can be categorized into different spending areas such as development, training, salary and bonuses, complimentary services, et cetera.
- ✓ Shareholders can be presented with a detailed report of the finances that is being spent in human resources and assets. This gives the HR department a higher sense of transparency and efficiency.
- ✓ With the value of their work increasing, employees will have a sense of attachment and devotion towards their company and their positions. This profits the company immensely as



employees will then tend to stick around more and their commitment towards work also increases considerably.

- ✓ The performance and value an employee possesses can be easily evaluated after the completion of the process of calculation. This helps the personnel in HR department to decide on matters of termination, promotion and strategy planning.
- ✓ This also helps the accounting department of a company in easy auditing during regular processing activities.

### **3.5 MONETARY AND NON-MONETARY METHODS:**

As we saw earlier, the determination of the value of Human Resources has become an important and needed data value in today's Human Resource Management. But, the value of an employee cannot only be based on the profitability he produces for the company but abased also on the skills, ideas and thinking that he brings to the board table. Therefore, there are two different methods of calculation when it comes to the determination of Human Resources. They are:

#### **Non-Monetary Measurement**

The classification and categorization of human resources based on their qualifications, skill sets, characteristics, performance in the workspace, attitude towards work through surveys and the potential that the company sees in them for the long run. The measurement done on employees includes the evaluation of performance, observation and analyzing of his involvement. These measurements are then mapped and compared against the desired results of an organization to help them in decisions regarding promotions and terminations

The coordinated series of actions to attain some goal is known as **Skills**. Managerially, skills are defined as 'overt responses and controlled stimulation'. These responses are usually classified into three types, namely: verbal, motor or perceptual. Verbal responses typically

stress on speaking, which requires memorization of words. Motor responses rely on the movements of limbs and body. Perceptual responses stress on understanding of sensory responses. On the other hand, the energy inputs given to the employees at the workspace are termed as the 'controlled simulation' in the definition of skills. This is expressed in units of frequency, length, time and weight.

## **Monetary Measurement**

The financial measurement of the value of human resources forms the basis of Monetary Measurement. In Monetary Measurement, there are a different number of techniques used to calculate. The brief explanation of some of these techniques is:

- **Replacement Cost Method:**

The method in which the costs that will be incurred by the organization to replace the already existing human resource is taken majorly into consideration is known as the replacement cost method. It factors in the costs it would take to train, hire, and develop new employees who will replace the vacancies.

- **Capitalization Of Historical Costs Method:**

In this method, the all the costs that is incurred by the organization during the initial stages of an employee's recruitment, i.e. hiring, training, induction and development is taken into consideration and capitalized. This amount is considered until the expected tenure of an employee's work and is written off either when the tenure gets over or when the employee leaves the company.

- **Opportunity Cost Method:**

Under this method of calculation, the value of human resource is determined based on the value of an employee and the opportunity he was presented before he joined the organization. For example, if an employee for a certain position has been outsourced, that employee does not have an opportunity cost.

- **Present Value Method:**

This method measures human resource by connecting an employee's value to the organization and attributing it as an equivalent value to his/her remaining earnings.

Therefore, experience, basic pay and any other bonuses or promotions that the employee might have received plays an important role.

- **Economic Value Method:**

The value of human resources is calculated based on the contribution that the organization expects their employees to give their company in this method of monetary measurement. This means that the remaining remuneration that the company will pay the employee is estimated is taken into consideration and discounted to come to the desired value.

With this many different methods available, human resource accounting is an integral part from the view of Human Resource Development. This helps the department in many persistent issues in any organization such as attitude surveys, assessing an employee's development graph, performance appraisal, et cetera. Therefore, with all the above mentioned methods creating and maintaining a Human Resource System has become crucial nowadays. The important factors that should be in place while creating such a database are:

- Personal Profile: Name, Sex, Age, Marital Status, Phone Number, Permanent and Optional Addresses, et cetera.

- Career Profile: Educational Qualifications, Certificate Details, Degrees, Skills, Hobbies, Interests, et cetera
- Benefits Profile: This includes the benefits that these employees qualify for such as Insurance Coverage, Pension, Vacations, Holidays, Disability Concessions, et cetera.

### **3.6 RETURN ON INVESTMENT APPROACH:**

The Return on Investment approach or the ROI approach has become popular in recent times and many organizations have started using this method to calculate the return on different areas and departments of investments. The measurement of returns that is being taken from human resources can also be easily assessed using this approach. The widespread use of this approach is partly due to its easy and structured manner.

#### **Need for Calculation**

By evaluating the return of investment, the management of an organization can understand the profits and losses that each component of the company is giving. This helps the top brass of the company to take important decisions and formulate the next course of action. These plans usually try to increase the integrity of the elements that are proving to be profitable during the calculation of ROI.

#### **Process of Calculation**

As mentioned already, the popularity of the ROI approach is due to its simplicity and relevance in today's business world. The approach calculates the percentage of return that it has garnered from each area of investment. In the case of human resources, it usually tells the return garnered as a result of investment in either training or development programs.

The mathematical calculation to calculate the Return on Investment is:

$$\% \text{ ROI} = (\text{benefits} / \text{costs}) * 100$$

## SUMMARY

- **HR Cost Analysis:** The study of behaviour of cost in relation to one or more HR criteria.
- **Relocation Costs:** The cost incurred by an organisation in relocating the employees from A unit to B unit to equip them with the diverse functions of the organisation.
- **Stock Option:** It is a benefit, which a company extends to its employees, to buy shares of it at some discounted price and to inculcate in them the feeling of ownership as well.
- **Head-hunting:** It is a practice wherein a suitable candidate having rich experience and qualifications is tapped by agencies or competitor companies to hire, by offering him better future financial and non-financial prospects.
- **Gain-sharing:** it is a system, which an organisation introduces to motivate its employees. As per this system if an organisation makes profit then it shares that profit with its employees.
- **Training Cost:** Cost incurred by an organisation to update the skill inventory of its human capital and stay ahead in the industry with current practices.

## **SELF-ASSESSMENT QUESTIONS**

### **Short Answer Questions**

1. Write short note on “HR cost.
2. What you understand the term remuneration costs.
3. Write a short note on opportunity cost method.
4. Explain relocation cost.
5. Differentiate between two types of replacement cost.
6. List out the various cost carried out under personal overhead cost.
7. Write short note on controlling manpower costs.
8. How ROI calculated?
9. What does training cost comprise of?
10. Why does a company take painstaking efforts to incur support cost on employees?
11. What are the merits of determining the value of human resource?
12. What elements should be kept in view while calculating cost of replacement?
13. What is the function of specialised manpower agencies?
14. Which mode of hiring is better for vacancies, external or internal recruitment? Suggest why?
15. According to you, what are the benefits of relocation cost?
16. Diagrammatically represent cost-benefit analysis of training.
17. What is gain-sharing approach?
18. What do you mean by head-hunting?
19. Write a short note on present value concept of human resource valuation.
20. “Outsourcing personnel services to a great extent can reduce such cost burden.” Do you agree with this statement? Give reasons.

### **Long Answer Questions**

1. Discuss in detail replacement cost concept citing examples as well.
2. Discuss the relevance of training cost using examples of any one organisations.
3. What would have been the state of an organisation, had there been no provision for cost assessment centre in human resource department?
4. Elucidate the various investment costs that a company incurs on its employees.
5. Is there any difference between separation cost and replacement cost? Support your answer with reasons.
6. What factors have contributed to the rapid growth of fringe benefits as a percentage of most employers' total payroll costs?
7. What are your suggestions for controlling HR Costs? Give a detailed description.
8. Describe various monetary and non-monetary methods used for valuation of human resource.
9. How can you ensure a win-win compensation designing without adding to the HR Costs?

## **FURTHER REFERENCE:**

1. Steven Director (2012), Financial Analysis for HR Managers: Tools for Linking HR Strategy to Business Strategy, FT Press.
2. Marco Köster (2007), Human Resource Management: Classical Selection Methods and Alternatives, GRIN Verlag.
3. P. G. Aquinas (2009), Human Resource Management, Vikas Publishing House Pvt. Ltd.
4. Ronald J. Burke, Andrew Noblet and Cary L. Cooper (2013), Human Resource Management in the Public Sector, Edward Elgar Publishing.



## **UNIT III**

### **LESSON 3 - HUMAN RESOURCE ACCOUNTING SYSTEM**

Learning Objectives

Learning Outcomes

Unit Structure

- 4.1 Introduction
- 4.2 Developing Human Resource Accounting Systems
- 4.3 Implementation of Human Resource Accounting
- 4.4 Integration of HR Accounting with Other Accounting Systems
- 4.5 Recent Advancements and Future Directions in Human Resource Accounting

Summary

Self-Assessment Questions

Further Readings

## **LEARNING OBJECTIVES**

After studying this lesson, you should be able to:

- To understand the developing human resource accounting system.
- To know about the stages involved in implementing human resource accounting system.
- To identify with relevance of integrating accounting with other accounting systems.
- Learn about recent advancements and future directions in human resource accounting.

## **LEARNING OUTCOMES**

After completion of the lesson, students are able to demonstrate a good understanding of:

- Capable to demonstrate basics of developing stages of HR accounting system.
- Able to analysing implementation of human resource accounting.
- Explain the integration of HR accounting with other accounting systems
- Explain recent advancements and future directions in human resource accounting

#### **4.1 INTRODUCTION:**

As we already know, the proficiency and value of the human resource in a company shows the worth of the organisation as a whole. But it wasn't until the 17<sup>th</sup> century that organisations started recognising human resources as a productive resource in accounting. One of the very first attempts was made by Sir William Petty around 1691 when he tried to devise a method to estimate the financial value of human resources. He strongly felt that the labour and work done by the workforce must also be added as a form of finance in accounting.

Therefore today, Human Resource is known as an integral asset to any organisation. It is noted that it is an asset that must be placed, groomed and applied in the right way for the value to increase over time. 'Human Resource Accounting' or HRA was then developed as a combination of various studies relating to accounting, finance and culture.

With the value of Human Resources now being taken into considerations, companies now needed a way to devise, accumulate, maintain and structurize the data regarding their human resources. With organisations and social scientists taking an effort, development of methods and ways to assign value to human resources slowly began. With the need to handle Human Resources differently from physical assets very clear from the start, new methods which were completely different from other types of accounting approaches were formulated.

#### **4.2 DEVELOPING HUMAN RESOURCE ACCOUNTING SYSTEMS:**

With consistent developments and advancements taking place in the business world, calculating and maintaining the details regarding the amount and resources that is spent on different parts of a company make up the purpose of accounting. Now, with human resources being considered as an important asset of any organisation, accounting as a whole has started treating Human Resources as an area of investment which yields benefits and reaps profits in

the long run. This move is in contrast with the old accounting ideologies in which Human Resources were dismissed as an area of investment that was necessary but unprofitable.

In retrospect, there are two main reasons why Human Resource Accounting has been shown much importance in recent times. The reasons are stated briefly below:

- I. The study of accounting as a whole is trying to expand its horizons to fit in various factors and elements of a business. They are trying to devise a set of measurements, approaches and calculative methods to quantify important factors so that they can be diagnosed and managed.
- II. A need to collect, assess and manage data relating to human resources has arisen in today's day and age. This process helps the management in comparing, evaluating and improving the decisions regarding human resource.

Today, Human Resource Management is seen as an important form of measurement. It helps the organisation by creating and adding an economic and financial value to the human assets that the firm contains. This measurement of the economic value of people includes the costs that were incurred by the organisation such as the amount that was spent on recruitment, hiring, training, development and selection. With this calculation, HRA also measures the profitability that an employee presents to the company by comparing it with the costs incurred.

The productivity, efficiency and percentage of Return on Investment on the human resource can be assessed quickly. This helps immensely in reporting the quantitative information about the contribution that is being made.

For all this to happen, an accounting system was needed in place. Thereafter, the development of Human Resource Accounting system began. This process of creating a clear-cut method based on an already proposed system was made possible by the joint efforts of HR professionals and Accounting experts.

## **Evolution of HR Accounting System**

There are contrasting differences between different organisations and firms, notably in the way they operate, the way they manage their finances, their dealings and most importantly, their varying approaches to managing their human resource. With this in mind, during the development of Human Resource Accounting, different degrees of HRA capabilities were seen as the need of the hour.

This means that a company with a small workforce can opt for a rudimentary model of Human Resource Accounting while any conglomerate would definitely need an advanced HRA system in place. Also, companies that are on the rise and keep evolving gradually may need a new system of HRA in place to manage its accounting needs to match its evolution.

With the diagnosis completed, during the development of Human Resource Accounting systems, five different methods varying from the most basic to the most advanced one were devised. These methods comprised of approaches to budgeting, framing new policies, evaluation of human assets and measurement of efficiency and worth of the workforce.

With businesses stepping into the modern era, Human Resource Accounting has developed and increased exponentially from its earlier stages during the Post-Industrial Era. Now, almost all organisations value their human resource highly and many advanced HRA systems have taken their respective places in modern companies and firms. The five different methods of HRA systems that were devised have been shown briefly in the below table:

Human Resource Management Functions	System I	System II	System III	System IV	System V
	Prerequisite Personnel System	Basic HRA System	Intermediate HRA System	Advanced HRA System	Total HRA System
I. Human Resource Planning	Personnel skills inventory Replacement tables	Estimate costs of recruiting, training, etc.	Replacement Costs	Standard and actual Personnel costs Stochastic personnel Mobility models Personnel simulations	Stochastic rewards valuation model Human resource valuation simulations
II. Human Resource Decision Making:	Personnel Costs included in "General and Administrative" expenses	Personnel costs budgeted separately	Budgetary system for recruitment, training, etc. Budget replacement Costs	Budget standard and actual costs Original and replacement costs	Human capital budgeting Budget ROI on human capital investment
A. Budgetary					
B Policy		Value-oriented selection decisions	Recruitment vs. training trade-off analyses	Personnel assignment optimization models	Value-based Compensation
III. Human Resources Conservation:	Turnover rates	Turnover cost	Replacement cost	Opportunity cost	Human resource value depletion
A After-the-fact					
B Before-the-fact	N.A.	Attitudinal data	Expected turnover cost (replacement)	Expected opportunity costs Human resource accountability	Expected conditional and realizable value depletion
IV. Human Resource Evaluation	Performance and potential ratings	Perceived value rankings	Psychometric Predications of potential value Interval scaling of Value	Measurements of economic value of groups	Measurement of economic value to individuals
V. Human Resource Management Efficiency Control	N.A.	Comparison of actual costs with historical costs	Comparison of budgeted and actual costs Variance analysis	Comparison of actual costs against standard Variance analysis	Interunit comparison of costs

Human resource accounting systems were developed with regard to the various human resources accounting capability. In developing these systems, various human resource management functions are provided by each systemlevel.

#### 4.3 IMPLEMENTATION OF HUMAN RESOURCE ACCOUNTING:

- Management Support
- Project Management
- Decision Makers
- Selection of TeamMembers
- Consultants outside the Organisation

- Plans for the Project
- Project - Duration and Budget
- Team Recognition and Unity
- Communication
- Preparation for Change
- Technology Management
- Equipment Needs
- Customization
- Documentation
- End user Training
- Production Support/Help Desk
- Preparation for the Future

## **Management Support**

Whatever efficient and extravagant plans that the company might have devised, the support of the management is really important to implement those plans. The development and implementation of Human Resource Accounting systems need the complete support and assistance from the top-level management of any organisation. This support is needed not only during the initial stages, but also throughout the process and especially during the stage of implementation. The process of putting a Human Resource Accounting system in place is a huge and diligent task, and requires constant support from the management to make the processes happen without breaks and in a smooth manner.

Without sufficient support, the plans during implementation could go haywire and the process as a whole could go down. With adequate support from the management, proper resources and funding will be given and this in return makes the process easier. Not just HRA system implementation, but any for any new method or innovation to be added to the roster, having the support of the management will make the process a whole lot easier.

## **Project Management**

For a project to be successful, it needs a leading figure that carries forward the processes related to the project. Mostly, selecting a leader that knows the nuances of both the functional and technical sides of an organisation should be selected. The years of experience and skill sets that a leader possesses should be considered in accordance with the size and time period that the project would take before appointing him/her. These employees have an important role to play as they are the ones that govern, manage, organize and plan the whole process. They are also in charge of assigning work appropriately, combining and managing a whole team, deal the management of the devised budget while also monitoring the status of the project to meet the deadline.

When a leader who knows both the functional and technical sides or a leader from each of the aspects is at the helm, the whole project becomes a little easier and the process is sped up considerably. These leaders also serve the purpose of updating the status and information related to the process regularly to the management and to all the parties concerned.

## **Decision Makers**

The people who are given the authority and power to take important decisions during the planned process are commonly known as the decision makers. During the implementation of Human Resource Accounting systems, there will be many decisions that need immediate attention, usually within a time span of 12-48 hours.

The decision makers are the people who will have to take these decisions, and thus they need to aware of all the policies and impacts that their actions have.

## **Selection of Team Members**

One of the most important and essential part of the process is to form a solid team. When a quality team is put together, the process can be considered as half done. When a team is being formed, it is important that the team workers' demographic must cover both the technical and functional areas of the proposed plan. The technical team's workers must be



well-versed in the nuances of technicalities, must know to define the system's requirements while also communicating the needs and proposals that should be placed in the system during development. At the same time, members of the functional area must know in detail about the organization's procedures, processes and norms. These guys are the ones that will be consulted when a change in plans is needed.

During the process, both the technical and functional teams must work together to complete several important features of the system such as setting up workstations, finishing the overall infrastructure, and trying to complete the project before the deadline. The cooperation between functional and technical will allow for a conjoint approach during the process of completing the Human Resource Accounting system.

### **Consultants outside the Organisation**

Whenever a new project like HRA system integration is being done, the organisation must look deeply if it has the required employees with the skill set and experience to complete the project without any major hassles.

If the management arrives at the conclusion that they require some sort of support, they will look to recruit consultants and employees from outside, to have an expert view in the project. For example, if the project team has no prior experience in implementing a complicated system of data management, they will look to consult from resources outside the organisation. If the skills sets necessary are not available in-house, then outside consultants should be used to compliment your current team's skill sets. However, the decision to recruit and consult outside resources must be taken prior to the start of important processes, by analysing the needs and wants of certain stages during development.

The move to utilize consultants from outside, however, will cost the organisation any amount of money, depending on the time frame, skills required and work experience. If the management spends enough time in carefully selecting the consultancy, it will help them immensely in the long run. The management must make sure that the consultants that they hire have the required experience, understanding and commitment.

