

Financial Analysis for HR Managers

“How Are We Doing?”



**Ind vs
Pak match**



**Finance
for HRM**

Why this topic ?

As an HR Think about impact, challenges and opportunity in the scenario

Spark Retail, a nationwide chain of 500 stores, was facing inefficiencies in its HR administrative processes. Store managers were spending significant time on tasks like scheduling, compliance reporting, and payroll adjustments—time that could have been better utilized on customer interactions.

As part of an HR transformation project, a team was tasked with identifying inefficiencies in administrative workflows. Through process mapping and automation, they discovered that minor changes in reporting structures and digitizing approvals could **save each store 8 hours per week** in administrative work.

Financial Perspective

- On average, each additional minute of customer interaction increased weekly store revenue by \$5. With 8 extra hours (480 minutes) per store per week, this translated into: **\$2,400 in additional weekly revenue per store** (*480 minutes × \$5 per minute*).
- **\$1.2 million in additional revenue per week across 500 stores** (*500 × \$2,400*).
- **\$62.4 million in annual additional revenue** (*52 weeks × \$1.2 million*).
- The company had **100 million outstanding shares**.
- Based on projected margins, the revenue increase could translate to an **EPS improvement of \$0.01**. At the time, this represented a **7% increase in EPS**, a significant financial gain from what was initially seen as a simple HR efficiency improvement.

What
Drives
Corporate
Success?

Office buildings

Research labs

Manufacturing equipment

People

People ?

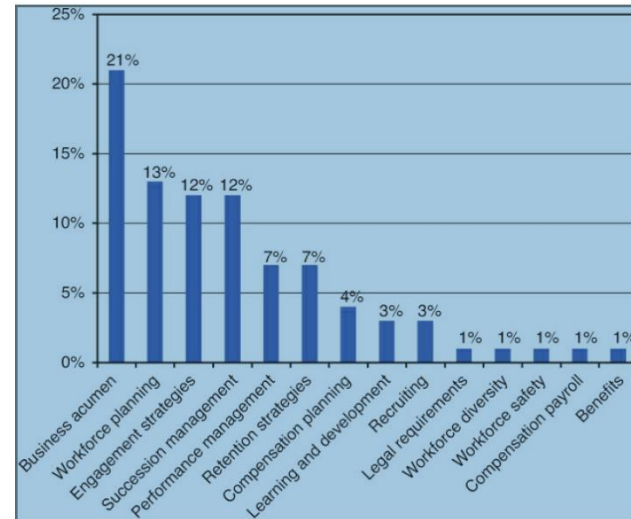
- If it is the differences in people that create differences in corporate value, then the HR function (**though not necessarily the HR department**) is critical to a corporation's success.
- **Line Managers' ?**
- Line managers are pivotal in hiring, developing, and motivating employees. They directly influence organizational success through people management.

The Role of HR Managers ?

- Should human resource managers have **primarily an administrative role** focusing on the processing of transactions and compliance with regulations?
- Should human resource **managers be business partners charged with developing and maintaining** a workforce with the specific capabilities required to execute their firm's business strategy?
- Should human resource managers be true **strategic partners participating along with top management**, and their counterparts from other functional areas, in the actual development and monitoring of a firm's business strategy?

Is HR Weakest in the Most Critical Areas?

A study conducted by the **Corporate Leadership Council (CLC)** found that fewer than one in five HR business partners were highly effective in their strategy roles.



The CLC study also estimated the relationship between HR staff competencies and degree of success as a strategic partner.

Business Acumen

- HR professionals need both HR knowledge and a high degree of business acumen. Most individuals in the field today have strong HR skills
- **What is Business Acumen?**
- it is an understanding of **how your company makes money and how your decisions and behaviors can impact the company's financial performance.**



Business Acumen for HR Professional

Understanding of
their firm's business
strategy,

key drivers of their
firm's success

interrelationships
among the different
components of the
organization

Example - Apple

Understanding Apple's Emphasis:

- HR professionals at Apple grasp the company's focus **on product design, user experience, and ecosystem integration.**
- They align HR initiatives with Apple's commitment to innovation and customer satisfaction.

Key Drivers of Success:

- Product differentiation, brand loyalty, and supply chain efficiency are critical drivers.
- HR professionals prioritize recruiting **top talent in design, engineering, and supply chain management.**

Interdepartmental Collaboration:

- Apple's HR professionals understand the interdependencies between hardware, software, and services divisions.
- They foster collaboration through cross-functional projects, ensuring seamless integration of products and services.

Business Acumen for HR Professionals at Tesla Inc.

- **Understanding Tesla's Focus:**
 - HR professionals at Tesla comprehend the company's focus on **sustainable energy, electric vehicles, and disruptive innovation.**
 - They align HR strategies to support Tesla's mission of accelerating the world's transition to sustainable energy.
- **Key Drivers of Success:**
 - Tesla's success is propelled by technological advancement, manufacturing efficiency, and brand image.
 - HR professionals **prioritize hiring passionate engineers, technicians, and production specialists to push boundaries in automotive technology and sustainability.**
- **Interdepartmental Collaboration:**
 - Tesla's HR professionals understand the interconnections between research and development, production, and marketing divisions.
 - They foster collaboration through cross-functional teams and projects, ensuring alignment with Tesla's goals of innovation and customer satisfaction.

Business Acumen for your Firms?

Skills for Business Acumen

- HR leaders were asked to assess the skills of their staffs. They rated their **staffs weakest** on the following skill sets:
 - **Financial skills**
 - Business strategy skills
 - Organizational assessment
 - Cross-functional expertise
 - **Cost analysis and management**
- They felt their staffs were strongest at the following:
 - Interpersonal skills • Recordkeeping/data maintenance • Team skills • Functional HR expertise • Customer service

Financial Skills

- Basic financial concepts such as the difference between profit and cash flow
- Difference between the market value and the book value of a company
- Cost of capital
- Time value of money
- Return on investment
- Risk reward trade-offs
- Risk management tools such as diversification and real options
- Managerial Accounting

India Inc earns fat profits but is not willing to pay more: Economic Survey 2024-25

<https://economictimes.indiatimes.com/jobs/hr-policies-trends/india-inc-earns-fat-profits-but-is-not-willing-to-pay-more-economic-survey/articleshow/117783005.cms>

State Bank of India (SBI) analysis reveals that 4,000 listed companies recorded a modest **6 per cent revenue growth**.

