

# Human Resource Financial Management

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**Abstract—** Need for this paper for identifying a new dimension beyond Human Resource Management (HRM) and Financial Management (FM), by superimposing the effect of HRM and FM. Human Resource, an asset to the organization, can appreciate with time, only when provided adequate input. Money spends in doing so is now considering as an investment, which was previously considered as expenditure. Commitment from the top management for the investment in the human development activities is increasing continuously, but still sometimes this proposal is questioned. Even till now, this proposal is subjected to the condition of the business, which is being withdrawn considering it as a cost-minimizing strategy, without considering any other factors. This paper is having its prime focus in developing a new discipline which can serve the purpose of strengthening the proposal for investment in human resource and develop a model which can quantify it.

**Index Terms—** Financial Management (FM), Human Resource Accounting (HRA), Human Resource Management (HRM), Wealth maximization.

## I. INTRODUCTION

Human Resource Financial Management (HRFM) is a thought to develop a new approach or a discipline to cope up with the problems, which are remain unanswered by HRM and FM. HRM is a process of placing right person at right place and at right time, FM is the process of taking financial decisions based on the data collected by accounting. HRM keeps its prime focus on the development of human resource, financial management canalize the investment and expenditure of any firm for maximizing its profit. They both fulfill the objectives of the others i.e. HRM says, we optimize the efficiency of the human resources so that the investment made on the human resource can be reaped and for that employees requires a higher level of motivation and job satisfaction, where as FM says, we compensate the employees so that there job satisfaction can reach to the optimum level and hence they can have a higher level of motivation. Since the statement given by both are complementary to each other, but the problem arises when there comes any unexpected phase in the business cycle, resulting in considering investment in human resource an expenditure and questioning its reliability, also it weakens the proposal of human resource development activities and even some times results in retrenchment. HRFM can be an approach for taking decisions at such point of time where HRM and FM, individually are handicap in selecting the best

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alternative.

## II. HUMAN RESOURCE FINANCIAL MANAGEMENT

A look at 'Evolution' – to the limited extent that it is understood – tells us that it has not been a smooth, regular process. It's unfolding is characterized by a certain lumpiness, i.e. sometimes new species have emerged or existing ones got substantially modified close to each other while at other times species have remained unchanged for long periods. We also observe instances of 'Disruptive' developments, i.e. incidents which have substantially changed the prevailing situation, either by ending of dominant species or creation of new species which were much better suited for the prevailing conditions. An apt example is mass extinction of Dinosaurs, which were then the dominant species on the planet. Similarly, the modern world – post Second World War – has seen some major changes, such as emergence of East Asian Economies, followed by that of the BRIC countries and the paradigm-changing Global Recession of this century, which is still not fully over and which has led to most prevailing ideas and thoughts in the fields of Economics and Management being questioned.

It is imperative for us to go back in time for us to be able to appreciate and understand the difference in the pace of human development, both in terms of physical and intellectual attributes. Since the time man started thinking, he has been striving for his betterment and to make his life simpler and more satisfying. In this endeavor, he has been prone to utilize all available resources, without paying much thought to the future. This had led to the two biggest crises facing 'Mankind' and the planet 'Earth', i.e.:

- i. Scarcity of Resources.
- ii. Multiplicity of Demand.

Having been presented with these two crises, modern global society and polity has had to change its thinking. Man is being forced to pay attention to the changing circumstances and the attitudes of 'Business' and 'Consumers' are changing. Thus, we have seen concerted deliberations and actions at the global level:

- i. Directed at conserving natural resources, e.g. the Kyoto Protocol and the forthcoming Cancun Summit- December 2010, and
- ii. Directed at controlling the intensity and spread of the recent Global Recession.

Evolution of time is accompanied with the change in the thought process on business. Modern businesses have to subscribe to the 'Triple Bottom-line' approach, i.e. paying heed to People, Planet and Profit, in that order. In modern times, business has had to develop a new vision, changing its prime function from 'Profit Maximization' to 'Shareholder Wealth Maximization', Management Thought has evolved to

change the attitude of 'Management' towards its 'Employees', resulting in formation of the 'Human Resource Management' discipline.