## **Location of Team**

The location where the new team will work forward is of some importance as it can play a huge role in the concentration, efficiency and workload management. With different intensities and varying amounts being spent, the management can either chose to give a new location or ask the team to work out of their already existing base. Also, when a team is relocated it gives them the space and room to completely focus on the task at hand and not worry about their normal or old job schedule. It is of utmost importance for the team members to have their focus on set priorities and assignments for the project to progress organically.

## **Plans for the Project**

It is completely necessary to establish a comprehensive project plan which should include all the objectives of implementation. This helps the team to plan and acquire the things that are required in advance, which in return speeds up the whole project.

For example, if an important component of the system is to be delivered to the team's location, it must be booked in advance to cut down time losses. There is lot of time spent in the beginning stages of the project for putting together necessary components of the project plan. The project plan is a living document and it will change and get updated almost on a daily basis. The project plan will become an everyday tool used by all teammembers.

## **Project- Duration and Budget**

The two of the most important factors that could affect any project in a positive or negative manner is Project Duration and Project Budget. These two factors have a greater influence on the development, implementation and completion of the project than others. It is efficient and smart to set a deadline and start working to complete the project before the deadline. This help in

keeping the spirits and motivation of the team higher and it will help the functional team members to show the project's completion rate now and then to the management. The budget that is decided for the project must be well thought out and must definitely have some head space to accommodate any additional requirements that may arise. If the duration of the project keeps extending or the budget is too low and the team members start cutting corners, it may result in the HRA system being barely functional and incomplete. Therefore, the impact of these two factors is not to be underestimated.

### **Team Recognition and Unity**

Developing and managing a well-put and exceptionally effective team will immensely impact the due completion of the project. Team-spirit and camaraderie should be maintained throughout the course of implementation of the human resource accounting system. Recognising the input and work done by each member of the team and rewarding throughout the process them will help in keeping the spirits and motivation high. Another effort that can be done is to celebrate each milestone that the team crosses which will nurture a sense of belonging and unity.

### **Communication**

As Nat Turner said, *"Good communication is the bridge between confusion and clarity"*. Effective and informative communication between team members is important both strategically and fraternally. It helps the management to create an efficient and healthy environment to work in. Also, the team members must be fully aware of their goals and priorities and must know to communicate them properly to the stakeholders.

### **Preparation for Change**

The amount of changes that usually take place during and after the implementation of the project is significant. Therefore, expecting and establishing a new structure or framework by anticipating changes will help the team to handle and face the new obstacles. The changes will keep happening as end users will also suggest some of them for improved efficiency.

## **Technology Management**

When a complicated system like Human Resource Accounting is being established, the team should expect to have a structure ready to manage the technology that is involved in the implementation of the system.

## **Equipment Needs**

Determine how many workstations will be needed not only for the project team members, but also for all end users.

Answering following questions will be of major concern:

- Who will be doing data entry into the new system?
- Will they need an updated workstation?
- What type of printers will be required?
- Will new printers need to be purchased?
- Will the extra hardware requirements need to be included in the project budget?

## **Customizations**

The software side of the project mostly have the option to customize and usually cover a wide variety of functions that the department of HR may need. Customizing the software will help in accessibility, efficiency and may simplify the experience for the end user. Most companies usually opt for customizations, but if there are budget constraints, it is also manageable to run the system with the standard operating features inbuilt in the software.

## **Documentation**

Proper documentation of the processes that were involved in the completion of the project will help in maintaining a record of all the important data records, accomplishments of the team and the chronological order of the whole project. The documentation may contain the following details:

- Outstanding issues in the form of a log that will allow quick review of open items.
- All decisions made on the project including who approved and when.
- New procedures that will be used in the system.
- System training manuals for other employees for future reference.
- Technical requirements, if any.
- Business case presentations for better understanding of implementation.
- Table set-ups for ease of use.

## **End User Training**

This is one of the final and important steps of the whole process. The training that is given to end users (in this case, employees of the organisation) of the finished project will define the whole implementation of the project. These employees will be taught the functioning and the steps to effectively use the system. After this, it is employees that will feed data and keep the system running. Therefore, new changes and enhancements will be done to the system. Due training will also be given as and when newer features and processes are added to the system.

## **Preparation for the Future**

After the successful completion of the project and the inauguration of the Human Resource Accounting system, it is left to the end users to learn and adapt to the new system. But this doesn't mean that the project is obsolete now, the advancements and updates should be done regularly to the system to keep the organization prepared for the future. The organisation should ensure that there is adequate budget that is given every year for ensuring that the system and its data collection is being done regularly and efficiently. Ultimately, training and educating the end users will be crucial for the future usage of the system. The team should use the data available in the system to create and produce meaningful data to others in the organization while maintaining secrecy. Regular diagnosis and updates are a must to keep the system relevant.

#### **4.4 INTEGRATION OF HR ACCOUNTING WITH OTHER ACCOUNTING SYSTEMS:**

Integration of Human resource accounting system brings together information and data from various applications into one door database system. It serves as a solution for the data entry, data tracking, and data information needs of the human resources, payroll, management, and accounting functions within a business. It records basic demographic and residential data of employees, and covers many other human resources aspects from recruitment application to retirement.

Therefore, if the organisation wants to get the complete details of an employee, existing or retired, accessing the Human Resource Accounting system will immensely help them in doing so. An effective system will give the complete details that an organisation collects about its employees, trainees, interns and applicants whenever needed. Some aspects of the information that is usually given by the database are:

- Reporting and analysing the complete information any employee.
- Managing all kinds of information about employees, i.e. qualification, recruitment, training skills, performance management appraisals, attendance records, records absence, presence and over-time of employees.
- Complete and efficient integration of the financial and salary details of individual employees with the financial database.
- Noting down the benefits that each employee has received or is yet to receive along with administration relating to enrolment, status changes, and personal information updating.
- Company-related documents such as employee handbooks, emergency evacuation procedures, and safety guidelines.

An integrated human resource accounting system has become the norm in many leading companies due to the evolution of fast paced systems and processes in the business world. Having the system in place will give us a good analysis of everything that is happening, even in different departments. With human resource gaining traction as an important resource in the workspace, it has become essential and important to integrate and incorporate the employee database to other important databases in the other departments of the organisation.

#### **4.5 RECENT ADVANCEMENTS AND FUTURE DIRECTIONS IN HUMAN RRESOURCE ACCOUNTING:**

With the whole world and the many companies in it experiencing a shift in business, the field of Human Resource Accounting has garnered a lot of interest from different fields of studies and its academia. Now, with the development of Human Resource Accounting taking place at a really fast rate, we'll look at the new advancements and expected direction in the field.

- Human Resource Accounting has efficiently advanced as an integrated program that has the ability to measure develop, deploy and launch its human and intellectual capital in the recent years.
- The purpose of Human Resource Accounting has recently emerged as to maintain secrecy of the data it contains and also to safeguard with the growth of modern firms.
- While most firms in the industrial era relied on manufacturing capabilities, companies in post-industrial era now rely on, almost completely, on knowledge and information for survival and profit and human resource accounting has emerged as a vital player in enabling the organisation of the post-industrial era to manage its humancapital.
- The need to educate, develop and maintain employees with regular workshops and internships has been seen in almost every company. For this reason, access to education has increased,

became equitable and affordable which in turn has led to the adoption of systems like human resource accounting.

- The shifting fortunes of specific organisations that have shifted from industrial economies in which plant and equipment were the core assets to post-industrial economies in which human capital is the core asset, has led to the manifestation of the general and broad trend towards a human capital intensive economy.

Thus, to conclude we can say that the companies that operate in this modern age have come to value and respect the human resource that they own. The rise of Human Resource Accounting systems can also be attributed as a by-product of the above mentioned development. The system has given companies a systemised process to calculate the financial return and impact that each human resource has on the business and it is published and made available to all the stakeholders through regular financial reports and public disclosure of internal information regarding human resources.

This cements the fact that human resource accounting system has made its foothold in giving organisations the future directions for successful HR work processes which cannot be overlooked.



## **SUMMARY**

HRA is a management tool that is designed to assist senior management in understanding the long-term cost and benefit implications of their HR decisions so that better business decisions can be taken.

If human resource accounting is not done, then the management runs the risk of taking decisions that may improve profits in the short run but may also have severe repercussions in future.

The de-motivating impact of not performing human resource accounting move on the existing experienced staff has caused immense long-term harm by reducing their productivity and by creating salary distortions across the organisational structure.

HRA system indicates whether these processes are adding value or enhancing unnecessary costs. In addition to facilitating internal decision- making processes, HRA also enables critical external decision-makers, especially the investors in making realistic investment decisions.

In an era where performance is closely linked to rewards, the performance of all groups/departments/functions needs to be quantified to the extent possible. HRA helps in measuring the performance of the HR function as such.

Further, the implementation and integration of this system is another strategic move, which requires management support and support from other employees as well.

Human Resource Accounting: When an organisation undertakes the budget allocation, classification of investment on human capital of the enterprise and thereafter reporting them to the management.

Implementation: It is a plan or an idea put into action for getting desired results.

Integration: The process of combining or mixing up two distinct or separate entities for increasing the efficiency of a process.

Resistance: The hindrance, which is expected from a group of people due to some future change to be introduced.

Payroll System: It is software, which keeps record of employees' salary and their attendance as well.

Knowledge-based Firms: These are usually service providing organisations usually which deals managing knowledge process or people.

## **SELF-ASSESSMENT QUESTIONS**

### **Short Answer Questions**

1. Human resources accounting has been receiving so much attention in the recent years-Discuss
2. What is the need to measure rate of return of human capital?
3. Explain the implementation of human resource accounting?
4. Explain in brief the important steps of development of human resource accounting system.
5. What major advances have made human resource accounting more accepted in the business world?
6. Discuss the role of rewarding employees during implementation phase.
7. List the various stages of HR accounting system implementation.
8. Write a short note on selection of team members.
9. What is a Payroll system? What functions does it serves?
10. What is the role of an outside consultant in implementation of the system?
11. List various documents prepared in the process of implementation. What is the need of preparing the documents?
12. Discuss about the fifth stage of HR accounting.
13. Why management support is essential for implementation of system?

## Long Answer Questions

1. "Organisations took few efforts to assign monetary value to human resource in its accounting practice." - Discuss
2. Explain the significance of implementing human resource accounting system in organisation.
3. "Human resource accounting measures and judges the economic value of people to the organization." How far do you agree with this statement?
4. Why do we need to integrate payroll system with other accounting systems as well?
5. Write a descriptive note on recent advancements and future directions in human resource accounting.
6. Explain in detail the steps involved in implementation of human resource accounting system.
7. How is integration of HR accounting system relevant for the organisation?
8. Explain the various stages of development of human resource accounting.
9. Organisation growth is affect adversely if there will be no human resource accounting system? Discuss.

## **FURTHER REFERENCE**

1. Elwood F. Holton, III, Richard A. Swanson (2011), Foundations of Human Resource Development, ReadHowYouWant.com.
2. Rao (2007), Human Resources Management: Text and Cases, Excel Books.
3. P. G. Aquinas (2009), Human Resource Management, Vikas Publishing House Pvt Ltd.
4. D. K. Bhattacharyya, (2009), Human Resource Planning, Excel Books.
5. Bashker D. Biswas and Steven Director (2013), How to Use Finance and Accounting in HR (Collection), FT Press.

## **UNIT III**

### **LESSON 5 - HUMAN RESOURCE AUDIT**

Learning Objectives

Learning Outcomes

Unit Structure

- 5.1. Introduction to HR Audit
- 5.2 Role of Human Resource Audit in Business Environment
- 5.3 Concepts, objective and Components of HR Audit
- 5.4 Need Benefits and Importance of HR Audit
- 5.5 Methodology of HR Audit
- 5.6 Instruments of HR Audit

Summary

Self-Assessment Questions

Further Readings

## **LEARNING OBJECTIVES**

After studying this lesson, you should be able to:

- To understand the role of HR audit in business environment.
- To objectives of the HR Audit.
- Able to explain the concepts, components, need and benefit of HR Audit.
- To learn the importance of HR audit in an organisation.
- To understand methodologies and instruments applied in HR Audit.

## **LEARNING OUTCOMES**

Upon completion of the lesson, students are able to demonstrate a good understanding of:

- Analysing role of human resource audit in business environment
- Auditing workplace behaviours that support legal compliance
- Concepts and components of HR audit
- Explain need, benefits, and methodology of HR audit

## **5.1 INTRODUCTION TO HR AUDIT:**

HR audit is a functional audit. It consists of diagnosing, analysing, evaluating and assessing future lines of action within the framework of HRM. HRD auditing is a basic tool for the management of a company. Its objective is not only the control and quantifying of results, but also the adoption of a wider perspective that will aid in designing future lines of action in the HRD field.

A Human Resource Audit is an important HR management control strategy to review present HR Policies, Procedures, systems and documentation to analyse the improvements to be made in HR operations also to assess statutory compliance with ever-changing rules and regulations.

HR audit will provide the feedback about the HR functions to HR managers, which ensure how effective is the personnel programs. It also determines how effectively HR managers are planning and performing their duties. HR audits can be done by reviewing factors like- Hiring, Personnel File Review, Job Profiles, Form Review, Performance Evaluation, Compensation & Benefits, Training & Development, and Exit Process.

Human Resource Audit is a comprehensive method of objective and systematic verification of current practices, documentation, policies and procedures prevalent in the HR system of the organization. An effective HR audit helps in identifying the need for improvement and enhancement of the HR function. It also guides the organization in maintaining compliance with ever-changing rules and regulations. HR audit, thus, helps in analysing the gap between 'what is the current HR function' and 'what should be/could be the best possible HR function' in the organization.

HRD Audit helps the employees acquire new competencies through a process of performance planning, feedback, training, periodic review of performance, assessment of the developmental needs, and creation of development opportunities through training, job rotation, responsibility definition and other mechanisms.



It is necessary for the top management to establish the terms and scope of the audit clearly before the external firm to make the audit successful. This includes defining the exact purpose of audit, viz. examining compliance with legal requirements and organization's policies, identifying problem areas to avoid crisis situation with appropriate planning, analysing ways to better serve the needs of relevant parties – employees, partners or society, measuring the work processes, seeking HR related opportunities available within the organization, dealing with situation of merger and acquisitions, etc.

HRD audit helps in organisational strategy, achieving goals and also to benchmark various performance data, to ensure continuous development of any organisation systematic. HR audit helps in developing good business practices and among others, private best direction to an organisation to achieve its strategic goals, optimising costs and return on investment (ROI) in all HR initiatives (especially on training and development).

### **HRD Audit – Meaning**

HRD audit means the methodical authentication of job analysis and design, recruitment and selection, direction and placement, training performance appraisal and job evaluation of the HR of the organization. HRD audit is useful to achieve the organizational goal and also is a vital tool which helps to assess the effectiveness of HR functions of an organization and helps company remain competitive.

The scope of HRD audit is large encompassing all the HR function namely managerial compliance of personnel policies, procedures and legal provisions, HRD planning and staffing and audit of the HRD climate on employee motivation, morale and job satisfaction.

It provides various benefits to the organization by finding out the contribution of the HRD initiatives towards the organization. It also helps in development of the professionalism of employees. It helps reduce the developmental cost by providing a cost benefit analysis of the

HRD activities. HR audit is helpful in facing the challenges of performance appraisal and increasing the potentiality of personnel in the organization.

### **HRD Audit – Definition**

HRD can be defined as a process of people to acquire competencies. In an organizational context HRD is a process by which the employees of an organization are helped in a continuous and planned way to acquire or sharpen capabilities required to perform various functions associated with their present or expected future roles and develop their general capabilities as individuals and discover and exploit their innate potential for their own and organizational development purpose.

HRD Audit helps the employees acquire new competencies through a process of performance planning, feedback, training, periodic review of performance, assessment of the developmental needs, and creation of development opportunities through training, job rotation, responsibility definition and other mechanisms. HRD audit is a Comprehensive Evaluation of Human Resource Development practices in an organization and their appropriateness to achieve the short and long term business goals of the organization.

There are various methods of HRD audit as it examines the adequacies and inadequacies of HRD structure, staff and their competencies, line managers and their attitudes, top management and their support, unions and their role in competence building for future. HRD audit suggests mechanisms for improving all these in the business context.

### **Rao (2007) defines the notion, thought, and salient features of HRD audit:**

1. HRD audit is comprehensive,
2. It examines linkages with other systems, and
3. It is business-driven.

## **1. Comprehensive:**

An audit team must consider the business plan and its corporate strategies from the very beginning. The HRD auditor needs to take into account where the company intends to be after a definite period of time. The top level management needs to discuss these issues with the auditor. The auditor needs to examine the objective evidences such as long-term documents as well.

Thereafter, the auditor needs to assess the skill base required to perform the new roles and the current skill base of HRD staff in the company in relation to various roles and role requirements.

Following this, an auditor should verify the effectiveness of the existing HRD mechanisms in developing people and ensure that human competencies are available in adequate levels in the company. An HRD audit examines linkages with other systems. The HRD structure existing in the company should be adequate enough to manage the company's HRD functions. Top management and senior managerial styles of managing people need to promote a learning culture.

The managerial styles should facilitate the creation of a learning environment. Auditors need to examine this difficult task.

## **2. Linkages with Other Systems:**

There is a linkage between HR and other functions such as production management, maintenance management, total quality management, personnel policies, strategic planning, etc., in any organization. An audit examines these linkages between HRD and other systems. On the basis of evaluation, HRD auditors suggest future HRD strategies required by the company.

The suggestions further include – (a) the structure the company needs to have for developing new competencies, (b) the systems that need to be strengthened, (c) the ideal managerial styles and work culture conducive and compatible with HRD processes in the company. The managerial styles of the top management should also be emphasized.

### **3. Business-Driven:**

HRD audit is business-driven and primarily focuses on fulfilling the objectives. Along with meeting objectives, HRD audit evaluates HRD strategy, structure, system, staff, skills and styles, and their appropriateness.

HRD audit is not a problem-solving exercise. HRD audit does not always provide solutions to organization-specific problems involving industrial relations, discipline, performance, etc. However, it throws some insights into the sources of the problem. It never gives feedback about any specific individuals.

However, it gives feedback about the HRD department, the structure of the HRD departments, competency levels of the personnel manning, leadership styles, processes practiced, interrelationships of HRD system with systems, influence of the HRD on the other systems, etc.

HRD audit is one of the five systems used to measure the effectiveness of HR practices, the other systems being – (a) benchmarking, (b) HR accounting, (c) HR information system, and (d) HR researches.