At the same time, **employee expenses** rose only 13 per cent -down from 17 per cent in FY23

Indian companies achieved a stable **EBITDA margin of 22 per cent** over the last four years,

Test your Financial Skills



- **Suppose you resign from your corporate HR position and use your life savings, say \$1,000,000, to start your own headhunting firm. One year later, what are the financial questions that you will be asking?**
- **Different Question leads to Different financial Statements**

Did your firm make a profit?"

Will your firm have the financial strength to ride out difficult economic conditions should you encounter them?"

Will your firm have the financial strength to take advantage of any attractive expansion opportunities.

What rate of return are you earning on your \$1,000,000 investment?

Financial Statements of a company

Global Grocer	
Balance Sheet as of September 30, 2014	
Assets	Liabilities and Owner's Equity
Current Assets	Current Liabilities
Cash \$95,500	Accounts payable 5,000
Accounts receivable 5,000	Taxes payable 1,000
Merchandise inventory 19,000	Short-term debt 1,000
Prepaid expenses 2,000	Total 8,000
Total current assets \$121,500	Non-current Liabilities
Non-current Assets	Mortgage payable 30,000
Land 30,000	
Warehouse building, at cost \$40,000	
Less: Accumulated depreciation 300	
Warehouse building, net 39,700	
Van, at cost 10,000	
Store fixtures, at cost \$5,000	
Less: Accumulated depreciation 100	
Store fixtures, net 4,900	
Franchise fee, net 17,250	
Total Assets \$223,350	Total Liabilities and Owner's Equity
	Current liabilities 8,000
	Non-current liabilities 30,000
	Owner's Equity 185,350
	Total \$223,350

Global Grocer	
Income Statement for month ending September 30, 2014	
Sales.....	
Less: Cost of Goods Sold.....	
Gross Margin.....	
Less: Operating Expenses.....	
Operating Income.....	
Less: Interest Expense.....	
Income Before Income Taxes.....	
Less: Tax Expense.....	
Net Income	

Global Grocer	
Statement of Cash Flows for month ending September 30, 2014	
Cash Flows From Operating Activities	
Collections from customers.....	\$ 11,000
Inventory purchase.....	(2,500)
Salaries paid.....	(3,000)
Utilities paid.....	(500)
Interest paid.....	(350)
Net cash provided (used) by operating activities.....	<u>\$ 4,650</u>
Cash Flows From Investing Activities	
Van purchase.....	(10,000)
Net cash provided (used) by investing activities.....	<u>\$(10,000)</u>
Cash Flows From Financing Activities	
Mortgage principal payment.....	(150)
Five-year bank loan.....	30,000
Net cash provided (used) by financing activities.....	<u>\$ 29,850</u>
Net increase (decrease) in cash.....	24,500
Beginning cash balance.....	56,000
Ending cash balance.....	<u>\$ 80,500</u>

Income Statement (Do We Care About More Than the Bottom Line)

Income statements are sometimes referred to as an Earnings Statement, Statement of Operations, Profit and Loss Statement, or P&L Statement.

No matter how complex the corporation may be, the logic of an income statement can be nothing more than Revenues minus Expenses = Profits.

Financial Accounting

Income Statement

Revenue
CoGS
Gross Profit
Selling & marketing expenses
General Expense
Administrative Expense
Operating Profit
Other income/Exp
EBT/PBT
Tax Expenses
PAT

Other names for income:

Profit.

Net income.

Net earnings.

If expenses exceed revenues,

Net loss

Income Statement Sample

The Balance Sheet: If Your People Are Your Most Important Asset, Where Do They Show Up on the Balance Sheet?

If you want to calculate your personal net worth, you subtract from the value of everything you own the value of everything you owe.

Example?