Traditionally 'Finance' function worked towards achievement of a focused goal, viz. 'Wealth Maximization', while the 'Human Resource Management' function laid stress on welfare and development of employees. Sometimes, 'Finance' and 'Accounting' functions are erroneously considered closely similar, whereas actually they have very distinct roles. While 'Accounting' has as its primary objective diagnosis of the status of the business, 'Financial Management' is focused on assisting the Decision Making activity in businesses, based on interpretation of data provided by 'Accounting'. A business entity – which is essentially a cluster of various departmental activities – can be successful only when it is able to integrate activities of all its departments and create suitable linkages between them to achieve the twin goals of optimum distribution of resources and profit maximization. For attainment of the 'Wealth Maximization' objective – traditionally the primary goal of businesses – optimization of input variables was considered the best solution. However, over time, it was observed that despite optimizing all input variables, output reached a plateau. This led to evolution of the concept of 'Human Resource Development', for betterment of businesses. 'Human Resource Management' function concluded that instead of being an expenditure, Human Resource is an asset to the organization, the value of which can appreciate with time if provided with the right support, such as 'Training & Development', 'Career Advancement Opportunities' and measures for enhancing 'On-the-Job Satisfaction'. This leads to the integration of employee's individual-goal with the organizational-goal and results in increased 'Employee Productivity'/'Organizational Profit'/'National and Social Wealth'. Following this approach resulted in the output derived going beyond the plateau that had become an obstacle earlier. In this way, the HR function contributes to achievement of the goal of shareholders, i.e. 'Wealth Maximization'.

'Finance' function's opinion is that business compensates employees adequately for the purpose of maximizing employee satisfaction and makes substantial expenditure on providing them career advancement opportunities, such as Training & Development activities conducted for them. This is a cost to the business but 'Finance' is unable to accurately measure if the employee oriented programs are giving sufficient returns to the business. To cope with this dilemma, a new discipline, viz. 'Human Resource Accounting' (HRA), emerged. This new discipline has benefitted businesses tremendously, primarily through providing a comprehensive tool for measuring Human Resource assets versus the expected returns and recording the same for bookkeeping purposes. The development of the concept also stresses on the necessity of identifying the time horizon for investment in human resource, since investment in human resource as an asset is only beneficial to the extent to which the Human Resource asset appreciates. Since making an investment in a depreciating asset is not considered a wise decision, investment in human resource in its depreciating/declining or

saturation stage is generally avoided. 'Human Resource Accounting' consists of techniques of measuring and recording expenditure done on Human Resource Development. Its prime objective is to provide information about the earning potential of human resource of the organization to all decision-makers. It also provides comparative information regarding cost and benefit associated with investments in human resource. During times when businesses experience an unexpected, declining phase in the business cycle, investments made on human resource start getting questioned. This expenditure starts getting treated as a cost, instead of investment, and finance department starts curtailing this investment on human resource to achieve cost minimization. Thus HRA's very basis gets questioned and, at times, is rejected.

This difference in the notions of finance and HR departments has drawn the attention of the author and brought forth the idea of developing the concept of HRA further to take it to a higher level of sophistication. The intention of the author is to help evolve a new discipline (or sub-discipline) that, at this early stage, is being tentatively named 'Human Resource Financial Management' (HRFM). It is hoped that HRFM shall be able to provide solutions for the problems and questions that remain unanswered by HRA, i.e. solutions to problems such as:

- What should be the norms for quantification of subjective attributes, which can work as the basis for bookkeeping of the investments made on and returns derived from human resource assets?
- How can aggregate, organization wise KSA analysis can be done?
- Are KSAs able to define the value of human resource asset satisfactorily?
- If KSAs alone are insufficient, what additional factors can serve the purpose of defining the value of the human resource asset satisfactorily?
- What weights should be assigned to different attributes?
- How best to measure the value of the human resource asset on the basis of these attributes?
- How best to record those qualitative factors in quantitative terms, in the books of accounts?
- How best to utilize the data recorded in account books for determining the optimum course of action?

A moot point is whether HRFM should be considered a sub-discipline of Finance or HRM or it should be considered an independent discipline in its own right. The author's opinion is that as HRFM progressively evolves and gets established as a field of study that can help businesses in decision making, it shall find its correct place automatically.

### III. CONCLUSION

Proposing HRFM as a new field of study is author's attempt to synergistically combine the benefits of HR and Finance functions, for the benefit of business. Given their long usage, the two functions are complete in themselves but increasing complexities of modern business environment require a new approach that efficiently solves new and increasingly complex problems. To this end, the need of the hour is to combine the strengths of the two traditional

disciplines. HRFM can prove to be the tool for harnessing the inherent benefits of the three related disciplines, viz. HR, Finance and HRA. HRFM can be the junction at which the three disciplines of HR, Finance and HRA meet, to carry businesses on the path of enhance productivity and profitability by closing the open loops of the three prevailing disciplines.

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