## **5.2. ROLE OF HUMAN RESOURCE AUDIT IN BUSINESS ENVIRONMENT**

### **Why HR Audits?**

To review the performance of the HR department activities in order to assess the effectiveness of the deployed different policies to ensure the organizational goals.

To take the necessary action on the feedback by identifying the lapse, gaps, irregularities, pitfalls, in the implementation of the policies, procedures, acts, practices, directives of the HR department.

To Evaluate the HR team and employees with an assistance of performance appraisal reports and do necessary actions for improving the efficiency of the employees.

To evaluate the job chart or hierarchy, to identify employees' skills is effectively utilized in the organization or employee skills can be utilized in different roles.

To seek priorities in values and goals of management decisions.

### **Who can carry out the HR audit?**

A person, who know the roles and responsibilities of an individual in an organization, including the line staff, HR functions manager, and middle & upper management. They can carry out the HR audit if they have the expertise, ability to acknowledge imperfection in current procedures and implement the necessary changes. In case, if no one has the in-depth knowledge of the laws and regulations they can follow the strict audit procedures and protocols and consider hiring the third party to conduct the HR audit.

### **What are the different approaches to HR Audit?**

An HR Audit is designed in different ways; each is designed to accomplish the specific objectives of an organization. Some of the more practiced HR audits are:

**Strategic:** It focuses on the strengths and weakness of processes to identify whether they align with the HR departments or the company's strategic plan.

**Compliance:** It focuses on how well the organization is implementing the federal and labour laws and regulations.

**Function Specific:** It focuses on every HR function and Operations such as Payroll, Recruitment, Performance Management, Administration, etc.

**Best Practices:** This helps the organization to compare their HR practices with the similar organizations and implement the same in order to improve their HR management.

**Outside Authority:** The auditor Compares with the standard rules as a measure by the outside consultant and then find the difference in their organization performance with that.

**Statistical:** In this, the Auditor does the analysis of the existing organization performance such as turnover rates, revenue, individual performance outcome, and absenteeism.

**Management by Objective:** The Auditor compares the HR performance against the goals set by the top management.

**MBO Approach:** Under this approach, targets are fixed for every individual. The performance of every individual is measured by comparing with the individual set goals.

### **What to Audit?**

What to audit will depend on the company's pitfalls and environment, the type of audit and the resources available. Before auditing, you need take care of all the procedures and policies which are not covered in the company are design and implement on priority base. Some of the main areas to focus on for audit are:

### **When to Audit?**

HR audit required some resources, so companies don't want to go through this process more than one time in a year. However, doing mini-audits require a little correction that can be carried out without much departmental pain approximately on a quarterly or half-yearly basis. Scheduling annual check-ups are preferred to be made only on occasional or panic audits to maintain the discipline.

### **What to Expect?**

A complete HR audit is a time consuming and deeply focused task that requires the analysis and review of various legal documents and policies and procedures, in addition to these it requires the interviewing HR staff, selected employees and leads of every department.

The time required to carry out this task will depend on the size of the company, the type of audit, type of information/resources a company has, a scope of the audit and the people should involve in the audit. A complete audit will cover almost every area of the organization and takes a longer time to complete as compared with a function specific audit in which only a particular area is targeted for review.

## **Role of HR Audit**

### **Safeguarding Employee Information**

An audit clarifies and distinguishes the nature of information that is to be kept confidential and that which needs to be accessed. This helps in safeguarding employee information which is at risk in the absence of authoritative check.

Main objective behind it is to ensure that while deciding the employee's career with the company, his personal information should not be considered.

Therefore, employees' personal data is safeguarded as separate files are maintained for personal information in contrast to employment related information, which is needed during audit.

### **Employee Performance Management**

An audit can review company's job descriptions for compliance (i.e., to determine whether the descriptions list the essential functions of the job). Various legal issues can arise due to performance related problems of employees. Audit will help in following improvements and reviews:

- A 90-day written standard performance evaluation form,
- An annual written standard performance evaluation form,
- A performance management/performance improvement plan,
- A description of the company's policy for both voluntary resignation and company-initiated termination,
- Wage and salary administration program,

- Bonus/stock option criteria.

### **Safe Work Environment**

Audit practices may also help the companies to know about factors that contribute to a safe work environment. A company may choose to develop an audit sheet tailored to a particular issue, such as the company's zero-tolerance policy for harassment.

### **Auditing Workplace Behaviours that Support Legal Compliance**

A safe, dignified, and respectful work environment is not only mandated by the law, but also increases motivation and productivity of the employees.

## **5.3 CONCEPTS, OBJECTIVE AND COMPONENTS OF HR AUDIT**

HR audit tools help to carry out a thorough assessment of your HR effectiveness. These tools help to better understand the HR processes & functions that require improvements. Commonly audit requires areas include: Compensation System, Policies & Procedures, Performance Appraisal System and Health & Safety Practices.

### **Employee Satisfaction Survey**

Employee satisfaction is mandatory for any organization development. This survey helps the top management and authorities to understand how much employees satisfied with their job roles, what improvements they need, what difficulties they are facing in an organization to carry out their roles and responsibilities, Which factor hindering them in achieving their goals, What improvements a department or management can make which ease the employees' tasks, etc. Employee satisfaction survey includes a ranking system so employees can show their opinion without disclosing their identity. This helps the HR to reduce turnovers and reduce the training and recruiting costs. It provides the opportunity for the HR to listen to employee needs and provide an appropriate solution to them.



## **Observations**

Observation can be best practiced in the workplace, take a close look at every individual activity, understand how well they adhere to the policies and procedures of an organization, employees use of systems, need to assess the adequacy of training programs, assess the organizational culture, helps in job analysis of individuals. Help your employee to know the organization culture also the points on which they are observed so that employees don't do any unprofessional or unexpected activities in the work environment. Observation of employee can be best focused at times when employees are unaware that they are getting observed at this point in time, otherwise they may change their actual behavior.

## **Interviews and Questionnaires**

In Interviews and questionnaires helps both the HR and top management to know employee feedback. This assists to make the deep analysis of the individual work like what difficulties they are facing in performing their work is there any resource inadequacy, the problem in using software/hardware, level of a burden the employee feels in performing their task, general work environment and other problems that your employees face. You can also check the communication gaps within departments. Interacting with employees help to get the expectations of the employee from the employer so that HR can implement that in organizations.

## **Key Performance Indicators**

KPI's are set of standard values an employer or top management create to evaluate the performance of the individual, department, and organization. KPI's are different for every individual based on their roles and responsibilities like for salesperson how promptly they are replying to the customer query, positive or negative feedback rate of the customers, clients conversion rate, number of queries can handle in a day, how many projects handles in a year and overall performance in a year. Based on this information, you can measure productivity

and competency levels of an employee and appropriately create a reward system aligning with HR strategy. Same points you can make use for indicating organization performance in reaching their mission, vision, and goals.

### **OBJECTIVES OF HRD AUDIT**

- (i) To determine the effectiveness of management programmes which facilitate management to develop allocate and monitor human resources.
- (ii) To analyse the factors and recommend for correcting deviation's viz. the extent of bank deviation from HRD policies / intent of objectives spelt out / achievement of performance standards
- (iii) To seek explanations and information and answers questions like what happened / why happened.
- (iv) To the extent, to which like managers have complied with HRD policies
- (v) To study the current manpower inventory and identify shortfalls or excesses

## **5.4 NEED BENEFITS AND IMPORTANCE OF HR AUDIT?**

### **Need of HR Audit**

- (i) Legal Compliance
- (ii) Employment / recruitment
- (iii) Terminations
- (iv) Employee Relations
- (v) Record Maintenance / Technology Up-gradation

- (vi) Compensation / Salary
- (vii) Orientation
- (viii) Training and Development
- (ix) Communications
- (x) Policies and Procedures

An HRD Audit provides quick way to take stock of a company's Human Resources and Practices with an eye towards. Improving them the advantage of HRD audits is that they bring a level of expertise to bear on issues. Once the audit is complete the findings are presented to management.

### **Benefit of HR Audit**

- HR audit maintains the standardization in the organization also in the work of every individual.
- It creates a highly professional image of the HR department.
- It clarifies the department roles and improves the uniformity in geographically scattered organizations.
- It ensures the compliance with a variety of laws and strategic plans in an organization.
- It focuses on the contribution of HR department to the organization.
- Help to find the critical HR problems.
- Ensures timely compliance with legal requirements.
- Reduces the overall organization costs through more effective HR procedures.

### **HRD Audit – other Benefits**

HRD audit is a complete appraisal of the active HRD structure, strategies, systems, styles, skills and culture and their aptness to achieve the short-term and long-term goals of the organisation. HRD audit begins with a comprehension of the future business plans and corporate strategies.

HRD audit can be done in organizations having well formulated future plans and strategies and it proves to be the most effective tool when the organization already has long term plans at hand. HRD audit endeavors to find the future HRD needs of the company after reviewing the current HRD activities and inputs available. HRD audit is cost-effective and can give many insights into a company's dealings.

HRD audit has several benefits as outlined

### **Establishing Strategic Plans:**

HRD audit begins with strategic plans which then roll down to the lower levels. This enables the employees to plan their own activities and eventually their competency development program.

### **Describing the Role of the HRD Department and Line Managers in HRD:**

HRD audit is important for employees at various levels for current as well as the future development. However, enhanced role clarity of HRD department and HRD function and increased understanding of line managers about their HRD role is an essential aspect of its success.

### **Reformation of Other Management Practices:**

HRD audit recognizes the strengths and weaknesses in the some of the management systems existing in the organization. At the same time it also points out the lack of systems that can augment human productivity and employment of the existing capability base which in turn may have an effect on the performance of the employees. In a small number of cases an HRD audit has facilitated the management look at some of these sub-systems and work procedures.

Preparation of a manual of delegation of powers, clarification of roles and responsibilities, reformation the manuals of economic procedures and systems, amplification of

the information systems, and distribution of information are some of the ensuing activities in this direction.

### **Superior Recruitment Policies and Extra-Professional Staff:**

An HRD audit reveals the skill base required for smooth functioning of the organization. It gives direction for the proficiency requirements of employees at various levels and provides a base for recruitment policies and procedures. This results in strengthening the recruitment policies and procedures and helps in working out new recruitment and retention strategies.

### **Altering the Styles of Top Management:**

One of the objectives of HRD is to create a learning organization by making the top managers of the company exhibit a developmental style of management. The prerequisite of such a style is an empowering attitude, participative style of management, and an ability to translate errors, conflicts and problems as learning opportunities. HRD audit provides subtle feedback to the top management and to initiate a change process.

### **Enhancement in HRD Systems:**

The HRD audit has helped most of the organizations in understand the effectiveness of their HRD systems and re-design the HRD systems.

### **Supplementary Planning and Cost-Effective Training:**

One of the major benefits of HRD Audits is that it answers the question of returns on investments made in training. The process of identifying training needs and utilization of training inputs and learning for organization growth and development are evaluated. Post-training follow-up and dissemination of knowledge relating to it helps organizations

strengthened its training function by introducing a systematized and developed training policies system.

### **Enhanced Focus on Human Resources and Human Competencies:**

One of the benefits of an HRD audit is to focus on new knowledge, attitudes and skills required by the employees in the organization. Observations are made about the technical, managerial, human and conceptual competencies of the staff at various levels. This helps organizations identify and focus sharply on the competency requirements and gaps.

The audit sets up a system of role clarity and accountabilities. More understanding is developed to the gaps between desired and real competencies. This helps in straightening and strengthening things out.

Apart from the above stated benefits, an HRD audit can also give significant inputs about the existing state of the accountabilities of employees. Quality improvements require a high degree of employee involvement and in a number of cases the HRD audit has helped finding out and fixing the performance gaps.

### **Importance of HR Audit**

The importance of periodic HR audit has increased in present years. The recent economic restructuring programme of the Government of India has prompted the need for restructuring of the organisation, which inter-alia calls for restructuring of production, manpower, strategies, management practices and philosophies, etc. All such possible reasons for periodic HRD audit can be point out as follows:

1. Technological changes, inter-alia, are calling for renewal of knowledge and skills of existing manpower. Training function, therefore, has assumed importance.

2. Periodic HRD audit can help to identify the changing training needs and development of new training modules for effective utilisation of manpower.
3. To keep pace with the environmental changes, management philosophy and practices at the organisational level also need to be changed, like participative management (through quality circles and value engineering team), employee empowerment, total employee involvement, etc.
4. Need for all these activities can be understood only when we periodically undertake HRD audit.

## **5.4 METHODOLOGY OF HR AUDIT**

HR auditing in recent years is not only considered as a mere instrument of control but it has also become a necessary decision making tool in personnel related matters according to the objectives of the company. As a result, all the functions and competencies of HR auditing are being progressively expanded.

### **Approaches to Human Resource Audit**

#### **Internal Perspective**

From an internal perspective, as in any staff function, there is a trend of valuing its actions as a result of the activities undertaken and its costs. The way of judging department's capability would be on its ability to supply certain services to the organization at the lowest possible cost. According to this approach, the operational measurements traditionally used are those which refer to quantity, quality and reliability, or cost and speed, therefore placing the focus on activities, costs, or productivity ratios.

#### **External Perspective**

From an external perspective, if it is understood that the ultimate appraisal of the effectiveness of HR is based on their impact on the company's results, then the measurements should include results obtained outside the function.

## **Common Approaches to Human Resource Audit**

### **Comparative Approach**

In this approach, another division or company that has better practices or results is chosen as the model. The audit team audits and compares the audited firm's results with the best practices of the model organization. This approach is commonly used to compare the results of specific activities or programs. The approach is often used with turnover, absence, salary data and staffing levels. It helps detect areas where improvement is needed. It also makes sense to compare where a procedure is being used for the first time.

### **Outside Authority Approach**

This approach, standards set by a consultant or taken from published research findings serve as the benchmark for the audit team. The consultant or research findings may help diagnose the cause of problems.

### **Statistical Approach**

This approach relies on performance measures drawn from the company's existing information system. From existing records, the audit team generates statistical standards against which activities and programs are evaluated. With the mathematical standards as a base, the team may uncover errors while they are still minor. Often this approach is supplemented with comparative data from external sources such as other firms, or industry association surveys. The information is usually expressed in ratios or formulas that are easy to compute and use.

### **Compliance Approach**

This approach reviews past practices to determine if actions taken followed legal requirements and company policies and procedures or not.



The audit team here often examines a sample of employment, compensation, discipline and employee appraisal forms. The purpose of the review is to ensure that the field offices and the operating managers have complied with internal rules and legal regulations, such as minimum wages and equal employment opportunity laws. By sampling elements of the human resources information system, the audit team looks for deviations from laws and company policies and procedures. The team can then determine the degree of compliance achieved.

### **Management by Objectives (MBO)**

Under this approach, managers and specialists set objectives in their area of responsibility. Then they create specific goals against which this performance can be measured. The audit team researches actual performance and compares it with the previously set objectives. They can then evaluate the trends in this area.

## **5.6 INSTRUMENT IN HR AUDIT**

### **1. Interview Method**

Top management and senior management (Line managers and employees) are interviewed by the HRD auditor. It is a structured interview designed to solicit information on the perspectives of respondents on the future growth plans and goals of the organization, organization culture, working style, career development, work flow system, leadership style, morale, motivation, vision, mission etc. In view of the time and resources constraints, HRD auditor uses sampling techniques to interview the employees.

### **2. Questionnaire Method**

HRD auditor designs and administers structured questionnaire to assess the various dimensions of HR development. It is usual practice to test the reliability and validity of the instrument using appropriate statistical technique by conducting a pilot study. Then he has to

choose the proper sample size. The questionnaire should accommodate questions reflecting the objectives of HRD audit. It is given to the sample respondents who have to record appropriate response.

### **3. Observation Method**

HRD manager observes the employees in their natural environment i.e., workplace, canteen, training camps, residential colony to assess the suitability and conduciveness of environment for human resource development.

### **4. Desk Research Method**

HRD manager collects and uses details relating to performance appraisal report, ethical practices, achievement records, welfare measures, suggestion scheme, career development, frequency of training programmes, feedback of participant trainees, methods used to ascertain training needs, safety practices, accident prevention, incentive and compensation system, etc. He analyses the facts and figures relating to aforesaid areas and arrives at appropriate findings.

This method does not involve interviewing the respondents through a questionnaire or an interview schedule. The entire information is gleaned from the relevant records of the organization.

### **5. Workshop Method**

Employees are selected either through a sampling technique or through some other norms, for participation in a workshop conducted exclusively for HRD audit purpose. All the participants selected are divided into groups. Different dimensions of HRD are assigned to different groups for SWOT analysis. Then each group is required to prepare a report and make presentation on the themes assigned. The outcomes of the report of each group are deliberated deeply and suggestions are made to the organization. The whole exercise is moderated by the HRD auditor.

## **6. Task Force Method:**

A task force comprising different experts from various domains in the organization is constituted to identify, evaluate and recommend an appropriate solution to the HRD problems identified. HRD manager can work on the accepted recommendations for further development.

## SUMMARY

- HR audit verifies not only various HR functions but much beyond that. Human Resource Audits give an account of the skills, abilities and limitation of its employees.
- The HRD audit is divided into three components, which are Organisation & Administration of Human Resource, Information Management through Documentation and Computerized HRIS.
- It serves as an examination on a sample basis of practices and systems for identifying problems and ensuring that sound HR principles are being followed.
- There are various approaches to HR Audit i.e. statistical, comparative approach, outside authority compliance approach and Management by Objectives (MBO) approach.
- HR audit can be carried on by internal audit team or outside agency.

## KEYWORDS

- **HRD Audit:** It is systematic evaluation of current HRD culture, strategies, system, style and skill in accordance with long-term plan and short term plans of the organization.
- **HRM:** standing for human resource management, it is the function within an organization that focuses on recruitment and management of people, and also providing direction for the people who work in the organization.
- **HRD Strategies:** They are a plan that defines how the human resources would be utilized in the best possible way so as to achieve organizational objectives.
- **Key Performance Indicators (KPI):** They are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organization.
- **Intangible Assets:** An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today's marketplace.
- **HRD Systems:** It facilitates various functions in HRD through its sub-systems.

## **SELF-ASSESSMENT QUESTIONS**

### **Short Answer Questions**

1. Write short note on HR Audit.
2. List the various components of HRD Audit.
3. Explain various tools for HRD Audit in an organisation.
4. Describe the primary objective of HR Audi.
5. Write a short note on Management By Objective (MBO)
6. Discuss the approach of conducting HR Audit.
7. Difference between skill inventory and management inventory.
8. Discuss in brief how can HR audit provide sound performance appraisal systems?
9. Which elements of organisation have greater degree of impact on the HR functions?
10. How can HR Audit contribute in an organisation's need to diversify its operations?
11. "By sampling elements of the human resources information system, the audit team looks for deviations from laws and company policies and procedures." Which approach supports this argument?
12. What is a KPI? What could be its possible role in HR Audit of employees?
13. How is HRD Strategy different from HRD system?
14. HR planning is a sub-set of HR Audit. Do you agree with this statement? Give reasons in support of your answer.