Assets on the Balance Sheet

Liabilities on the Balance sheet

Equity on the Balance sheet

Balance Sheet

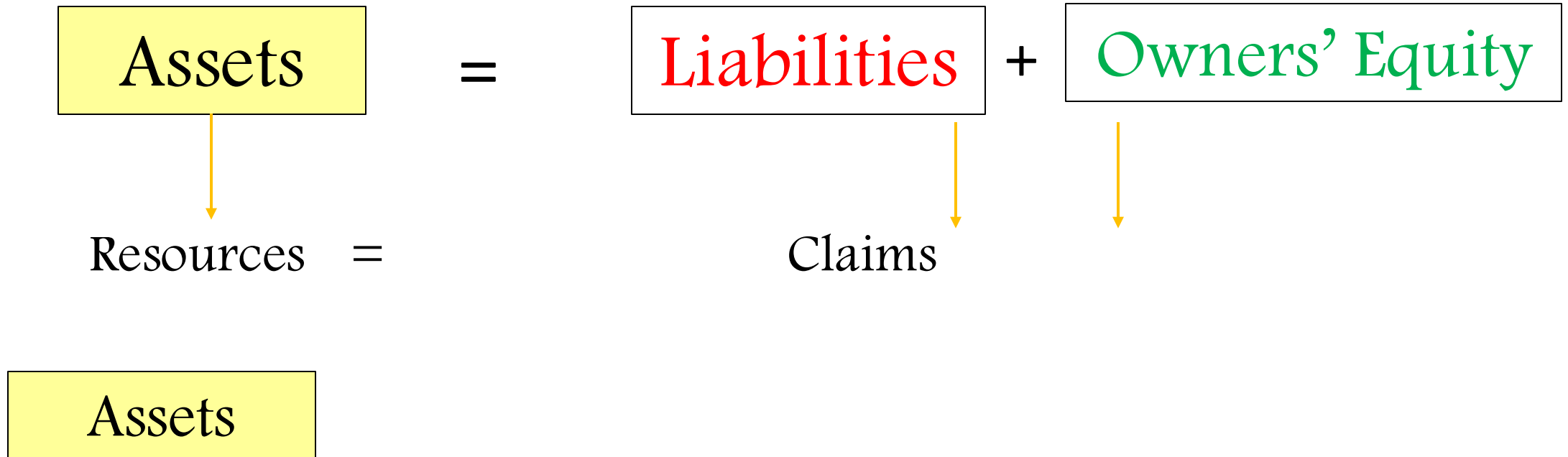
Assets

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Liabilities & Equities

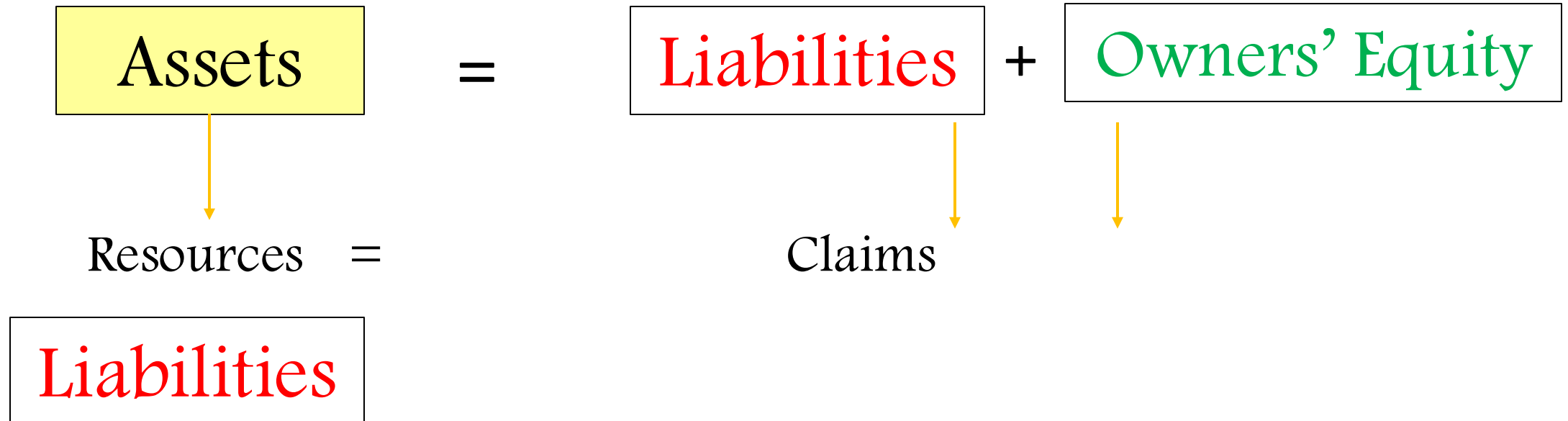
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The Accounting Equation



Provide future economic benefits
Cash, Supplies, Equipment, etc.

The Accounting Equation

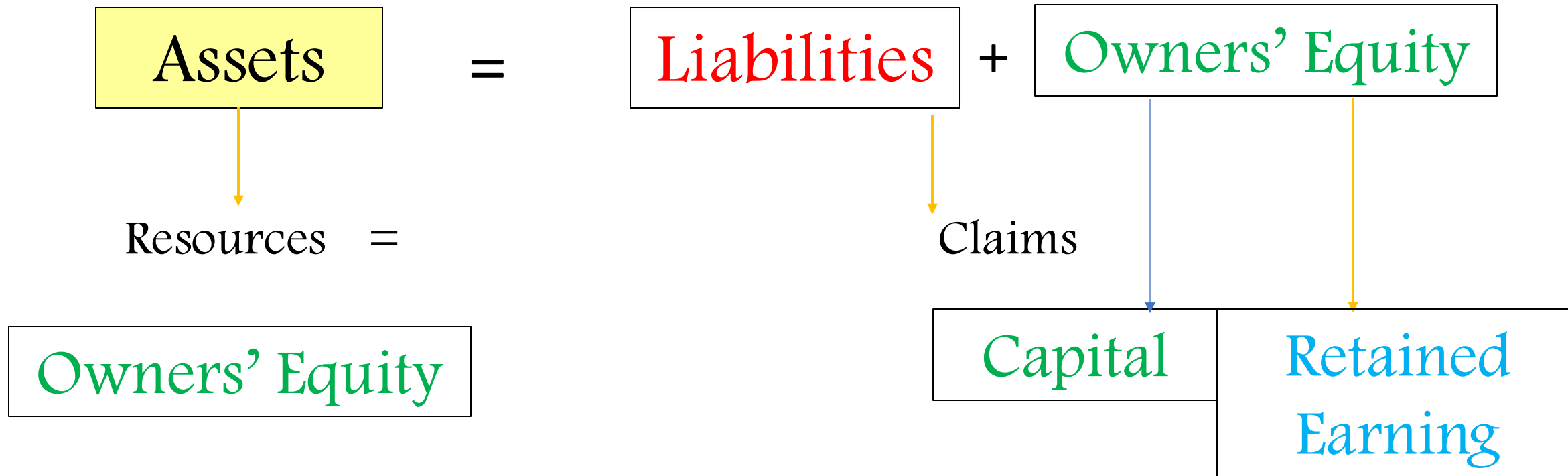


Present Obligation of the enterprise

Outflow of resources embodying economic benefits

Loans payable, Trade payable, salaries payable etc.

The Accounting Equation



Residual Interest (shareholders)
Ownership claim on total assets
Revenue, Expenses,

Terminology Cautions

Income **IS NOT** Revenue

Net income **IS NOT** Increase in Cash

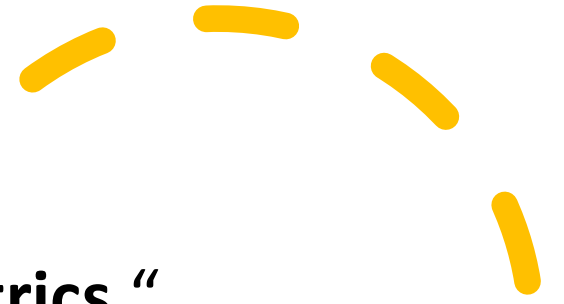
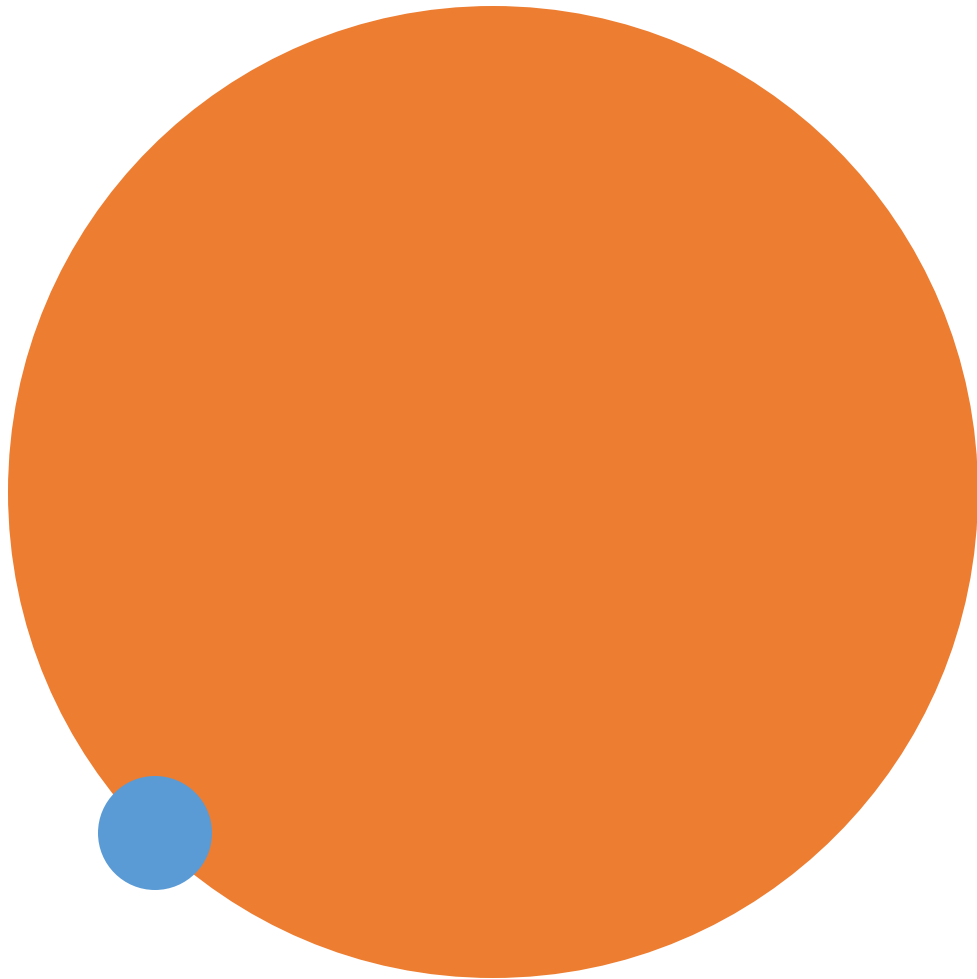
Retained Earnings **IS NOT** Cash

Cash Flows: Timing Is Everything

Cash Flow from
Operating activities

Cash Flow from
Investing activities

Cash Flow from
Financing activities



- How often are “**HR metrics**” presented or discussed or questioned by investors during quarterly earning announcement ?

If business is not doing well what metrics are :

- Shareholders focused on ?
- Banks and Lenders focused on ?
- Senior Management focused on ?



Should HR Budgets Be Tied to Financial Performance

Option A: HR budgets should be **strictly tied** to financial performance (e.g., pay increases only if profits rise).

Option B: HR budgets should be **protected** regardless of financial performance (e.g., employee wellness & training are long-term investments).

Financial
Analysis of
Human
Resource
Initiatives

One template/excel
sheet for decision
making

Finance For SHRM-2

Prince Doliya

Review of Last Class

Finance and SHRM

- **The Role of HR Managers**
- **Business Acumen**
- **Business Acumen for HR Professional**

Income Statement

- Revenue
- Gross Profit
- Operating Profit
- Profit before tax
- PAT

Balance Sheet

- Statement of Financial Position
- Current/Non-Current Assets & Current/ Non-Current Liabilities

Terminology Cautions

Income **IS NOT** Revenue

Net income **IS NOT** Increase in Cash

Retained Earnings **IS NOT** Cash

Cash Flow
from Operating
activities

Cash Flow
from Investing
activities

Cash Flow
from Financing
activities

CVP Analysis for Decision Making

Remember these terms

Variable
Costs

Fixed
Costs

Relevant
Range

BOP



Essentials of CVP Analysis

Producers (Managers) want to know **how profits will change as the units sold of a product or service changes.**

Managers like to use “what-if” analysis to examine the possible outcomes of different decisions so they can make the best one.

Identify the relationship among the elements (selling price, variable costs, fixed costs)



A Five-step Decision-Making Process in Planning and Control-Revisited

- 1. Identify the problem/uncertainties**
- 2. Obtain information**
- 3. Make predictions about the future**
- 4. Make decisions by choosing between alternatives using cost-volume-profit (CVP) analysis**
- 5. Implement the decision, evaluate performance and learn.**

Foundational Assumptions Used in CVP Analysis (1 of 2)

Changes in production/sales volume are the sole cause for cost and revenue changes.

Total costs consist of **fixed costs and variable costs**.

Revenue and costs **behave and can be graphed as a linear function** (a straight line).

Selling price, variable cost per unit and fixed costs are all known and constant.

Foundational
Assumptions
Used in CVP
Analysis (2 of
2)