### **Long Answer Questions**

1. Enumerate on the importance of HRD Audit in an organisation.
2. Discuss in detail the role of HRD Audit in business environment.
3. Throw some light upon the functions of HRIS in an organisation.
4. Explain various methodologies used to conduct HR Audit in a company.
5. Which is the best approach of conducting HR Audit? Give your opinion in this regard.
6. What are the benefits of establishing HR audit system in an organisation?

7. Difference between the internal and external approach of auditing as proposed by Walker.
8. Comment upon the structure of Questionnaire used for conducting HR audit. Can you suggest some other missing elements in it, which can increase the effectiveness of HR audit process?
9. Why information management through documentation is a pre-requisite for HR Audit?

**FURTHER REFERENCE:**

1. T. V. Rao (2008), HRD Audit: Evaluating the Human Resource Function for Business Improvement, SAGE Publications.
2. D. K. Bhattacharya (2009), Human Resource Planning, Excel Books.
3. John H. McConnell (2011), Auditing Your Human Resources Department: A Step-by-Step Guide to Assessing the Key Areas of Your Program, AMACOM Div American Mgmt Assn.
4. Richard Regis (2008), Strategic Human Resource Management and Development, Excel Books.
5. S.K. Bhatia (2008), Emerging Human Resource Development (HRD) (Focus on: Strategic Approaches, Competency Development and Retention), Deep and Deep Publications.

## **UNIT IV**

### **LESSON VI - HUMAN RESOURCE AUDIT AND SCORECARD**

Learning Objectives

Learning Outcomes

Unit Structure

- 6.1 Introduction
- 6.2 HRD Scorecard
- 6.3 Effectiveness of HRD Audit as an instrument
- 6.4 Issues in HR Audit
- 6.5 Focus of HR Audit

Summary

Self-Assessment Questions

Further Readings



## **LEARNING OBJECTIVES**

After studying this lesson, you should be able to:

- To understand the concept of HR scorecard
- To know the effectiveness of HR scorecard as a tool
- To understand issues concerning HR audit
- Find out the organisational focus of HR audit

## **LEARNING OUTCOMES**

After completion of the lesson, students are able to demonstrate a good understanding of:

- Explain basics of HR scorecard and its components
- list out benefits of HR scorecard
- Analyzing effectiveness of HR scorecard as an tool
- Identifying issues in HR audit

## **6.1 Introduction**

Human resource audits can help identify whether an HR department's specific practice areas or processes are adequate, legal and effective. The results obtained from this review can help identify gaps in HR practices, and HR can then prioritize these gaps in an effort to minimize lawsuits or regulatory violations, as well as to achieve and maintain world-class competitiveness in key HR practice areas.

Human resource audits are a vital means of avoiding legal and regulatory liability that may arise from an organization's HR policies and practices. In addition to identifying areas of legal risk, audits are often designed to provide a company with information about the competitiveness of its HR strategies by looking at the best practices of other employers in its industry. In essence, an HR audit involves identifying issues and finding solutions to problems before they become unmanageable. It is an opportunity to assess what an organization is doing right, as well as how things might be done differently, more efficiently or at a reduced cost.

In today's competitive climate, organizations operate within the confines of a heavily regulated employee environment. This challenge includes dealing with myriad complex laws and regulations. The scope of the HR function includes establishing and administering a host of policies and practices—many of which involve compliance implications—that significantly influence the productivity and profitability of the enterprise.

Given that many HR departments are both understaffed and overworked, only in retrospect do many organizations become aware of the monetary costs of ignoring HR-related legal hot buttons. Noncompliance with applicable laws and regulations involves significant financial risk. To minimize the risk, many organizations purchase employment practices liability insurance. Though this is a sound strategy, organizations can take other proactive measures. Chief among these is a voluntary HR compliance audit. See *How to Conduct an HR Audit and Avoiding Individual Liability for the HR Professional*.

In this lesson, we will look at concepts such as HR scorecard and its effectiveness. What are the further issues? Which should be taken care of in performing and implementing HR Audit? The discussion will also give an account of focus of HR audit in a company.

## **6.2 HRD Scorecard**

### **What is the HR scorecard?**

One of the key problems that HR has been facing in the past decades is the perception that HR doesn't add to the company strategy. Indeed, HR directors in many organizations are often still looking for a seat at the proverbial (board) table. In many organizations, HR has failed to do so.

The HR scorecard, first published about by Becker, Huselid & Ulrich in their 2001 book that bore the same title, aims to solve this.

The HR scorecard is a strategic HR measurement system that helps to measure, manage, and improve the strategic role of the HR department.

#### **There are five steps to create an HR scorecard:**

1. Create an HR strategy map
2. Identify HR deliverables
3. Creation of HR policies, processes, and practices
4. Aligning HR systems
5. Creating HR efficiencies

Let's go through them one by one while creating an example of an HR scorecard.

#### **1. HR Strategy map**

A large European shipbuilding company is looking to become the most innovative organization in the sector. In the external market, low-cost shipbuilding projects are increasingly moving to Asia, while the European builders are the go-to for technologically advanced ships, like navy vessels and superyachts. For this reason,

a high innovation ranking is tremendously important to this company's future competitiveness.

To identify how HR can connect to this business outcome, one can create a strategy map. The strategy map helps to identify how HR is driving these business outcomes. The question here is: what HR practices drive the strategic goals of the company? You'll find an example below, which was created specifically for the recruitment function.

### **Recruitment strategy map as part of the HR scorecard**

As you can see, the company's strategic goal is on top. Next, HR has identified its recruitment contribution to this goal. The contribution is to hire more qualified professionals. The ways to do this is through becoming a more attractive employer in the competitive technical shipbuilding labor market, and through a decrease in the time it takes to hire a new employee (lead time). This specific company was doing quite badly on their lead time and was losing candidates because of it.

## **2. HR deliverables**

To measure this, HR deliverables or KPIs are created. This HR scorecard example shows how these strategic goals can be measured. For example, the lead time is measured as the 'time to hire in days', which is currently 38, but has to be decreased to 25, a 34% improvement!

### **HR scorecard template with a recruitment example**

Using this strategy map and HR scorecard example, the company has now identified the leading measurements for business success. In this case, becoming a top employer, and improving the quality of hire (which is the satisfaction score of manager after 1 year), are the leading indicators of success in achieving the business strategy.

Because of these very clear indicators, the HR department knows that an increase in those two HR deliverables will lead to the company's goal of becoming more innovative, giving HR a very strategic role.

### **3. HR policies, processes, and practices**

Another element of the HR scorecard is concerned with policies, processes, and practices. Here we look at what we could do to ensure that HR is successful when it comes to their key deliverables.

The idea here is that HR should create a number of High-Performance Work Systems (HPWS). An HPWS is a group of separate but interconnected HR practices designed to enhance effectiveness. In the previous example, the key deliverables include a decrease in lead time and a high ranking in the top employer benchmark. These deliverables can be supported through:

#### **Policies:**

A strong employer branding policy will help in building a strong reputation that will help in becoming a top employer

**Processes:** Key to decreasing lead time will be an optimization between how recruiters and managers communicate. Oftentimes, managers take a long time to review resumes and plan interviews with candidates. Changing these slow processes into workflows that guarantee next-day action, can decrease the time to hire with days, sometimes weeks. This is one of the many processes that can be implemented to enable better performance on the HR deliverables.

Another example could be the application process for candidates. The candidate experience will be vital to attracting top candidates and in ensuring a good rating in the top employer benchmark.

**Practices:** This looks at the specific practices that help HR achieve the aforementioned deliverables.

Creating policies, processes, and practices that create synergies is referred to as 'bundles' of practices. These practices act together to create synergy for the HR

deliverables. This is also the core focus of the next step in the scorecard, aligning HR systems.

#### **4. Aligning HR systems**

System alignment is not about software systems. Rather, it is about aligning the different HR practices to create synergy.

For example, the employee branding efforts should focus on the type of workers that the employer is actually looking for. In addition, decreasing lead time by rushing through the process may lead to a lower quality of hire, resulting in a mismatch between what HR is doing, and some of the goals it tries to achieve.

Aligning these HR systems is key in performing on the HR deliverables.

#### **5. Creating HR efficiencies**

Traditionally, HR has focused a lot on creating efficiencies. When it comes to creating an HR scorecard, some efficiency has to be thrown out of the window.

The simple reason here is that to get, for example, a higher quality of hire, your cost to hire someone might go up. In our example, the quality of hire is a strategic HR measurement. Investing money into increasing the quality of hire is well worth it. This justifies investments in assessments, employer branding projects, and other HR initiatives that boost the main HR deliverables.

##### **Components of HR Scorecard**

- Training and development
- Employee recruitment and selection
- The compensation management (includes reward system)
- Performance management
- Employee relations in the organisation (industrial relations as well)
- Time and work management
- Transfers, promotions and replacement of staff
- Career Development

### **Benefits of HR Scorecard to an Organisation**

1. HR scorecard assists in presenting an instantaneous graphical display of key performance indicators of employees of the organisation.
2. The scorecard also helps in aligning the current performance with the expected business goals, to be achieved.
3. It creates a structure for budgeting of tasks to be undertaken by the HR of company.
4. HR scorecard also facilitate in representing crystal clear vision/mission of the organisation.
5. It also accelerates, the efficiency with which organisation aims to achieve the productivity all levels of the enterprise.
6. It also helps improve the communication among various systems of the organisation.
7. HR scorecard also strives to create harmony of the strategy sought after, in the management team.
8. It measures the contribution of human resource department in the overall accomplishment of the organisation.

### **6.3 EFFECTIVENESS OF HR SCORECARD AS AN INSTRUMENT**

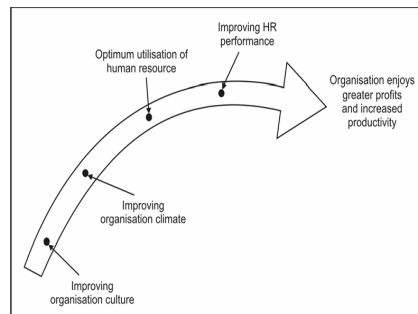
You might have observed that many businesses do not pay due attention to human resource management which is a very common mistake that may have negative consequences for the company. Moreover, some business owners think that their business is money, production facilities, offices and computers but they forget that people put all this into action. Therefore, as financial audits are important, it is also important to effectively measure the performance of the people working for the company. They should know that they are valued and they are getting fair compensation. At the same time, the company expects its

Personnel to work as efficiently as possible. The goal of human resource management is the optimum utilization of human resource in order to maximize the

profits for the company, at the same time providing them with convenient working conditions and good compensation.

For understanding the pattern on which the human resource department should work to maximize the profits of the business unit. Performance of human resource department should be constantly measured and controlled. With a properly developed strategic HR architecture, managers throughout the firm can understand exactly how people can create value and how to measure the value-creation process. HR department should ensure that all positions in the company are filled with the best professionals those are well-trained and educated to increase the productivity of the business and add maximum value possible. Therefore, company should not hesitate to spend a required amount of money to find efficient employees but at the same time, it may happen that the company is overpaying for recruitment or employees. That is why, use of HRD scorecard system is highly recommended for managers and business owners who are trying to optimize the work of HR department and reach strategic goals set in this area.

### **Effective HR Department Contributes to Overall Company Success**



Financial indicators emphasize more on the KPI, which is the most important, i.e. cost per hire which includes all fees, costs and expenses related to hiring one employee. These are advertising costs, agent's fees, etc.

So now you must be clear that the fewer the number of times a company requires finding an employee, the less it has to spend. Average employment time represents the time an employee works for the company. If it happens that people do



not work with a company for long duration, it means that something is wrong with a company policy towards its personnel. The longer the people work for the company the more professional they are and it depicts the effectiveness of HR policies in the company. Therefore, HR Scorecard includes many more indicators, the choice for which depends on strategic goals of the company or HR department.

### **HR Competencies Required to Formulate HR Scorecard**

It has now been essential for the contemporary organisation to implement the various tools of performance management. HR scorecard is one of those proficient tools, which help the HR personnel in excellent management of the task force of organisation and measuring their competencies.

Before we move further, we must take a glance at various competencies, which render this HR Scorecard's execution worthwhile.

#### **Leadership Competencies**

- Knowledge of the team behavior and its members
- Good communication channel and willingness
- Ability to balance the competing values
- Power of strong analytic, strategic, and creative thinking
- Value diversity
- Promote and practice integrity and
- Conduct of ethical behavior

#### **Change Agent Competencies**

- Employee should be aware of business system thinking
- Understands work environment
- Design and implement work process
- Good communication ability
- Reward technology to HR department
- Handling clients and employees grievances
- Manage organisational climate successfully and

- Possess analytical skills to formulate strategic plans and goals too

### **Business Partner Competencies**

- Understanding of vision and mission of the organisation
- Knowledge of leading team and its members in right direction
- Administer the risk-taking environment of the organisation for gains
- Should be innovative and open to fresh ideas from the subordinates
- Applies organisational development principles
- Possess good analytical thinking to understand moves of competitor and
- Link is HR to the overall objectives of organisation

## **6.4. ISSUES IN HR AUDIT**

### **Major issues concerning with HR audit are as follows:**

1. HR audit though is a useful tool for the organisational improvement but if the timely actions are not initiated for solving the problems found during the audit process, then whole process is rendered meaningless. Though finding out what is inadequate is the first step toward improvement but at the same time if the deficiencies are identified, it is important to take steps to correct those deficiencies.
2. Organizations should take that first step only when they are ready to act on the findings, and to make necessary improvements in their HR skills, processes, and systems. Otherwise, it will lead to unnecessary wastage of time for the organization.
3. Another important issue is that audit results are based on data collected by different level of employees. So accuracy of results is based on the accuracy of data collected.
4. Communication of results should be done in the appropriate manner to the HR personnel. If the results are not communicated properly, then the whole process proves to be meaningless.

## **6.5 FOCUS OF HR AUDIT**

1. Make effective HR policies
2. Ensure compliance with all regulatory norms
3. Correct existing deficiencies or people related problems in any department, section, or organisation as a whole
4. Correct the performance evaluation systems
5. Make training and development functions more effective and need based, etc.

### **Other focus areas are as listed below:**

- Focus on Developing Good Business Practices: This is done by meeting strategic goals, enhancing such goals and fit together such goals with the overall strategies of the organisation. Good business practice also saves money, optimises return on investment from training and development expenditures, benefits the vendors and simultaneously meets the diversified goals.
- Focus on Legal Compliance: This is an important area of HR audit focus on compliance of various legal issues. Such audit is performed by checking the records. Effective HR audit can substantially reduce the legal suits, and consequential cost of litigation.
- Focus on Administration Issues: This is more focused on checking the process of maintaining personnel or HR files, and how they are kept, degree of confidentiality in records keeping, etc.
- Auditing HR functions: It includes recruitment, labour turnover rates, gaps in meeting the staffing needs, future manpower requirements of the organisations, etc.
- Employee-relation Audits: Such audit is done by conducting surveys with the aid of questionnaire, including conducting exit interviews, job satisfaction studies, etc.

### **Roadmap for Performance Scorecard**

Figure shows that theory of performance measurement such as Balanced Scorecard (BSC) provides 3 standards as indicators, which are measurable, reliable, and transparent.

Measurable means the indicators should be a matter of quantitative, not abstract. Reliable means the indicators can be trusted. Transparent means the indicators should be socialized to all parties. Then after determining the indicators, we should pay attention to the measures (indicators), weight of each indicators, and target that should be achieved. In the end, it will produce scorecard for each hospital unit. Detail steps of producing this scorecard can be followed at the following sections.

### **Preparing Activity Value Chain**

The initial step in making performance measurement standard should begin from preparing activity chain for each staff. In order to make it, we should know our Achievement Generating Factor, which is the main task of a job position. The activities that belong to the Activity Value Chain are all activities that are done regularly. For example, routine activity for a lecturer is teaching a class. However, the lecturer also has supporting activity such as giving suggestion to his/her students if they are experiencing problems in their study. This different type of activity should be clearly understood in defining activity value chain as a first step before move further to other steps.

### **Preparing Job Description**

After determining routine activities in value chain, the following step is making job description.

We should pay attention to these factors:

1. Job assignment should be detail and concrete.
2. State the assignment in information type so it can be implemented and evaluated. The presented information can be input information or output information.
3. Determine Information Source that we use to state information type of a conducted assignment. This information source can be officer with whom we cooperate, and what form we use to state the information.

4. Determine the period and the person who should implement the informed assignment.
5. Decide how information distribution is implemented. Information distribution can be done by assigning person/department that receives the information and time schedule when the information should be delivered.
6. We also need to determine success measurement criteria for implemented task.
7. It is our obligation to determine development requirement to be completed by the implementer person so they can do their job competently.
8. It is also suggested that we determine responsible person for fixed asset whether in unit or monetary form so all staffs feel responsible.

Job description can be implemented if the people who sit on certain position fulfil the required specification. Therefore, a job description will be more meaningful if continued by job specification for potential candidate of a position.

### **Preparing Job Specification**

Job specification is a criteria or requirement for a certain position.

**Initial Requirement:** It is organization demand to the position holder candidate.

**Development Support:** After someone fulfills the requirement to sit on a position, then it becomes organization responsibility to develop this Position holder. The development support can be in the form of training and education therefore the position holder can be developed and succeed in doing his/her job now or in the future.

### **Preparing Job Performance Standard**

The previous job description will be more meaningful if management has certain scoring tool that can be used as performance measurement for a position holder. In order to have that scoring tool, then it needs to develop a standard, which called job performance standard. In making Job performance standard, we will determine performance score criteria. The common score standard is as follows:

#### **Performance criteria code score**

- Very Good (VG 5)

- Good (G 4)
- Average (A 3)
- Bad (B 2)
- Very Bad (VB 1)

**Job Performance Standard consists of**

- Performance Criteria Scorecard
- Job Description
- Performance Indicator
- Performance Criteria
- Target Description

By having Job performance standard, then it will decrease job evaluator subjectivity so that the evaluated staff and the evaluator person have the same guidance in understanding the performance.

Performance indicator or performance measures aims to determine success criteria of a job that being implemented by a position holder. This Performance Indicator/Measures can be measured from two aspects, which are lagging indicator and leading indicator.

1. LAG Performance Indicator is a Final Result Indicator of an activity. For example, Lag Performance Indicator for a Salesman activity: recording sales to achieve target is recording accuracy and timeliness.

2. LEAD Performance Indicator or Process Performance Indicator is indicator for supposed to-be done activity. If this activity can be done, then the lag indicator tends to be achieved. As an example for the salesman above, in order to make recording sales activity run well, then it needs some activities such as:

- (1) Checking data and report completeness and
- (2) Preparing supporting facility and information to make report.

## **Preparing Job Performance Scorecard**

Job Performance Scorecard is an achieved performance result of a staff in certain period. From job description, job specification and job performance standard, then it can produce design of management performance scorecard that can be used as a tool to measure organization managerial performance. Therefore, the organization has a measurement tool that can be used as a guidance to measure overall organization performance. As a performance report, this Job Performance Scorecard should be published regularly as a complement of hospital financial report. This report can be foundation for management to make decision on what they should do related to their staff performance. Therefore, this scorecard should be applied to all management levels from operational level until strategic level so it might run well.

## SUMMARY

- Audit serves as an examination on a sample basis of practices and systems for identifying problems and ensuring that sound HR principles are followed.
- The goals of the audit can be of two types, i.e. short-term or long-term. Short-term goal can solve any recent problems of the organization and long-term goals are the objectives that have greater impact on the goodwill of the organisation.
- Various areas in which companies may conduct the audit are recordkeeping, compliance, salary and compensation, benefits, professional development and training, performance and recognition, recruiting and retention, safety and health and culture.
- To integrate HR into business performance management system, it is important to understand, the important HR deliverables and how it relates to organisational strategy implementation plans.
- The most effective way is to build a framework just like the balanced scorecard, which has sound measurement strategies and is able to link HR functions, activity and investment with the overall business strategy.

## KEYWORDS

**HRD Scorecard:** It is a tool for measuring the contribution of human resource management practices to the financial performance of an organization.

**Feedback:** Feedback is the return of a portion of the output of a process or system to the input, especially when used to maintain performance or to control a system or process.

**Core Competency:** A core competency is a specific factor that a business sees as being central to the way it, or its employees, works. It fulfills three key criteria, viz. it provides consumer benefits, it is not easy for competitors to imitate and it can be leveraged widely too many products and markets.

**HR Enablers:** These personnel in the organization strengthen the HR drivers so that they can achieve performance goals.



**Change Agent:** The most important contributions to be made through the change agent role are those that sustain the organization's current performance and assure its future performance i.e. enabling people to work effectively as they plan, implement and experience change, increasing people's ability to manage future change.

**Legal Compliance:** It refers to the complex set of processes, rules, tools and systems used by corporate legal departments to adopt, implement and monitor an integrated approach to business problems.

## **SELF-ASSESSMENT QUESTIONS**

### **Short Answer Questions**

1. What is HRD Scorecard?
2. Which area HRD scorecard can be implemented?
3. Who are HR enablers? What is their role?
4. What is a KPI?
5. Write the primary focus of HR Audit.
6. How does KPI help in the implementation of HRD Scorecard?
7. Explain various leadership competencies required to formulate HRD scorecard.
8. Write a short note on core-competencies.
9. Can you frame certain parameters, which can help quantify the career development aspect of HRD Scorecard implementation?
10. Write a short note on HRD scorecard's relevance in contemporary organisations.
11. Mention a few strategic functions of HR, which must be audited timely.
12. What do you mean by average employment time? What is its significance in assessing HRD Scorecard's effectiveness?
13. How HRD Scorecard differ from balance scorecard?
14. What are the advantages of conducting HR audit?
15. Define feedback.
16. "HR audit is a useful tool for the organisational improvement." Do you agree?

### **Long Answer Questions**

1. What is the significance of various HR competencies in formulation of HRD scorecard?
2. Mention several benefits of HR scorecard for an enterprise.
3. Why is HR audit important in an organisation? Illustrate with an example.
4. Discuss the issues in HR audit.

5. Discuss at length the focus of HR Audit in an organisation.
6. What aspects do a manager needs to keep in consideration while formulating an HRD scorecard?
7. How does an HRD scorecard help translate vision and mission of the organisation into clear goals?
8. Why is it imperative to measure the effectiveness of HR scorecard?
9. Diagrammatically represent how HR contributes to overall organisational goal achievement.
10. Comment thoroughly, the state of organisation, had there been no prerequisite of conducting HR audit in organisations.

## **FURTHER READINGS**

1. Brian E. Becker, David Ulrich and Mark A. Huselid (2013), The HR Scorecard: Linking People, Strategy, and Performance, Harvard Business Press.
2. Michael Hoffmann (2008), A Critical Analysis of the Balanced Scorecard – With Special Consideration to Its Implications for HRM and HR-policy, GRIN Verlag.
3. T. V. Rao (2008), HRD Audit: Evaluating the Human Resource Function for Business Improvement, SAGE Publications.
4. Ron Person (2013), Balanced Scorecards and Operational Dashboards with Microsoft Excel, John Wiley & Sons.
5. Business & Legal Reports, Inc., (2010), HR Audit Checklists.

## **UNIT V**

### **LESSON 7 - HUMAN RESOURCE AUDIT REPORT**

Learning Objectives

Learning Outcomes

Unit Structure

7.1 Introduction to HR Audit Report

7.2 HR Audit Report

7.3 Concept of HR Audit Report

7.4 Purpose of HR Audit Report

7.5 Role of HR Managers and Auditors

Summary

Self-Assessment Questions

Further Readings

## **LEARNING OBJECTIVES**

After studying this lesson, you should be able to:

- To understand the concept HR audit report
- To know about purpose and role of HR managers and auditors
- To understand HR audit report design and preparation of report

## **LEARNING OUTCOMES**

Upon completion of the lesson, students are able to good understanding of:

- Concept of HR audit report
- Explain essentials and significance of a good HR audit report
- Analysing purpose of HR audit report
- Identifying role of HR managers and auditors
- Basics of report design
- How to do preparation of HR audit report

## **Introduction**

In the previous lesson, we studied about HRD Scorecard and its effectiveness as a management tool. We also elaborated on various issues of HR audit and the major focus of HR Audit in business environment. The aim was to make you well versed with the new trends in HR Audit implemented in the organisation.

The present lesson deals with human resource audit report which is a significant part of HR Audit. We will talk about how to formulate a report, what is the report design and what purpose it serves in an organisation.

The next lesson will take into account discussions regarding human resource audit report for business improvement. This discussion will put emphasis on the role of audit report in improving further business practices.

### **7.1 Introduction to HR Audit Report**

It is said, “The things that gets measured gets managed”. In the light of this statement, let us understand the concept and relevance of HR audit report and concerning issues.

HR audit is a very useful tool in measuring and assessing organisational goals and what should be done to achieve them. It is a review and assessment to measure the effectiveness of HR functions in an organisation. Whenever a process is reviewed or assessed or inspected, a report is prepared that carries the details of the inspection undertaken. In context to HR audit, the person conducting the audit i.e. the HR auditor prepares a HR audit report that describes the details of that inspection which includes the result of observation, inquiry, etc.

Thus, this report is very helpful in facing the challenges and increasing the potentiality of the HR personnel in the organization.

## **7.2 HR Audit Report**

Human Resource Audit is a comprehensive method of objective and systematic verification of current practices, documentation, policies and procedures prevalent in the HR system of the organization. An effective HR audit helps in identifying the need for improvement and enhancement of the HR function. It also guides the organization in maintaining compliance with ever-changing rules and regulations. HR audit, thus, helps in analyzing the gap between 'what is the current HR function' and 'what should be/could be the best possible HR function' in the organization.

Though HR auditing is not mandatory like financial auditing, yet, organizations these days are opting for regular HR audits in order to examine the existing HR system in line with the organizations policies, strategies and objectives, and legal requirements. HR auditor can be internal or external to the organization. Generally, HR consulting firms render the service of external HR auditors.

It is necessary for the top management to establish the terms and scope of the audit clearly before the external firm to make the audit successful. This includes defining the exact purpose of audit, viz. examining compliance with legal requirements and organization's policies, identifying problem areas to avoid crisis situation with appropriate planning, analyzing ways to better serve the needs of relevant parties – employees, partners or society, measuring the work processes, seeking HR related opportunities available within the organization, dealing with situation of merger and acquisitions, etc.

Primary components of the HR system which are generally audited include – documentation, job descriptions, personnel policies, legal policies, recruitment and selection, training and development, compensation and employee benefit system, career management, employee relations, performance measurement and evaluation



process, termination, key performance indicators, and HR Information Systems (HRIS).

The entire process of HR auditing is broadly segmented in following phases – pre-audit information, on-site review, records review, and audit report.

The first three phases involve extensive collection of quantitative as well as qualitative information. The method for collection of information depends upon the size of the target audience, availability of time and type of data to be collected. The pre-audit information phase includes a review of the organization's policies, HR manuals, employee handbooks, reports, etc. which form the basis of working in the organization. The next phase of on-site review, involves questionnaires, interviews, observation, informal discussions, surveys, or a combination of such methods to get the necessary inputs from the members of the organization. The records review phase requires detailed scanning of current HR records, employees' files, employee absenteeism and turnover statistics, notices, compensation claims, performance assessments, etc.

Utilizing the data so collected, the HR checklist is completed which is the widely used method for carrying out HR audit. In the checklist method, a list of all the system particulars under audit, viz. the policies, procedures, or practices, is created in a sequential manner. Against each particular item, the actual practice as followed by the organization is mentioned. The defined practice and the actual practice are then compared to determine compliance between the two as well as analyzing the deviation from compliance. On the basis of this analysis, the final audit report is compiled with appropriate conclusions and recommendations highlighting the strengths and weaknesses of the HR function along with the necessary improvements as required.

HR audit, thus, contributes towards the best possible use of internal resources and maximizing the effectiveness of human capital in the organization. At the same time, it is useful in streamlining the HR processes and practices with the industry best practices and standards.

### **7.3 Concept of HR Audit Report**

HR audit report is a formal opinion issued by an auditor either (internal or external) or evaluation performed on a legal entity i.e. a business entity or business unit.

The HR audit report is a comprehensive description of HR activities that includes both recommendations for effective practices and recommendations for improving practices that are less effective. Recognising both good and bad practices is more balanced and encourages wider acceptance of the report.

HR audit report is submitted to the higher authority of the organisation. This report is generally said to be clean and qualified. A clean HR audit report indicates the appreciation and approval of the functioning of the various HR departments or areas. Whereas, a qualified HR audit report represents the gaps in performance and contains remarks and remedial measures to be taken on.

It is an essential tool particularly for reporting financial information to a business or company. Many organisations and companies rely on auditor reports to certify their information in order to attract investors, obtain loans, and improve public appearance. For understanding HRD Audit, let us again have a quick look at the different components of HRD Audit.

#### **Components of HR Audit**

The figure below describes the three main components of HR Audit:

1. Organisation and Administration of Human Resource
2. Information Management through Documentation
3. Computerized HRIS

It is the second component, Information Management through Documentation Where the role of HR Audit Report comes into play.

Following are some important considerations in this:

- The person with whom the personnel files currently held
- The documents are held in personnel files
- The ways to document following in your organization:
- Hiring: Application, interviewing, and reference checks
- Compensation and benefits
- Leave and overtime information
- Transitions
- Training
- Discipline
- Work history
- Work Assignments
- Significant accomplishments
- Emergency contact information
- Performance evaluation and performance management
- Termination
- The duration of holding the files
- The place at which they are stored after employees leave
- It should be seen that whether there is training of managers and employees about personnel files
- The policies and procedures for accessing files
- The person responsible for filling the requests for information when they are made to your organization
- The content of employee, payroll, medical, and position files
- The various internal controls to ensure accuracy of information and control access
- The process for purging records
- The way of maintaining employee timesheets

- The place at which various notices are posted
- The methods to ensure timely and accurate reporting of information to the top management

### **Essentials of a Good HR Audit Report**

- Simplicity: Record-keeping must be simple.
- Conformity: Reports must have conformity in meeting the requirements of the organisation for achieving organisational objectives.
- Accurate: Records should be error-free. They must be built around facts as far as possible.
- Unbiased: Reports must be objective and prepared without prejudice or bias.
- Economical: It should not cost a fortune to maintain records. The cost of maintaining records must not be high.
- Data based: Reports must be built around facts. They must not only present facts but also interpret them in a meaningful manner.
- Useful: Records must provide information, which could be put to use. They must facilitate managerial decision making.
- Clarity: The report must be clearly worded so that people could understand and use it easily. To make it simple, some illustrative points could also be used.
- Reports must be submitted keeping the time limits in mind. The very purpose of preparing a report gets defeated once it exceeds the time limit.

### **Significance of HR Audit Report**

- The significance of HR audit report can be understood through the following points:
- HR audit report helps management in obtaining the requisite information

regarding the use of human resources in various departments or divisions.

- An HR audit report is specially needed to supply the information required by the management and trade unions in order to review the effectiveness of personnel policies and practices and develop them.
- It is helpful in supplying the information required by various agencies on the accidents, employment position, strikes, absenteeism, turnover, etc.
- It provides the information about manpower inventory for manpower planning and succession planning.
- It is an important tool that aids in conducting research in personnel and industrial relations areas.
- It is useful for identifying training and development needs

#### **7.4 Purpose of HR Audit Report**

It is quite difficult to measure the attitude of human being since their problems are not confined to the HR department alone. Thus HR audit report is very broad in nature.

Human Resource audit report pertains to the details concerning the effectiveness of human resource functions in an organisation and ensures regulatory compliance of those functions also concerns various other areas concerning personnel records. It includes decision making regarding the personnel records and reports that enable HR managers and auditors to obtain requisite information regarding the use of human resources in various departments or divisions.

**The following points entail the purpose of HR audit report to:**

- Audit of all the HR function.
- Keep an orderly account of progress of the HR functions
- Facilitate the preparation of the statement of the true conditions prevalent in HR department

- Offer a few guidelines for the appraisal of the HR function, which is itself the basis for the auditing process
- Enable comparisons of the set performance standards against the deliverables
- Facilitate the detection of errors and frauds in areas concerning human resource
- Audit managerial compliance of personnel policies, procedures and legal provisions
- Inspect the corporate strategy regarding HR planning, Staffing, Industrial relations, remuneration and other HR activities
- Meet legal requirements concerning various HR processes
- Review the HR climate on employee motivation, morale and job satisfaction
- Serve other miscellaneous purposes concerning various personnel records. These records of personnel may include job application and test scores, job descriptions and job specifications, interview results, employment history, medical reports, attendance records, payroll, employee ratings, training records, leave records, accident and sickness records, grievances, disputes records, contracts of employment etc.

## **7.5 Role of HR Managers and Auditors**

The audit report is a comprehensive description of human resource activities that includes both commendations for effective practices and recommendations for improving practices that are less effective.

HR audit procedure helps to assess whether the Human resource function at a business unit level is delivering its mandate and roles. Who will conduct the audit is another important issue that must be considered before conducting any HR Audit because the role of HR managers and auditors is crucial in ensuring the worthiness of the HR audit being conducted. Thus, the role of HR managers and auditors is also an important aspect attached to HR Audit.

Whether it's granting trade credit or selling securities or granting a loan, the effectiveness of the functioning of any business unit depends on the information provided by others. For example, the credit professional making a decision to grant trade credit, the investor making a decision to buy or sell securities, the banker deciding whether to approve a loan, the government in obtaining revenue based on income tax returns, all rely upon information provided by others.

Therefore, the role of HR manager or auditor is crucial as they ensure the integrity of the information provided to other parties. When an audit is performed, it is the job of an auditor to make sure that records are examined in an honest and forthright manner.

The audit can be conducted by anyone with sufficient experience in HR auditing. Having experience in more than one company will be an added advantage as it provides the auditor with a broader perspective.

### **Sections of an Audit Report**

1. For Line Managers: How line managers handle their duties such as - interviewing applicants, training employees, evaluating performance, motivating workers, satisfying employee needs. In addition to this, the report also identifies people problems and violations of policies and employee relations law are highlighted.

2. For Manager of Specific Human Resource Function: The specialists who handle employment training, compensation, and other activities also need feedback. Such feedbacks are:

- Unqualified workers who need training
- Qualified workers who need training for development
- What other companies are doing
- Attitude of operating managers toward personnel policies
- Pay dissatisfaction of employees

3. For the Human Resource Manager: It contains all the information given to both operating managers and staff specialists. In addition, HR managers get feedback about:

- Attitude of operating managers and employees about services given by HRD
- A review of HRD plans
- Human resource problems and their implications
- Recommendations for needed changes and priorities for implementation

**HR Manager also serves following functions:**

Assist management in the design and development of HR systems that affect organization performance.

- Advises management in the design and implementation of change strategies used in transforming organizations.
- Advise management on work systems design and the efficient use of human resources.
- Assist individual employees in assessing their competencies and goals in order to develop a realistic career plan.
- Identifies needs of the learner, develops and designs appropriate learning programs, and prepares materials and other learning aids.
- Worthy HR managers and auditors make a real contribution to business success.
- Auditors play a crucial role by ensuring:
- Availability of systems and procedures that helps management executes their people management role.
- Working within the frameworks of various labour relations laws that govern the relationship between labour and management in the



workplace i.e. the compliance role of HR

- Strategy for overall people management in a business unit that increases the value of employees to the business
- Functioning of various HR systems and procedures at optimal cost. Here, it should be noted that optimal cost does not mean the lowest cost, but the right price for the job on hand.
- With the information in the audit report, instead of solving problems in a random manner, the HR manager can take a broad view of the function and can focus on those areas, which need more improvement in order to contribute to the organisation. The audit serves as the map for future efforts and a reference point for future audits. In this context, with knowledge of the department's current performance, the manager can make long term plans to upgrade crucial activities. These plans identify new goals for the department, which serve as standards for future audit teams.

## SUMMARY

- HR audit report is a formal opinion issued by an auditor either (internal or external) or evaluation performed on a legal entity i.e. a business entity or business unit.
- The formulation of audit report is a very crucial step as it involves putting down every detail for further records.
- HR auditor and HR manager play a key role on framing the report and conducting audit for the company. Their contribution is indispensable for the organisation in this process.
- The HR manager can take a broad view of the function and can focus on those areas, which need more improvement in order to contribute to the organisation.
- HR Audit report is an efficient tool to assess the effectiveness of current HR activities of an organisational and gives an insight to assess the blueprint for future HR core activities.
- The complete process of HR audit involves the formulation of a report design and thereafter preparing a report after conducting an audit.