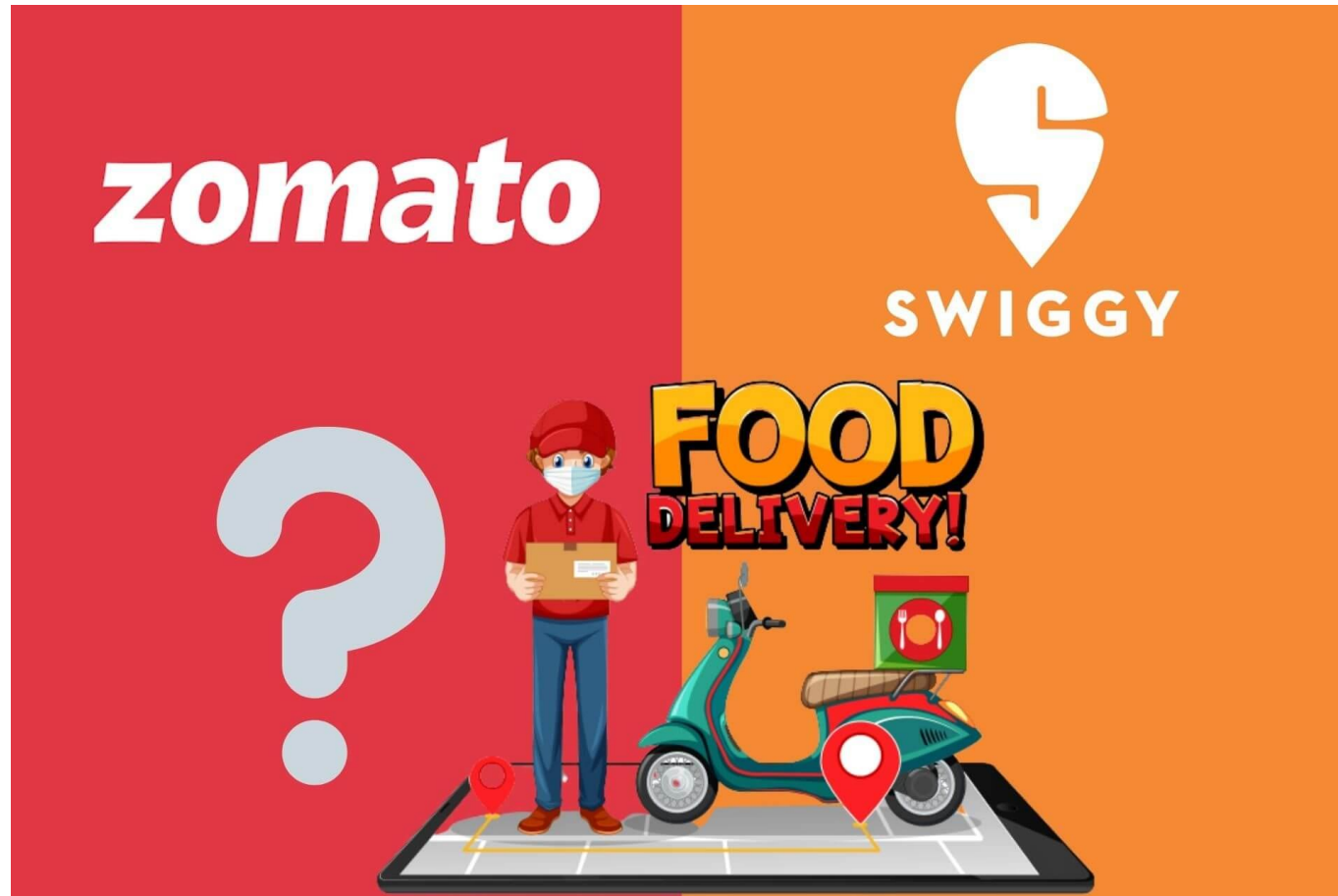
In many cases, only a single product will be analyzed. If multiple products are studied, their relative sales proportions are known and constant.

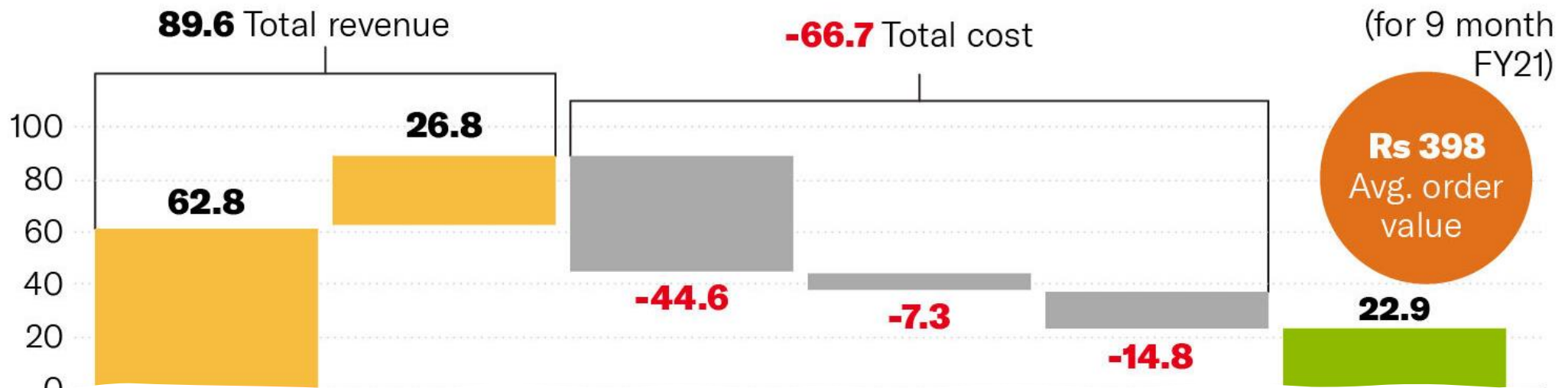
The time value of money (interest) is ignored.

Example-1

- Wembley Travel Agency specializes in flights between Los Angeles and London. It books passengers on United Airlines at **\$900 per round-trip ticket**. Until last month, United paid Wembley a commission of 10% of the ticket price paid by each passenger. This commission was Wembley's only source of revenues. Wembley's fixed costs are \$14,000 per month (for salaries, rent, and so on), and its variable costs, such as sales commissions and bonuses, are \$20 per ticket purchased for a passenger.
- United Airlines has just announced a revised payment schedule for all travel agents. It will now pay travel agents a 10% commission per ticket up to a maximum of \$50. Any ticket costing more than \$500 generates only a \$50 commission, regardless of the ticket price. Wembley's managers are concerned about how United's new payment schedule will affect its breakeven point and profitability.
- 1. Under the old 10% commission structure, how many round-trip tickets must Wembley sell each month (a) to break even and (b) to earn an operating income of \$7,000?
- 2. How does United's revised payment schedule affect your answers to (a) and (b) in requirement 1?

Concept in Practice





CVP Analysis Application for SHRM

CVP analysis for a Training program

- CVP analysis for a training program enables HR to precisely understand the financial implications of participant numbers and cost structures, ensuring the program is financially viable and aligned with organizational goals.
- It's a critical tool for making informed decisions about pricing, budgeting, and scaling HR initiatives effectively.

Imagine a mid-sized company, ABC Inc., which is considering investing in HRM initiatives to improve its overall efficiency and productivity.

- Average revenue generated per employee per month: \$10,000
- Variable cost per departing employee: \$2,000
- Total fixed costs (HR department salaries, software subscriptions, office space, etc.): \$5,000 per month

- Current number of employees: 20
- Current monthly turnover rate: 10%
- Expected reduction in turnover rate due to the retention program: 3%

- **Contribution Margin per Employee:**

- Contribution margin per employee = Average revenue per employee - Variable cost per departing employee
Contribution margin per employee = \$10,000 - \$2,000 = \$8,000

- **Breakeven Point in Terms of Turnover Reduction:**

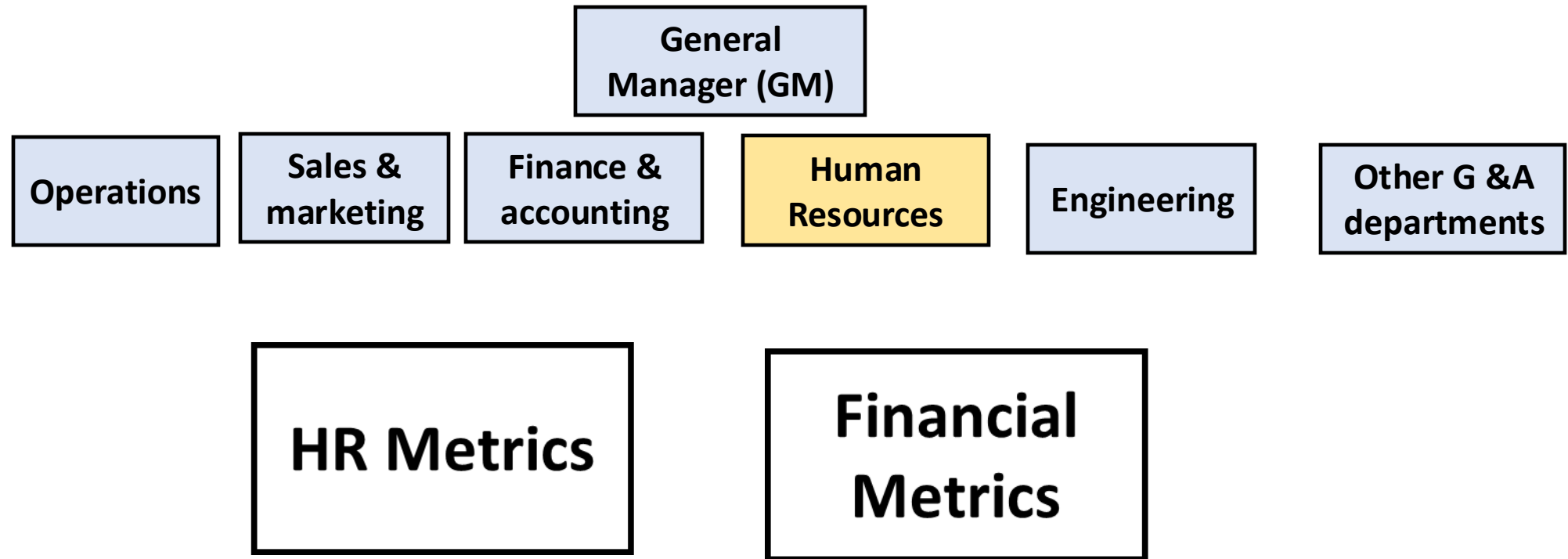
- Annual turnover reduction due to the retention program: $10\% - 3\% = 7\%$
- Monthly net reduction in turnover = $7\% * 20 \text{ employees} = 1.4 \text{ employees (rounded to 1)}$
- Breakeven point in terms of turnover reduction = $\text{Total fixed costs} / (\text{Contribution margin per employee} * \text{Monthly net reduction in turnover})$
- Breakeven point = $\$5,000 / (\$8,000 * 1) = 0.625 \text{ (rounded up to 1)}$

- According to this CVP analysis, the company needs to reduce turnover by approximately one employee annually due to the HRM initiatives' impact to cover the costs associated with HRM and fixed costs.
- Beyond this point, the HRM initiatives would contribute positively to the company's profitability.
- In essence, the analysis demonstrates how the reduction in turnover, achieved through HRM initiatives like the retention program, can impact the company's breakeven point.
- It highlights the financial implications of investing in HR strategies aimed at reducing turnover and improving employee retention, ultimately leading to better financial performance for the organization.

•

Combining Financial metrics and HR Metric

Dominant



Lets take a pause

Before I start :

1. Write down three “Financial level metrics” in your organization that are consistently used
2. Three “HR metrics” that are also consistently used
3. Identify alignment

	Financial metric-1	Financial metric-2	Financial Metric-3			
HR- Metrics						
HR- Metric-1						
HR- Metric-2						
HR- Metric -3						

**Knowledge /
Learning
gaps ?**

What Can Be Measured?

**Staffing and
Hiring**

Work Processes

**Competent
Employees**

**Reduced Time-to-
Fill for Vacancies**

Turnover Rates

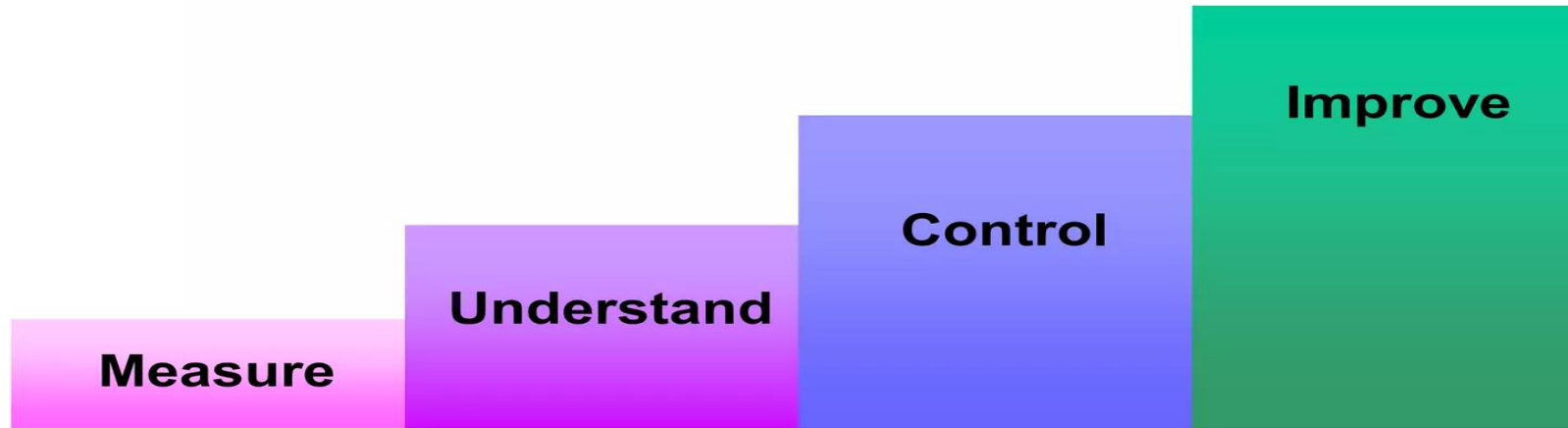
Training Costs

Cost per Hire

**Number of
Employees
Trained**

**Voluntary
Separations**

Why Measure?