**HR Audit Report:** It is a comprehensive description of HR activities; it includes both commendations for effective practices and recommendations for improving practices that are less effective.

**Auditor:** Auditor is a person or agency who are authorised for inspecting the confidential practices, documents and processes of the company. They ensure that the company abides all the compliances and laws.

**HR Manager:** A person who is responsible for handling all the affairs of the organisation relating to HR department and is responsible and accountable for all the affairs being executed in that branch.

**Audit:** An activity conducted in the organisation to cross-check if all the people and processes are followed diligently without any discrepancy.

**Compliance:** The act of following what a person and organization is expected to do. In other words, it is the process of conforming to requests, demands or orders of an authority.

**Forecasting:** It is a tool or method used by companies to predict or estimate the future trends of events which might occur, by using the knowledge of their experiences.

## **SELF ASSESSMENT QUESTIONS**

### **Short Answer Questions**

1. Write a short note on HR audit report.
2. How does an HR audit report differ from an HR report?
3. What do you understand by forecasting in an effective report design?
4. Explain the role of an HR Auditor?
5. Is it necessary that HR auditing function should be carried out by the outside agency? Why?
6. Mention various HR Audit areas on which HR Audit report is prepared.
7. Write a short note on report design.
8. What is operational information?
9. What is the need for auditing motivation and morale of employees?
10. Why do we need to summarise all the findings in audit report?
11. What do you mean by participative management? Which areas are audited in this function?
12. Define forecasting. What is its role in preparing an effective report design?
13. Mention the sections of audit report used in HR audit.
14. "The audit serves as the map for future efforts and a reference point for future audits." Justify the statement.
15. Why should the employee remuneration be audited?
16. Define orientation. How orientation helps employee in settling an organisation's setup?
17. Describe the term "paid-time off".
18. Explain the three components of HR Audit. Describe them in brief.
19. What are the critical areas in preparation of HR audit report?
20. "Preparation of HR Audit report helps an organisation in improving their future course of action." Do you agree? Give reasons to support your answer.

### **Long Answer Questions**

1. “The thing that gets measured gets managed”. In context of this statement, explain the relevance of HR auditing in an organisation.
2. Explain in detail the essentials of good auditing report.
3. Enumerate the steps involved in preparation of HR audit report.
4. Elucidate the various functions of an auditor.
5. Discuss the functions and roles of HR Manager in designing the HR Audit report.
6. Comment upon the significance of HR Audit report in detail.
7. State in detail various topics, which are audited in the health and safety function, and training and development function of HR. Also, talk about the need for auditing these HR functions.
8. What are the various sections of audit report? How a line manager contributes in formulation of audit report?
9. How do you think, an auditor ensures integrity of auditing process?
10. Describe various functions, which are served by HR Audit report.

## **FURTHER READINGS**

- P.G. Aquinas (2009), Human Resource Management, 1E, Vikas Publishing House Pvt. Ltd.
- Damon Golsorkhi, Linda Rouleau, David Seidl, and Eero Vaara (2010), Cambridge Handbook of Strategy as Practice, Cambridge University Press.
- Dipak Bhattacharyya (2013), Performance Management Systems and Strategies, Pearson Education.
- Saiyadain (2009), Human Resources Management, 4E, Tata McGraw-Hill Education.
- John H. McConnell, (2011), Auditing Your Human Resources Department: A Step-by-Step Guide to Assessing the Key Areas of Your Program, AMACOM Div American Mgmt Assn.

## **UNIT V**

### **LESSON 8 - HR AUDIT REPORT FOR BUSINESS IMPROVEMENT**

#### **CONTENTS**

Learning Objectives

Learning Outcomes

Unit Structure

8.1 Introduction to HR Audit

8.2 Report Design

8.3 Preparation of Report

8.4 Use of HR Audit Report for Business Improvement

8.5 Conclusion

Summary Keywords

Self-Assessment Questions

Further References

#### **CASE STUDIES FOR ALL UNITS**

## **LEARNING OBJECTIVES**

After studying this lesson, you should be able to:

- To understand the use of HR audit report for business improvement
- To know about the Report Design
- To understand the preparation of HR audit report
- Know about the role of HR audit report for business improvement

## **LEARNING OUTCOMES**

Upon completion of the lesson, students are able to demonstrate a good understanding of:

- Able to understand basics of HR audit
- Explain use of HR audit report for business improvement
- Analyzing human resource audit report and business goals
- Recall role of HR audit in business improvements



## **8.1 Introduction to HR Audit**

Human resource audits are a vital means of avoiding legal and regulatory liability that may arise from an organization's HR policies and practices. In addition to identifying areas of legal risk, audits are often designed to provide a company with information about the competitiveness of its HR strategies by looking at the best practices of other employers in its industry. In essence, an HR audit involves identifying issues and finding solutions to problems before they become unmanageable. It is an opportunity to assess what an organization is doing right, as well as how things might be done differently, more efficiently or at a reduced cost.

In today's competitive climate, organizations operate within the confines of a heavily regulated employee environment. This challenge includes dealing with myriad complex laws and regulations. The scope of the HR function includes establishing and administering a host of policies and practices—many of which involve compliance implications—that significantly influence the productivity and profitability of the enterprise.

Given that many HR departments are both understaffed and overworked, only in retrospect do many organizations become aware of the monetary costs of ignoring HR-related legal hot buttons. Noncompliance with applicable laws and regulations involves significant financial risk. To minimize the risk, many organizations purchase employment practices liability insurance. Though this is a sound strategy, organizations can take other proactive measures. Chief among these is a voluntary HR compliance audit. See *How to Conduct an HR Audit and Avoiding Individual Liability for the HR Professional*.

### **An HR compliance audit generally consists of two main parts:**

An evaluation of the organization's operational HR policies, practices and processes with a focus on key HR department delivery areas (e.g., recruiting—both internal and external, employee retention, compensation, employee benefits, performance management, employee relations, training and development).

A review of current HR indicators (e.g., number of unfilled positions, the time it takes to fill a new position, turnover, employee satisfaction, internal grievances filed, number of legal complaints, absenteeism rates).

HR usually conducts an audit by using a questionnaire that asks for the evaluation of specific practice areas. This document helps guide the audit team in scrutinizing all critical areas of an organization's HR practices. The audit may also include interviewing or using questionnaires to solicit feedback from selected HR employees and other department managers to learn whether certain policies and procedures are understood, practiced and accepted.

## **8.2 Report Design**

For effective achievement of organisational goals, an HR auditor needs to audit all the HR functions. In this regard, the auditor should prepare an effective HR audit report. An HR audit report ensures that HR functions are properly reviewed for overall achievement of organisational goals.

Preparation of HR Audit report is the last step in HR audit process. Let us first have a brief description on HR audit report design.

Since the HR audit, report contains the results of the audit, which is further discussed with the senior managers, and staff specialists in several rounds, important issues should be identified to be included in the formal report. In this process, the issues are further crystallized. Then as per the discussions and findings during the meeting, a final report is prepared and presented formally to the Management.

This HR audit report should include the “state of the organisation” report, the assessment of effectiveness and efficiency of various areas covered by the audit, a legal compliance/areas of concern report, and critical recommendations for improvement. And, to ensure this, a proper report design should be followed.

HR Audit report is an efficient tool to assess the effectiveness of current HR activities of an organisational and gives an insight to assess the blueprint for future HR core activities and organisational commitment towards growth and excellence.

HR audit reporting is an afterthought for which a system, process, or proper report design should be developed. An effective report design, should contain information on the crucial areas of HR on which audit is required.

For an effective report design, the first step is to take some time and reflect on the content of HR functions, which need to be mentioned in the report. What specific issues under each area have to be covered should be identified carefully so that complete information on each HR area or function is covered in the report. The design of the report should be such that each one of the specific areas and issues concerning it are analysed.

The main areas that needs auditing and should be covered in designing an effective HR audit report:

A list of the indicators corresponding to the different areas of the HR function could contain some of the following:

### **Description of the Staff of the Company**

The complete staff can be described by:

- Hierarchy level
- Years of service
- Qualification
- Sex
- Nationality
- The number of permanent and temporary employees, interns and physically or mentally challenged employees
- Indexes of personnel rotation and absenteeism

An effective report design should include relevant content under each HR function, which is described as follows:

### **Job Analysis and Design**

- The number of described posts
- Occupants per post
- Degree to which the job description cards have been updated
- The degree of detail in the job description cards
- The methods used to analyze and describe the jobs.
  - Recruitment and Selection
- Number of days required to fill a vacant post
- Number of applications received by work place categories
- Average amount of days between the receiving of the application and selection
- Average cost of recruitment.
- Cost of selection per job post.
- Degree to which internal and external sources of recruitment are used
- Average number of candidates who do not pass the selective tests
- Study of the reliability and validity of the selection tests

### **Training and Development**

- The procedures followed
- Frequency to which personnel training needs are analyzed
- Criteria followed in the training programs
- Evaluation criteria of the efficiency of the training programs
- Percentage of the HR budget dedicated to training
- Average number of hours of training per employee
- Percentage of employees who participate in training programs by work place categories

## **Performance Appraisal and Job**

- Description of past and current performance appraisal system in an organization.
- If a performance appraisal instrument is used, please attach a copy. (If the instrument differs by position, please attach all instruments.)
- Type of process is used (360o–supervisor only–peer evaluation–outcome)
- Type of training used in relationship to performance evaluation
- The role of the supervisor/manager in performance appraisal
- Role of performance management in an organization

## **Employee and Executive Remuneration**

- Payroll service used in the organization.
- Formal compensation program, if any
- Describing the criteria for setting of wages
- Relation between the job and their remuneration
- Evaluation and Re-evaluation of jobs
- Salary surveys and pay ranges
- Payroll and Compensation personnel
- Merit increases in compensation and their integration with performance evaluation
- Bonus system and it's structure
- Design of compensation program and its communication to employees
- Providing employees with the following information:
  - Name, address and occupation
  - The period for which the payment is made
  - Employees' remuneration in money
  - The amount and purpose of any deduction made from the remuneration
  - The actual amount paid to employees.

## **Safety and Health**

- Mention the health insurance program provided by the organization.
- Dependents of the employees covered, and if so, in part or in full
- Domestic partner cover
- Listing the eligibility requirements for health insurance and other benefits.
- Requirements for coverage
- Dental
- Vision
- Disability
- Employee Assistance Program
- Life Insurance
- Other wellness benefits
- Flex benefit plan
- Other benefits

## **Communication**

- Person responsible for holding personnel files
- Documents in personnel files
- Management of documents:
- Hiring: Application, Interviewing and Reference Checks
- Compensation and Benefits
- Transitions
- Paid Time Off
- Training
- Discipline
- Work History
- Work Assignments
- Significant Accomplishments
- Emergency Contact Information

- Performance Evaluation and Performance Management
- Termination
- Interface between HR and Finance
- Requests for information

### **Motivation and Morale**

- These indicators focus on the vacancies covered internally.
- These indicators include:
  - The percentage of people promoted per number of employees
  - The percentage of vacancies covered internally and externally and the average time per employee, it takes to receive a promotion.

### **Participative Management.**

- Employee's resistance to change
- Delegation of authority and responsibility
- Employee's accountability towards allocated responsibilities
- Industrial Relations
- Employer's compliance of rules and regulation in handling workers
- Fair remuneration
- Provision of Medical facilities
- Abiding all compliances in framing rules of organisation
- Orientation and Placement
- Right information about the organisation culture by the employer to employee on joining
- Awareness about the policies of the company transparently imparted
- Introduction to reporting superior of the new recruits
- New employee's familiarity with the organisational set up
- Informing the new employee about his job profile

## **Key Areas**

### **Following are the key areas to be covered in an effective report design:**

Operational Information: Most HR reports usually focus on operational information. Thus, information on instructions, procedures, and contents regarding how to fill and frame the report must be clearly mentioned.

Information on Effectiveness: This aspect covers to what extent the activities helped to achieve the business objectives.

Factors that Influence the Outcomes: A report design must state the factors that influence the outcomes in order to avoid further mistakes. As HR audit report deals with groups of employees and their collective behavior then understanding the drivers of their choices is essential for carrying out the audit.

Understanding what drives the changes in the outcome becomes crucial for an effective report as it must provide pertinent and correct information to the management.

Forecasting: What is likely to happen in the future? A combination of forecasting trends and understanding the likely effects of changes, positive predictions about outcomes that are likely based on historical information. They are most useful to formulate an effective HR Audit report.

Scope of Improvement: What should be changed to improve the activity? There are several parts in this. An active perspective is that we should be able to understand constraints such as bottlenecks in the process of preparing report.



### **8.3 Preparation of Report**

Before preparing the audit report, the HR manager must follow given below steps to make the process of preparing an effective audit report. They are the key to make an effective audit report at the end and provides with excellent results as well. Each phase is designed to build upon the preceding phase so that the organization will have a very strong overview of the health of the HR function, at the conclusion of the audit. These phases include:

#### **Pre-Audit Information**

This phase involves the acquiring and review of relevant HR manuals, handbooks, forms, reports and other information. Auditors forward a pre-audit information request to the client who compiles the necessary information for review.

#### **Pre-Audit Self-Assessment**

In order to maximize the time spent during subsequent portions of preparing the audit report, a pre-audit self-assessment form, if sent to the client can be of use. The self-administered yes/no questionnaire asks a number of questions about current HR policies and practices.

#### **Site Review**

During the on-site visit, a separate review is conducted of HR records and postings. Employee personnel files are randomly examined as well as compensation, employee claims, disciplinary actions; grievances and other relevant HR related information are checked.

The audit report categorizes action needs into three separate areas. The areas that are urgent and important (UI), not urgent needs but important (NUI), not urgent but not important needs (NNI)), and important opportunities needs (IO). Because of this scheme of classification, managements can prioritize their steps.

## **Records Review**

This phase is strategic in formulation of effective HR Audit report. A very in-depth HR audit checklist is completed at this stage, which is used in HR Audit report preparation.

## **Critical Areas**

The comprehensive HR audit report covers all areas of HR management like recruitment practices, training and development, compensation and benefits, employee and union relations, health, safety and security, miscellaneous HR policies and practices-welfare, strategic HR issues, manpower planning/budgeting.

Besides classifying needs in each of the above areas, the HR audit report also cites relevant laws, cases and research to support the recommendations.

## **Preparation of an Audit Report**

It requires data gathering and updated on-site review.

How does an organization use HR audit report results? Since the HR audit report results are classified, an important aspect is already taken care of Critical needs should be the first ones to be addressed. Organizations generally have three options for dealing with audit report results.

- Use the HR audit as a blueprint or action plan for addressing HR needs.
- Address as many needs as possible using the organization's internal expertise and resources.
- Contract out those need areas where internal expertise and resources are not available or do not fit in the core competencies of the organization.

In an ideal world, reporting would be designed when the process or system is informative. In many instances, however, data is being collected and reporting needs to be built upon this. The implication is that some valuable data may not be initially

captured and a system or process change needed or external measurement system needed.

#### **8.4 Use of HR Audit Report for Business Improvement**

Like a doctor first diagnoses the ailment and then suggests an appropriate medication for all his patients, in the same way, an HR auditor should first diagnose the opportunities and problems, identify deficiencies in the strategy, structure, staff and systems of the HR process in an organisation and then recommend steps for improvement. He should base his recommendations on the future responsibilities of the HR department as derived from the business plans of the company he is working for.

Once the HR audit report is submitted, an action plan is drawn as per the recommendations and remedial actions suggested in the HR audit report for development of personnel and business as a whole.

#### **Role of HR Audit Report in Human Resource Development**

The suggestions and recommendations of an audit report may help in the development of human resource in the following ways:

1. A well-structured potential appraisal system and a systematic performance appraisal system can be established.
2. Career planning can be done.
3. Role clarity can be brought about through identification of Key Potential Areas (KPA)
4. Systematic induction and training program can be established.
5. Initiation of mentoring can increase the level of trust among employees when they are properly guided by the mentor.
6. High involvement of employees can be introduced at all levels by involving them in the process of HR audit. Their involvement will simplify the process of HR

audit as they can furnish the necessary information required in the auditing process.

7. Human orientation injected into the business process with opportunities for growth and development provided to all employees.
8. Integration of all HR related activities

### **Human Resource Audit Report and Business Linkages**

The HR audit report also examines the linkages between HR and other systems for overall organisational or business improvement like total quality management, personnel policies, strategic planning, etc. The link between HR audit report and business indicates the extent to which the development of human resources (tools, processes, culture, etc.) is driven to achieve business goals.

#### **Suggestions in HR audit report are made by evaluating:**

- Current HR strategies in an organisation and future strategies required by the company.
- The structure the company needs to have for developing new competencies and the systems that need to be strengthened.
- The styles and culture that are compatible with HR processes in the company particularly the styles of the top management, etc. and those that need to be incorporated.

The HR audit report is highly useful in improving overall businesses and in bringing organisational effectiveness. This is because the HR audit report covers under its purview various business goals that ultimately results in business improvements. Following are the business goals included in HR audit report:

- Business excellence including profitability and other outcomes the organization is expected to achieve
- Internal operational efficiencies

- Internal customer satisfaction
- External customer satisfaction
- Employee motivation and commitment
- Cost effectiveness and cost consciousness among employees
- Quality orientation

### **Role of HR Audit in Business Improvements**

- It can give many insights into a company's affairs.
- It could get the top management to think in terms of strategic and long term business plans.
- Changes in the styles of top management.
- Better role clarity of HRD Department and the role of line managers in HRD.
- Improvements in HRD systems.
- Increased focus on human resources and human competencies.
- Better recruitment policies and more professional staff.
- More planning and more cost effective training.
- Strengthening accountabilities through appraisal systems and other mechanisms.
- Streamlining of other management practices.

HR Audit is a tool for organizational development. HR audit report on the other hand reviews and assesses the factors affecting the organizational development and the areas that should be considered to make it a success. It also explores what HR for the success of the intervention expects.

### **Other Roles of HR Audit Report for Business Improvement**

The HR Audit report gives an insight into a company's affairs. It leads to several benefits as business improvement:

1.      **Enables Strategic Planning:** It involves getting the top management to think in terms of strategic and long-term business plans. It helps in initiating a new system of annual planning and sharing of business plans with the management staff to enable them to plan their own activities and competency development programs. As the employees cannot participate in an HR audit, without some sharing of these plans, the audit has forced the top management to share their plans, which has resulted in increased employee involvement.

2.      **Clarifies Role of HRD Department and Line Managers:** The HR audit report also draws the attention of employees at various levels to the important role of the HRD department. Enhanced role clarity of HR department and HR function and increased understanding of line managers about their role is a uniform effect of HR audit.

3.      **Streamlines Other Management Practices:** Most often HR audit report identifies the strengths and weaknesses in some of the management systems existing in the organization. It also points out the absence of systems that can enhance human productivity and utilize existing competency base, for example, the MIS, rules and procedures, etc. which may have an effect on the functioning of the employees. HR audit report also helps management to look at some of the sub-systems and work procedures such as - preparation of a manual relating to delegation of powers, clarification of roles and responsibilities, developing or streamlining the manuals of financial and accounting procedures and systems, strengthening human resource information systems, etc.

4.      **Improved Recruitment Policies:** HR audit report points out the required competency base in an organisation; it sets the stage and gives direction for the competency requirements of employees at various levels, thereby providing a base for recruitment policies and procedures. This also strengthens the recruitment policies and procedures, which as a result enables chalking out new recruitment and retention strategies.

5.      **Modify Top Management Styles:** One of the objectives of HR is to also create a learning organization. A learning culture can be created only if the top managers of the company exhibit an ethical approach to HR practices. Such practices requires an empowering attitude, participative style of management, and an ability to convert and use mistakes, conflicts and problems as learning opportunities. In such

cases, the HR audit report assists by pointing out the difficulties in developing and preparing the employees for the future. This gives feedback to the top management to initiate a change process.

6. Improvements in HRD Systems: The HR audit report helps organizations in taking stock of the effectiveness of their HRD systems and in designing or re-designing the HRD systems. The most frequently changed or renewed systems include performance appraisal, induction training, job-rotation, career planning and promotion policies, mentoring, communication, and training.

7. Additional Planning and Cost-effective Training: HR audit reports raise questions about the returns on training. One of the aspects emphasized in the HR audit report is to calculate the investments made in training and ask questions about the returns. The process of identifying training needs and utilisation of training inputs and learning for organization growth and development can be easily accessed through such audit reports.

8. Increased Focus on Human Resources Competencies: One of the results of an HR audit report is to focus on new knowledge, attitudes and skills required by the employees in the organization. Comments are made about the technical, managerial, human and conceptual competencies of the staff at various levels in the report. This differentiation has been found to help organisations identify and focus sharply on the competency requirements and gaps. The audit report helps in establishing a system of role clarity and fixing of accountabilities.

9. Strengthen Appraisal Systems and Other Mechanisms: An HR audit report can give significant inputs about the existing state of the accountabilities of employees. This is assessed through performance appraisals as well as through the work culture and other cultural dimensions. A number of organizations have introduced systems of performance planning, sharing of expectations and documenting the accountabilities of staff.

10. TQM Interventions: Quality improvements and establishing Total Quality Management (TQM) systems require a high degree of employee involvement. The HR audit report points out the linkages between TQM and other developmental programs and helps in strengthening the same. Due to improvements in the training system, group work and appraisal systems, the report helps in improving TQM programs. Thus, an HR audit report leads to strengthening of the quality systems.

## **8.5 Conclusion**

HR audit report is a means that reviews and verifies business operations. An aid evaluates and enhances management systems thereby improving quality, safety, environment and security within the organization.



## SUMMARY

- Auditing has been a continuous exercise in the area of finance as it is a statutory obligation. Whereas, in context of human resource, there is no legal binding to adopt auditing.
- Human resource audits reports are not focused at problem solving. Instead of directly solving problems, HR audits, like financial audits, help in providing insights into possible causes for current and future problems.
- Due to the periodicity of regular changes in the external business environment, frequency of the audits and reporting of audit report should be high so that timely actions can be initiated where gaps exist between expectations and the reality.
- A report should include the “state of the organisation” report, the assessment of effectiveness and efficiency of various areas covered by the Audit, a legal compliance/areas of concern report, and critical recommendations for improvement.
- An HR audit report includes the full range of HR activities, including how an organization is structured to deliver the HR function, recruitment/selection, compensation and benefits administration, performance management, employee communications, safety and health related issues as well and many more areas.
- A comprehensive audit report will be most useful if an organization is ready to act on the findings and develop its human resource functions for achievement of organisational goals.

## KEYWORDS

**Intervention:** It refers to set of sequenced and planned actions or events intended to increase its effectiveness.

**Key Potential Areas (KPA):** As the term suggests, KPA is focus on those areas, which need to be emphasized upon for their development in the organisation.

**Business Linkages:** It can be identified in the organisation in the form of vertical and horizontal linkages among employees of the company. They are established for mutual benefit of the employees and organisation on the whole.

**Operational Efficiencies:** Whatever business invests in order to generate the output is its operational efficiency. The people, land, money and other resources all contribute to generate output. This gives a ratio of the efficiency of business' operations.

**Business Goals:** These are the objective or plans which business focuses on achieving in the future.

**Human Resource Competencies:** Competencies include all the related knowledge, skills, and abilities and attributes that forms a person's job.

## **SELF-ASSESSMENT QUESTIONS**

### **Short Answer Questions**

- 1) What do you mean by the term business linkages?
- 2) How does HR audit report help the managers in continuous improvement of business practices?
- 3) Explain the meaning of HRD system citing examples.
- 4) How do Quality improvements and establishing Total Quality Management (TQM) systems require a high degree of employee involvement?
- 5) Describe effectiveness of HRD Audit as OD tool.
- 6) How can HR Audit report establish strategic planning?
- 7) How can HR Audit report help in designing or re-designing the HRD systems?
- 8) “Once the HR audit report is submitted, an action plan is drawn as per the recommendations.” Why do companies draw an action plan as per the recommendations?
- 9) Enlist the relevance of HR audit report for the HR manager in your own words.
- 10) Is it necessary to carry out HR audit? Why do you think so?
- 11) How can HR audit report help business improve operational efficiencies?
- 12) Write a short note on TQM interventions, in context to the role of HR audit report.
- 13) Mention various human resources competencies, which should be focused in HR audit report.
- 14) Elucidate in brief the role of HR audit report in modifying top management styles.
- 15) What steps should an HR auditor follow before formulating HR audit report?
- 16) Should employees be involved in the process of HR auditing? Why?
- 17) Elaborate on the concept of compliance auditing.
- 18) Give a brief description on the role of HR audit report in strengthening the recruitment policies and procedures.
- 19) “HR audit report initiates mentoring process.” Throw some light on this statement.

### **Long Answer Questions**

- 1) Are there any linkages between HR audit and business functions? Explain in detail.
- 2) List the major findings of relationship between HR practices and business performance.
- 3) What is the impact of HR audit report on measuring objective organisational performance?
- 4) What are the key HR audit reports reviews, which if earnestly implemented, are likely to increase organizational performance?
- 5) Do high performing organizations differ from low performing organizations when HR audit report is implemented in practice?
- 6) How many of, and how far, the HR auditing report have been considered by the organizations under study? Do they place some degrees of emphasis on these for improvements?
- 7) Mention some controversies that have become hindrances to the very concept of human asset and to the process of human audit.
- 8) Enumerate the role of HR audit report in Human Resource Development.
- 9) Explain in detail the business goals, which are incorporated in HR audit report.
- 10) “HR Audit reporting is a tool for organisational development.” Justify the statement using some examples.

## **FURTHER READINGS**

- Larry Rittenberg, Karla Johnstone and Audrey Gramling (2011), Auditing: A Business Risk Approach, Cengage Learning.
- Robert L. Mainardi (2011), Harnessing the Power of Continuous Auditing: Developing and Implementing a Practical Methodology, John Wiley & Sons.
- Dr Goh MohHeng (2010), A Manager's Guide to Auditing and Reviewing Your Business Continuity Management Program, GMH Continuity Architects.
- Michael C. Knapp (2012), Contemporary Auditing, Cengage Learning.
- Jeffrey Ridley (2008), Cutting Edge Internal Auditing, John Wiley & Sons.

## CASE STUDY

### Case study I: Finding People Who Are Passionate about What They Do

Trilogy Software, Inc., of Austin, Texas, is one of the fastestgrowing software companies in the industry, with current earnings in the \$100-million to \$200-million range. It prides itself on its unique and unorthodox culture. Many of its approaches to business practice are unusual, but in Trilogy's fast hanging and highly competitive environment they seem to work.

There is no dress code and employees make their own hours, often very long. They tend to socialize together (the average age is 26), both in the office's well-stocked kitchen and on company-sponsored events and trips to places like local dance clubs and retreats in Las Vegas and Hawaii. An in-house jargon has developed, and the shared history of the eight-year-old firm has taken on the status of legend. Responsibility is heavy and comes early, with a "just do it now" attitude that dispenses with long apprenticeships. New recruits are given a few weeks of intensive training, known as Trilogy University and described by participants as "more like boot camp than business school." Information is delivered as if with "a fire hose," and new employees are expected to commit their expertise and vitality to everything they do. Jeff Daniel, director of college recruiting and only 28 himself, admits the intense and unconventional firm is not the employer for everybody. "But it's definitely an environment where people who are passionate about what they do can thrive." The firm employs about 700 such passionate people. Trilogy's managers know the rapid growth they seek depends on having a staff of the best people they can find, quickly trained and given broad responsibility and freedom as soon as possible.

Founder and CEO Joe Uemandt says, "At a software company, people are everything. You can't build the next great software company, which is what we're trying to do here, unless you're totally committed to that. Of course, the leaders at every company say, 'People are everything: But they don't act on it.'" Trilogy makes finding the right people a companywide mission.

Recruiters actively pursue the freshest if least experienced people in the job market, scouring college career fairs and computer science departments for talented with ambition and entrepreneurial instincts. Top managers conduct the first rounds of interviews, letting prospects know they will be pushed to achieve but will be well rewarded.

Employees take top recruits and their significant others on the town when they fly into Austin for the standard three day preliminary visit. A typical day might begin with grueling interviews but ends with mountain biking, Roller Blading, or laser tag. Liemandt has been known to fly out to meet and woo hot prospects who couldn't make the trip.

In one recent year, Trilogy reviewed 15,000 resumes, conducted 4,000 on campus interviews, flew 850 prospects for interviews, and hired 262 college graduates, who account for over a third of its current employees. The cost per hire was \$13,000; Jeff Daniel believes it was worth every penny.

## Questions

1. Identify some of the established recruiting techniques that underlie Trilogy's unconventional approach at attracting talent.
2. What particular elements of Trilogy's culture most likely appeal to the kind of employees it seeks? How does it convey those elements to job prospects?
3. Would Trilogy be an appealing employer for you? Why or why not? If not, what would it take for you to accept a job offer from Trilogy?
4. What suggestions would you make to Trilogy for improving their recruiting processes?

## Case II: Getting Better Applicants

If you were to ask Jennifer and Mel what the main problem was in running their business, their answer would be quick and short: hiring good people. They were simply astonished at how hard it was to attract and hire good candidates. After much debate, they decided to post openings for seven positions: two salespeople, a Web designer, two content management people, an office manager, and a Web surfer. Their first approach was to design and place a large display ad in two local newspapers. The display ad listed all the positions available; Jennifer and Mel assumed that by placing a large ad with the name of the company prominently displayed and a bold border around the ad, it would draw attention and therefore generate applicants. For two consecutive weekends, the ad cost the fledgling company close to 11,000. It produced a handful of applicants.

After speaking with them by phone, Jennifer and Mel rejected three outright; two said they weren't interested; and two scheduled interviews but never showed up. The owners therefore decided to change their approach.

They used different recruiting methods for each position. In the paper, they placed ads for the salespeople under "Sales" and for the office manager under "Administrative." They advertised for a Web designer by placing an ad on monster.com. And for the content managers and Web surfer, they placed neatly typed help wanted ads in the career placement offices of a technical college and a community college about 10 minutes away from their offices. They also used this job posting approach to find independent contractors they could use to deliver courses physically to users' homes or offices.

The results were disappointing. Over a typical weekend, literally dozens of want ads for experienced salespeople appear, as well as almost as many for office managers. The ad for salespeople generated about three calls, one of whom Jennifer and Mel felt might be a viable candidate, although the person wanted a much higher salary than they had planned to pay. One possible candidate emerged for the office manager position. They decided to replace the sales ad, but this time to change its positioning in the newspaper.

The ad had previously run under "Salespersons Wanted." This time (since the job involved entirely inside phone sales) they decided to place the ad under "Phone Sales," which



is a separate category. They were surprised to find, however, that while the newspaper would extend them credit and bill them for all their previous help wanted ads, the ads for “Phone Sales” had to be paid up front, via credit card. While they thought that was strange, they went ahead and placed the ad, but soon found out what the problem was. A number of firms that place these ads are nomadic sales operations.

Many of the calls they got (not all of them, but many) were from salespeople who were used to working in what some people called “boiler-room” operations. In other words, they sit at the phone all day making cold calls from lists provided by their employers, selling anything from burglar alarms to homeowners, to investments to doctors, all under very high-pressure conditions. They weren’t interested in LearninMotion, nor were LearninMotion interested in them.

They fared a little better with the Web designer ad, which produced four possible applicants. They got no phone calls from the local college job postings; when they called to ask the placement offices why, they were told that their posted salary of \$7 per hour was “way too low.” They went back and replaced the job postings with \$10 hourly rates. “I just don’t understand it” is the way Jennifer put it. Especially for the sales job, Jennifer and Mel felt that they were offering perfectly acceptable compensation packages, so the lack of applicants surprised them. “Maybe a lot of people just don’t want to work for dot.coms anymore,” said Mel, thinking out loud. “Since the bottom fell out of the dot-com market in March 2000, a lot of good people have gotten burned by working for a series of two or three failed dot-coms, so maybe they’ve just had enough of the wired world.” In any case, they want you, their management consultants, to help them out. Here’s what they want you to do for them.

### **Questions and Assignments**

1. Tell us what we’re doing wrong.
2. Provide a detailed list of recommendations concerning how we should go about increasing our pool of acceptable job applicants, so we no longer have to hire almost anyone whom walks in the door. (Your recommendations regarding the latter should include completely worded advertisements and recommendations regarding any other recruiting strategies you would suggest we use.)

### **Case III: Jack Nelson's Problem**

As a new member of the board of directors for a local bank, Jack Nelson was being introduced to all the employees in the home office. When he was introduced to Ruth Johnson, he was curious about her work and asked her what her machine did. Johnson replied that she really did not know what the machine was called or what it did. She explained that she had only been working there for two months. She did, however, know precisely how to operate the machine. According to her supervisor, she was an excellent employee. At one of the branch offices, the supervisor in charge spoke to Nelson confidentially, telling him that. Something was wrong: but she didn't know what. For one thing, she explained, employee turnover was too high, and no sooner had one employee been put on the job than another one resigned. With customers to see and loans to be made, she continued, she had little time to work with the new employees as they came and went.

All branch supervisors hired their own employees with-out communication with the home office or other branches. When an opening developed, the supervisor tried to find a suitable employee to replace the worker who had quit. After touring the 22 branches and finding similar problems in many of them, Nelson wondered what the home office should do or what action he should take. The banking firm was generally regarded as a well-run institution that had grown from 27 to 191 employees during the past eight years. The more he thought about the matter, the more puzzled Nelson became. He couldn't quite put his finger on the problem, and he didn't know whether to report his findings to the president.

### **Questions**

1. What do you think is causing some of the problems in the bank home office and branches?
2. Do you think setting up an HR unit in the main office would help?
3. What specific functions should an HR unit carry out? What HR functions supervisors and other line managers would then carry out? What role should the Internet play in the new HR organization?

### **Case IV: Tropical Storm Allison**

In June 2001 tropical storm Allison hit North Carolina and the Optima Air Filter Company. Many employees' homes were devastated, and the firm found that it had to hire almost three completely new crews, one for each of its shifts. The problem was that the "old timers" had known their jobs so well that no one had ever bothered to draw up job descriptions for them. When about 30 new employees began taking their places, there was general confusion about what they should do and how they should do it. The storm quickly became old news to the firm's out-of-state customers, who wanted filters, not excuses. Phil Mann, the firm's president, was at his wit's end. He had about 30 new employees, 10 old-timers, and his original factory supervisor, Maybeline. He decided to meet with Linda Lowe, a consultant from the local university's business school. She immediately had the old-timers fill out a job questionnaire that listed all their duties. Arguments ensued almost at once: Both Phil and Maybeline thought the old-timers were exaggerating to make themselves look more important, and the old-timers insisted that the lists faithfully reflected their duties. Meanwhile, the customers clamoured for their filters.

### **Questions**

1. Should Phil and Linda ignore the old-timers' protests and write up the job descriptions as they see fit? Why? Why not? How would you go about resolving the differences?
2. How would you have conducted the job analysis?

### **Case V: Honesty Testing At Caeter Cleaning Company**

Donna Carter, president of the Carter Cleaning Centres, and her father have what the latter describes as an easy but hard job when it comes to screening Job applicants. It is easy because for two important jobs the people who actually do the pressing and those who do the cleaning-spotting the applicants are easily screened with about 20 minutes of on-the-job testing. As with typists, as Donna points out, "applicants either know how to press clothes fast enough or how to use cleaning chemicals and machines, or they don't and we find out very quickly by just trying them out on the job." On the other hand, applicant screening for the stores can also be frustratingly hard because of the nature of the qualities that Donna would like to screen for. Two of the most critical problems facing her company are employee turnover and employee honesty.

Donna and her father sorely need to implement practices that will reduce the rate of employee turnover. If there is a way to do this through employee testing and screening techniques, Donna would like to know about it because of the management time and money that are now being wasted by the never-ending need to recruit and hire new employees. Of even greater concern to Donna and her father is the need to institute new practices to screen out those employees who may be predisposed to steal from the company. Employee theft is an enormous problem for the Carter Cleaning Centres, and one that is not just limited to employees who handle the cash. For example, the cleaner, spotter and/or the presser often open the store. Without a manager present to get the day's work started, and it is not unusual to have one or more of these people steal supplies or "run a route." Running a route means that an employee canvasses his or her neighbourhood to pick up people's clothes for cleaning and then secretly cleans and presses them in the Carter store, using the company's supplies, gas, and power. It would also not be unusual for an unsupervised person (or his or her supervisor, for that matter) to accept a one hour rush order for cleaning or laundering, quickly clean and press the item, and return it to the customer for payment without making out a proper ticket for the item posting the sale. The money, of course, goes into the person's pocket instead of into the cash register.

The more serious problem concerns the store manager and the counter workers who actually have to handle the cash. According to Jack Carter, "you would not

believe the creativity employees use to get around the management controls we set up to cut down on employee theft,” As one extreme example of this felonious creativity, Jack tells the following story: “To cut down on the amount of money my employees were stealing, I had a small sign painted and placed in front of all our cash registers.