If you can't measure it, you can't understand it.

If you can't understand it, you can't control it.

If you can't control it, you can't improve it.

The Improvement Process

Staffing and Hiring

- This refers to the efficiency of the recruitment and selection process.

$$\text{Time to Hire} = \frac{\text{Number of Positions Filled}}{\text{Total Time Taken to Fill Positions}}$$

Work Processes: Measures the efficiency and effectiveness of specific workflows and processes.

$$\text{Process Efficiency} = \frac{\text{Actual Process Time}}{\text{Standard Process Time}} \times 100$$

Competent Employees

- Ensuring employees have the necessary skills to perform their jobs or skill Assessment Score

$$\text{Competency Score} = \frac{\text{Number of Employees Competent in Skills}}{\text{Total Employees tested}} \times 100$$

• Turnover Rates

$$\text{Turnover Rate} = \frac{\text{Number of Employees who left}}{\text{Total number of Employees}} \times 100$$

HR-related financial metrics

Metric	Formula	Description	Example	Optimal Ratio/Interpretation
Cost per Hire (CPH)	$CPH = \frac{\text{Total Recruitment Costs}}{\text{Total Number of Hires}}$	Measures the average cost incurred by the organization to hire one employee.	If the total recruitment costs for the year are \$50,000 and the total number of hires made during the same period is 25, then $CPH = \$2,000$.	Depends on industry and company budget.
Revenue per Employee (RPE)	$RPE = \frac{\text{Total Revenue}}{\text{Total Number of Employees}}$	Evaluates the productivity and revenue-generating capacity of each employee within the organization.	If a company generates \$1,000,000 in total revenue and has 100 employees, then $RPE = \$10,000$.	Depends on industry and company goals.
Employee Turnover Cost (ETC)	$ETC = \frac{\text{Total Cost of Turnover}}{\text{Total Number of Employees}}$	Calculates the average cost incurred by the organization for each employee turnover.	If the total cost of turnover for the year is \$500,000 and the organization has 250 employees, then $ETC = \$2,000$.	Depends on industry and company budget.
Revenue per Full-Time Equivalent (FTE)	$R/FTE = \frac{\text{Total Revenue}}{\text{Total FTEs}}$	Calculates the revenue generated per full-time equivalent employee.	If a company generates \$5,000,000 in total revenue and has 50 full-time equivalent employees, then $R/FTE = \$100,000$.	Depends on industry and company goals.
Cost of Absenteeism	$\text{Cost of Absenteeism} = \frac{\text{Total Cost of Absenteeism}}{\text{Total Number of Working Days}}$	Quantifies the financial impact of employee absences on the organization.	If the total cost of absenteeism for the year is \$100,000, and there are 250 working days in a year, then $\text{Cost of Absenteeism} = \400 .	Depends on industry and company budget.
HR-to-Employee Ratio	$\text{HR-to-Employee Ratio} = \frac{\text{Total Number of HR Staff}}{\text{Total Number of Employees}}$	Measures the efficiency of the HR department by comparing the number of HR staff to the total number of employees.	If a company has 5 HR staff members and 250 total employees, then $\text{HR-to-Employee Ratio} = 1:50$.	Depends on industry and company size.
Benefit Cost Ratio (BCR) for Employee Benefits Programs	$BCR = \frac{\text{Total Value of Benefits Received}}{\text{Total Cost of Benefits Program}}$	Assesses the value derived from employee benefits programs relative to their cost.	If the total value of benefits received by employees is \$1,500,000, and the total cost of administering the benefits program is \$1,000,000, then $BCR = 1.5$.	Ideally, BCR should be greater than 1.

- **Revenue Factor** = Revenue / Total Full Time Employees
- **Human Capital Value Added** = (Revenue - Operating Expense - Compensation & Benefit Cost) / Total Full Time Employees
- **Human Capital Return on Investment** = (Revenue - Operating Expenses - Compensation & Benefit Cost) / Compensation & Benefit Cost .
- **Total Compensation Revenue Ratio** = Compensation & Benefit Cost / Revenue
- **Labor Cost Revenue Ratio** = (Compensation & Benefit Cost + Other Personnel Cost) / Revenue
- **Training Investment Factor** = Total Training Cost / Headcount
- **Cost per Hire** = (Advertising + Agency Fees + Recruiter's Salary/Benefits + Relocation + Other Expenses) / Operating Expenses
- **Health Care Costs per Employee** = Total Health Care Costs / Total Employees
- **Turnover Costs** = Termination Costs + Hiring Costs + Training Costs + Other Costs

Activity-Based Costing (ABC)



Introduction to ABC

- A division of Hewlett-Packard (HP) that manufactures electronic circuit boards faced an environment that confirmed closely to the conditions for which ABC is recommended:
 - (a) Diverse products;
 - (b) Relatively high overhead costs and for some products, higher than the direct costs;
 - (c) Production volumes that vary significantly among products;
 - (d) The belief by the operating managers that the old traditional system not give meaningful product costs.