The sign said: You’re Entire Order Free If We Don’t Give You a Cash Register Receipt When You Pay. Call 555-5555. It was my intention with this sign to force all our cash-handling employees to place their receipts into the cash register where they would be recorded for my accountants. After all, if all the cash that comes in is recorded in the cash register, then we should have a much better handle on stealing in our stores, right? Well, one of our managers found a diabolical way around this. I came into the store one night and noticed that the cash register that this particular manager was using didn’t look right, although the sign was dutifully placed in front of it. It turned out that every afternoon at 5 P.M. when the other employees left, this character would pull his own cash register out of a box that he hid underneath our supplies. Customers coming in would notice the sign and of course the fact that he was meticulous in ringing up every sale. But unknown to them and us for about five months the sales that came in for about an hour every day went into his cash register, not mine. It took us that long to figure out where our cash for that store was going...

## **Questions**

1. What would be the advantages and disadvantages to Donna’s company of routinely administering honesty tests to all its employees?
2. Specifically, what other screening techniques could the Company use to screen out theft-prone and turnover-prone employees, and how exactly could these be used?
3. How should her company terminate employees caught stealing, and what kind of procedure should be set up for handling reference calls about these employees when they go to other companies looking for jobs.

## **Case V: ESOP- The Indian Equation**

Limited companies have two choices: offer shares from the promoters' holdings in which case the price can be lower than the market price or make a preferential issue of fresh shares to employees in which case the Securities and Exchange Board of India's (SEBI) stipulation of a selling price of the average price of the last six months must be met. But that could prove a big hurdle in the way of a successful stock option plan. For the whole idea is to allow your manager to benefit from an increase in his company's script price. Offering shares at the market price is no big deal; it hardly offers a benefit to the recipient. HCL Company has an innovative solution: hand out cross-company options, in unlisted group companies.

To bypass SEBI's regulations altogether, you could also offer phantom stock options, a.k.a. stock appreciation rights. Your manager will simply receive a cash payment equivalent to the rise in the value of his notional stock, with no transfer of shares actually taking place.

To get the best out of the technique, of course, ensuring a long interval between the offer and the option date is crucial. After all, by clamping a lock-in period before your manager can cash in on his holdings, you can ensure that he stays for that period. Leaving before that will mean forfeiting his reward.

To leverage stock options, hold them out as a carrot rather than instant harvest: make your employees eligible for them only after they have served a minimum number of years. Infosys, for instance, insists on at least three years with the company.

How long should the waiting period be? Mastek insists on one-and-a-half years, while Infosys locks in its managers for five years. To make the wait worthwhile, some companies distribute shares in instalments. HCL for instance, offers option in three tranches, over four-and-a-half year span.

A reward though it is for managerial performance, the stock option offers other powerful benefits, besides motivating your employees to stay with the company and doing their best. The team incentive that stock options provide indirectly is often

overlooked. After all, individual performances will translate into share price increases only if it is part of a larger collective effort.

What's more, by transforming your employee into a stakeholder, stock options foster a long-term bond between the employee and the company. Awarding shares to an employee is also an explicit recognition of his contribution. At HCL, for instance, individual letters are sent out from the chairman notifying employees of their selection for stock options. The actual transfer of stocks is a ceremonial event, designed to draw attention, culminating in the hand-over of stock certificates to the employee's spouse.

As a technique of weaving together human capital with financial returns, it may soon leave you with no option but to implement it.

**Source:** <http://businesscasestudies.co.uk/cadbury-schweppes/financial-statements-and-reporting/conclusion.html#axzz32R1TNWxf>

### **Questions**

1. Comment on the ESOP scheme adopted by these organisations to retain employees.
2. Do you agree that the future holds lot more potential for ESOP in fostering a long-term bond between a company and its employees?

## **Case VI: Financial Accounting of Cadbury Schweppes**



Limited companies (those owned by shareholders) are required by law to produce Financial Statements. These statements must be published and made available to shareholders as part of a company report.

Cadbury Schweppes aims to produce clear financial statements that give a valuable insight into the company's strategy and performance.

Cadbury Schweppes is a major international company that manufactures markets and sells confectionery and non-alcoholic beverages. With origins stretching back over 200 years, Cadbury Schweppes' brands are enjoyed today in almost every nation in the world. They include regional and local favourites such as Cadbury Dairy Milk, Trident, Halls, Dentyne, Bubblicious, Bassett's and Trebor in confectionery and Dr Pepper, Schweppes, Snapple and 7Up in beverages. The company employs around 50,000 people.

Cadbury Schweppes' Head Office accounts team collects the information required to create these statements from the company's accountants and financial teams around the world. The legal responsibility for producing financial statements that present an accurate picture of the company's performance over the period lies with the company's directors.

These statements must be checked by an external audit, where the company hires a firm of accountants to verify that it provides a true and fair record and complies with legal requirements. The exact statutory requirements for limited companies to prepare and publish accounts are laid down for limited companies through the Companies Act 1985, regulated by Companies House, and for publicly listed companies through European law, the Listings Rules, regulated by Financial Services Authority (FSA).

Some leading public companies, like Cadbury Schweppes, include reports to shareholders on their success in meeting self-set financial goals within their financial statements. The three main Financial Statements are:

- ☐ Profit and Loss Account
- ☐ Balance Sheet

- Cash Flow Statement

## **Establishing Financial Goals**

Businesses need to have a clear direction to work towards, so that their employees know what they are seeking to achieve and what they need to do. The directors of a company (with the Finance Director or Chief Financial Officer playing a prominent role) establish financial goals, which are used by investors, financial analysts and other external parties to monitor the performance of a company.

Because these financial goals can be set out in numbers, it is relatively easy to compare actual performance against the set targets. For example, by setting sales growth goals, it is possible to check progress in meeting sales targets.

Cadbury Schweppes has established three performance goal ranges for the period 2004-2007. These are:

- Sales Value (NSV) growth of between 3% and 5%. NSV growth refers to the growth in sales of the company - for example by selling more soft drinks, chocolate or chewing gum to supermarkets, which in turn sell to consumers.
- Operating margin growth of between 50 and 75 basis points per year. Operating margin growth refers to making more profit for each £1 of sales made, for example by buying ingredients and packaging materials as efficiently as possible.
- Free cash flow of £1.5 billion over the four-year period. Free cash flow reflects how much cash is generated within the business, for example by increasing profits. Free cash flow is important to enable the company to have the money available to meet its financial commitments.

Cadbury Schweppes prepares financial statements because:

- As a listed company, it is legally required to do so.
- Cadbury Schweppes wants to communicate a true and fair picture of the financial state of the company to its shareowners and external analysts.

- The company values transparency and honesty and aims to reflect this in all its communications, both
- Cadbury Schweppes won the Communication of Corporate Strategy Award at the PricewaterhouseCoopers 'Building Public Trust' awards in 2005. This publicly recognised the high standards of the company's reporting: 'a highly accessible overview of its short-term strategy, major markets and measurable targets.'

### **Questions**

1. Describe the relevance of financial accounting for Cadbury Schweppes.
2. Find the areas where Cadbury Schweppes can implement human resource accounting.

### **Case VII : BMW Group**

BMW is an internationally renowned manufacturer of prestigious cars; the company is recognized around the world. The BMW Group manufactures

automobiles and motorcycles, with a strong emphasis on outstanding quality for its three premium brands: BMW, Rolls-Royce and MINI. The company was established in Germany in 1916. It has a presence in over 160 countries, with 21 manufacturing plants on four continents and global headquarters in Munich, Germany. It employs over 100,000 people worldwide, 9,000 of them in the UK.

## Resource Audit

The function audit centers on "observing if the procedures applied are the adequate ones and if they function correctly. That is, checking to see if the relationship between objectives and procedures is a satisfactory one and if this has been achieved in the most cost effective manner"

HR audit is to study and analyse each one of the specific areas of HRM. The analysis should centre on the planned measures, the method of implementation, and the results obtained. In order to carry this out, the areas that are to be studied must first be identified. Afterwards, a list of the indicators that will serve to analyse each of them must be made.

The qualifications, motivation and creativity of its employees are decisive for the BMW Group's success. The almost 106,000 employees worldwide work in an environment that is defined by trust, esteem, mutual understanding, performance and reward. The corporate culture that has evolved over the years is the reason for the employees' great dedication and their strong identification with the BMW Group. This is supported by the good cooperation between company management and works council. Uniform human resources and social policy guidelines apply for all employees worldwide. The objective of the company's value-oriented and values-based human resources policy is to constantly promote and develop its employees. Personal development opportunities along with flexible work time arrangements make the BMW Group a successful, attractive employer who is able to cope with social challenges, such as demographic change.

Companies assume responsibility for their economic success as well as for the environment and society. For only companies that take account of the interests of people and the needs of the environment, i.e. that operate sustainably, can achieve

long-term economic success. For the BMW Group, sustainability management means using resources efficiently and sparingly, recognizing and minimizing risks, acting in a socially responsible way and thus enhancing the Company's reputation. In doing so, both the management and employees constantly strive to improve on their achievements. Since

Sustainable actions provide the basis for viable development, the BMW Group takes this responsibility. Company knows how to deploy its strengths with an efficiency that is unmatched in the automotive industry. From research and development to sales and marketing, BMW Group is committed to the very highest in quality for all its products and services. The company's phenomenal success is proof of this strategy's correctness.

### **Questions**

1. List the benefits that BMW derives by managing human resources properly.
2. What are the reasons for the employees' great dedication and their

Application of Balanced Scorecard is a new progress in Indonesia particularly in public sector as there is no standard for measuring public sector performance until recently. Moreover as a fact, most of Indonesian public hospital administration and financial activities has not applied generally accepted accounting principle, which is the main accounting system (Alkatiri&Setiyono, 2001). Therefore in building a performance measurement system in 3 (three) Nusa Tenggara Province public hospitals will be described at the following case study. In general, road map for measuring the performance is:

Theory of performance measurement such as Balanced Scorecard (BSC) provides 3 standards as indicators, which are measurable, reliable, and transparent.

Measurable means the indicators should be a matter of quantitative, not abstract. Reliable means the indicators can be trusted. Transparent means the indicators should be socialized to all parties. Then after determining the indicators, we should pay attention to the measures (indicators), weight of each indicators, and target that should be achieved. In the end, it will produce scorecard for each hospital unit. Detail steps of producing this scorecard can be followed at the following sections.

### **Preparing Activity Value Chain**

The initial step in making performance measurement standard should begin from preparing activity chain for each staff. In order to make it, we should know our Achievement Generating Factor, which is the main task of a job position. The activities that belong to the Activity Value Chain are all activities that are done regularly. For example, routine activity for a lecturer is teaching a class. However, the lecturer also has supporting activity such as giving suggestion to his/her students if they are experiencing problems in their study. This different type of activity should be clearly understood in defining activity value chain as a first step before move further to other steps.

### **Preparing Job Description**

After determining routine activities in value chain, the following step is making job description.

We should pay attention to these factors:

1. Job assignment should be detail and concrete.
2. State the assignment in information type so it can be implemented and evaluated. The presented information can be input information or output information.
3. Determine Information Source that we use to state information type of a conducted assignment. This information source can be officer with whom we cooperate, and what form we use to state the information.
4. Determine the period and the person who should implement the informed assignment.
5. Decide how information distribution is implemented. Information distribution can be done by assigning person/department that receives the information and time schedule when the information should be delivered.
6. We also need to determine success measurement criteria for implemented task.
7. It is our obligation to determine development requirement to be completed by the implementer person so they can do their job competently.
8. It is also suggested that we determine responsible person for fixed asset whether in unit or monetary form so all staffs feel responsible.

Job description can be implemented if the people who sit on certain position fulfil the required specification. Therefore, a job description will be more meaningful if continued by job specification for potential candidate of a position.

### **Preparing Job Specification**

Job specification is a criteria or requirement for a certain position.

1. Initial Requirement: It is organization demand to the position holder candidate.
2. Development Support: After someone fulfils the requirement to sit on a position, then it becomes organization responsibility to develop this

position holder. The development support can be in the form of training and education therefore the position holder can be developed and succeed in doing his/her job now or in the future.

### **Preparing Job Performance Standard**

The previous job description will be more meaningful if management has certain scoring tool that can be used as performance measurement for a position holder. In order to have that scoring tool, then it needs to develop a standard, which called job performance standard. In making Job performance standard, we will determine performance score criteria. The common score standard is as follows:

Performance criteria code score

- ☐ Very Good VG 5
- ☐ Good G 4
- ☐ Average A 3
- ☐ Bad B 2
- ☐ Very Bad VB 1

Job Performance Standard consists of

- ☐ Performance Criteria Scorecard
- ☐ Job Description
- ☐ Performance Indicator
- ☐ Performance Criteria
- ☐ Target Description

By having Job performance standard, then it will decrease job evaluator subjectivity so that the evaluated staff and the evaluator person have the same guidance in understanding the performance.

Performance indicator or performance measures aims to determine success criteria of a job that being implemented by a position holder. This Performance Indicator/Measures can be measured from two aspects, which are lagging indicator and leading indicator.



1. LAG Performance Indicator is a Final Result Indicator of an activity. For example, Lag Performance Indicator for a Salesman activity: recording sales to achieve target is recording accuracy and timeliness.

2. LEAD Performance Indicator or Process Performance Indicator is indicator for supposed to-be done activity. If this activity can be done, then the lag indicator tends to be achieved. As an example for the salesman above, in order to make recording sales activity run well, then it needs some activities such as: (1) Checking data and report completeness and (2) Preparing supporting facility and information to make report.

### **Preparing Job Performance Scorecard**

Job Performance Scorecard is an achieved performance result of a staff in certain period. From job description, job specification and job performance standard, then it can produce design of management performance scorecard that can be used as a tool to measure organization managerial performance. Therefore, the organization has a measurement tool that can be used as a guidance to measure overall organization performance. As a performance report, this Job Performance Scorecard should be published regularly as a complement of hospital financial report. This report can be foundation for management to make decision on what they should do related to their staff performance. Therefore, this scorecard should be applied to all management levels from operational level until strategic level so it might run well.

### **Conclusion**

It is not surprising that Indonesian public hospital still provide minimum medical service with minimum funding support from the government. However, Public Hospital as a public service institution needs a concussive human resource performance measurement system to determine its worker effectiveness and efficiency weaknesses so it can achieve good corporate governance in the future.

Balanced Scorecard has provided a foundation for both private and public sector to measure both sector performances. This foundation can be used by Indonesian public sector particularly regional hospital to improve its performance so in the end it might produce scorecard report regularly that is reliable. All steps from making activity value chain, job description, job specification, job performance

standard, and job performance scorecard can be easily followed as a standard for implementing the BSC into the public health sector. However, this paper is only limited on success story at three Indonesian public hospitals in Nusa Tenggara Province. Therefore, future research should be more generalized to other public hospitals or other public sectors in Indonesia.

Source: [http://www.eurojournals.com/ibba\\_4\\_05.pdf](http://www.eurojournals.com/ibba_4_05.pdf)

### **Question**

Comment on the use of business scorecard. Was it useful?

### **Case IX- Directory Assistance – May I Help You?**

B.M. Borkar is the Manager of Directory Services at BSNL, Pune. He is responsible for a staff of eight supervisors and nearly 100 directory assistance

operators. If you lived in Mumbai and called “197” for directory assistance, you would find yourself talking with one of BSNL employees.

The position of Telephone Assistance Operator (TAO) requires a pleasant speaking voice, familiarity with the telephone company’s computer-operated directory and knowing the answers to several dozen frequently asked questions. In an average year, BSNL, Pune experiences about a 30 percent turnover among TAOs.

Mr. Borkar recently completed a course in Human Resource Management at a local college and, as a result, began to wonder why BSNL, Pune did not provide a short, formal training programme for the TAO. At present, new hires are given a ten-minute tour of the offices and a two-page printed sheet with directions on how to operate a computer terminal and answer the frequently asked questions. New employees are then shown their work area, introduced to their supervisor, and told to start. It concerns Borkar that many new TAOs complain for several months about being uncomfortable in their jobs, complaints from supervisors that it usually takes ninety days for a new TAOs to be fully competent, and that part of the 30 percent turnover may be due to inadequate TAO Training.

Source: PL Rao, Enriching Human Capital through Training and Development, 2007, Excel Books, New Delhi.

### **Question**

Do you think training is needed here? If you were Borkar, would you want to do anything that would be better answer to this question?

Hint: In-house training is important to be provided to all the new incumbents.

### **Case x – HRD at Welch State Bank**

Welth state Bank, Oklahoma, USA, Needed major help with everything from hiring practices to performance appraisals. It had none of these processes in place, and

it felt like they were taking a shot in the dark with every person they hired. To serve the purpose, James Stoner, President, Welch State Bank approached HRB.

HRB is a human resource consultant operating in Baltimore, USA. According to it, while no two businesses are exactly alike, all businesses go through similar stages of growth and development. Depending upon which stage of evolution a company is in and what its future vision may be, it will encounter different human resource challenges.

- ☐ Do all employees, including management, have a shared vision for the future?
- ☐ Are Executives clearly communicating goals and issues with employees?
- ☐ Is a healthy corporate culture pervasive throughout your organization?
- ☐ What is the level of trust between front-line workers and decision-
- ☐ Do you have a performance management system to evaluate and develop your employees?
- ☐ Are you successfully retaining key employees?
- ☐ How do you recruit and select the right people?
- ☐ Does your staff understand their compensation plan and their employee rights?
- ☐ Do you have a well-written and current HR Handbook?
- ☐ Are job descriptions well defined? Do Human Resources provide adequate support to your people?

One must always remember that the staff needs to be the focus of the strategic business decisions. If you fail to nurture your most important asset, your company will be doomed to failure.

HRB assisted Welch State Bank in all of these areas. It assesses the business at Welch State Bank and identified its most significant challenges through a series of interviews, systematic research and analysis. The result was overwhelming.

“HRB worked with us to develop our core values and built a system to evaluate and hire prospective candidates based on those values. We are very confident that we have an excellent screening process for all candidates and are starting to see the results through less turnover and better performance. I feel we are doing a much

better job of putting the right person in the right job and setting them up for success instead of failure. We never could have done that without HR Business Links. I would recommend them to anyone” was all that James Stoner had to say.

Source: [www.welchstatebank.com](http://www.welchstatebank.com)

### **Question**

What do you think did HRB do in order to bring changes in TQM and strategic planning at Welch State Bank?

Hint: Discuss in wake of HR Audit and Business Linkages.