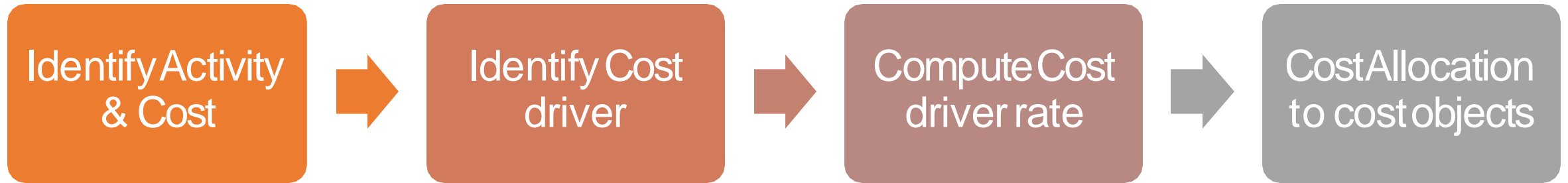
- Roseville Networks Division (RND), a division of HP has developed a new accounting system that measures the factors that truly drive costs.
- One circuit board that would have been assigned with overheads of 5 dollars with the old system had a total reported cost of 25 dollars with ABC- an increase of 400%. Another circuit board that would have been assigned an overhead of 123 dollars with the old system was assigned 45 dollars with ABC.
- During a six month forecast and budget cycle, the ABC system resulted in shifting millions of dollars of costs between customers and products and thus had a dramatic impact on product design and pricing decisions.

Activity-Based Costing

An overhead cost allocation system that focuses on activities performed in producing a product.

The Activity-based costing (ABC) system is developed to provide **better approach for assigning overheads** to products and computing product costs .

ABC Steps



ABC Ltd. is evaluating its HR costs using **Activity-Based Costing (ABC)** instead of the traditional method. The company has **500 employees** and incurs **\$500,000** annually on HR activities such as **recruitment, training, payroll processing, and performance management.**

The HR manager, Lisa, believes that some departments consume more HR resources than others. She collects the following data:

Activity	Total Cost (\$)	Cost Driver	Activity Volume
Recruitment & Hiring	\$150,000	Number of hires	100 hires
Training & Development	\$120,000	Training hours	3,000 hours
Payroll Processing	\$50,000	Number of payroll transactions	12,000 transactions
Performance Management	\$80,000	Number of evaluations	500 evaluations

Lisa collects the following HR service consumption data for two departments:

Department	Hires	Training Hours	Payroll Transactions	Evaluations
Sales	30	900	2,400	100
Finance	10	450	1,200	50

Step 1: Compute Cost Per Unit for Each HR Activity

HR Activity	Total Cost (\$)	Activity Volume	Cost per Unit (\$)
Recruitment & Hiring	\$150,000	100 hires	\$1,500 per hire
Training & Development	\$120,000	3,000 hours	\$40 per hour
Payroll Processing	\$50,000	12,000 transactions	\$4.17 per transaction
Performance Management	\$80,000	500 evaluations	\$160 per evaluation

Step 2: Allocate HR Costs Using ABC

- Total HR Cost for Department=(Hires×Cost per Hire)+(Training Hours×Cost per Hour)+(Payroll Transactions×Cost per Transaction)+(Evaluations×Cost per Evaluation)

Department	Hires	Training Hours	Payroll Transactions	Evaluations	ABC Cost Allocation (\$)
Sales	30	900	2,400	100	$(30 \times 1,500) + (900 \times 40) + (2,400 \times 4.17) + (100 \times 160) = 100,251$ $(30 \times 1,500) + (900 \times 40) + (2,400 \times 4.17) + (100 \times 160) = 100,251$
Finance	10	450	1,200	50	$(10 \times 1,500) + (450 \times 40) + (1,200 \times 4.17) + (50 \times 160) = 48,501$ $(10 \times 1,500) + (450 \times 40) + (1,200 \times 4.17) + (50 \times 160) = 48,501$

Step 3:

- **Compare ABC vs. Traditional Costing**

Traditional Costing: HR cost is allocated **equally per employee**

$$\text{Cost per Employee} = \frac{\text{Total HR Cost}}{\text{Total Employees}} = \frac{500,000}{500} = 1,000$$

Department	Employees	Traditional Cost Allocation (\$)	ABC Cost Allocation (\$)	Difference (\$)
Sales	100	100,000	100,251	+251
Finance	50	50,000	48,501	-1,499

Step 4: Strategic HR Decision-Making

- ABC Costing is more accurate – Sales uses more HR resources than Finance, so ABC better reflects true costs.
- Better Budgeting – HR can adjust costs based on actual resource usage.
- Optimized Workforce Planning – Can identify cost-heavy HR activities and optimize them.



Relevant Costing and Decision Making

SHRM and Relevant Costs

Relevant Costs – Future costs that will change depending on the decision (e.g., training costs for a new employee).
Irrelevant Costs – Past costs (sunk costs) that **should not** affect the decision (e.g., historical recruitment expenses).

HR Decision	Relevant Costs	Irrelevant Costs
Hiring vs. Outsourcing	Salary, benefits, recruitment costs	Previous hiring costs, HR software expenses
Training vs. Hiring New Employees	Training costs, productivity loss during training	Past training investments
Layoff vs. Retaining Employees	Severance pay, rehiring costs, legal costs	Past payroll expenses
Remote Work vs. On-site Work	Office rental savings, remote setup costs	Past office renovations

Problem 1: Hiring vs. Outsourcing Decision

- XYZ Ltd. needs to decide whether to **hire an internal HR recruiter** or **outsource recruitment** to an external agency.
- **Decision:**
Since the **internal recruiter (\$85,000)** is **cheaper than outsourcing (\$90,000)**, hiring an internal recruiter is the better choice.

Cost Component	Hiring Internal HR Recruiter (\$)	Outsourcing (\$)
Salary & Benefits	70,000	-
Training Cost	5,000	-
Office Space & Equipment	10,000	-
Recruitment Agency Fees	-	90,000
Total Cost	85,000	90,000

Problem 2: Training vs. Hiring New Employees

- A company needs **10 skilled employees**. It has two options:
- **Train existing employees**, which costs **\$5,000 per employee**, but they stay productive.
- **Hire new employees**, which costs **\$8,000 per hire** (recruitment, onboarding).
- **Decision:**
Since training costs **\$50,000**, while hiring costs **\$80,000**, **training is the cost-effective choice**.

Option	Cost per Employee (\$)	Total Cost for 10 Employees (\$)
Training Current Employees	5,000	50,000
Hiring New Employees	8,000	80,000

Definitions

- **Standard Cost**: “Standard cost is the pre-determined cost based on the technical estimates for materials, labour and overhead for a selected period of time for a prescribed set of working conditions.”

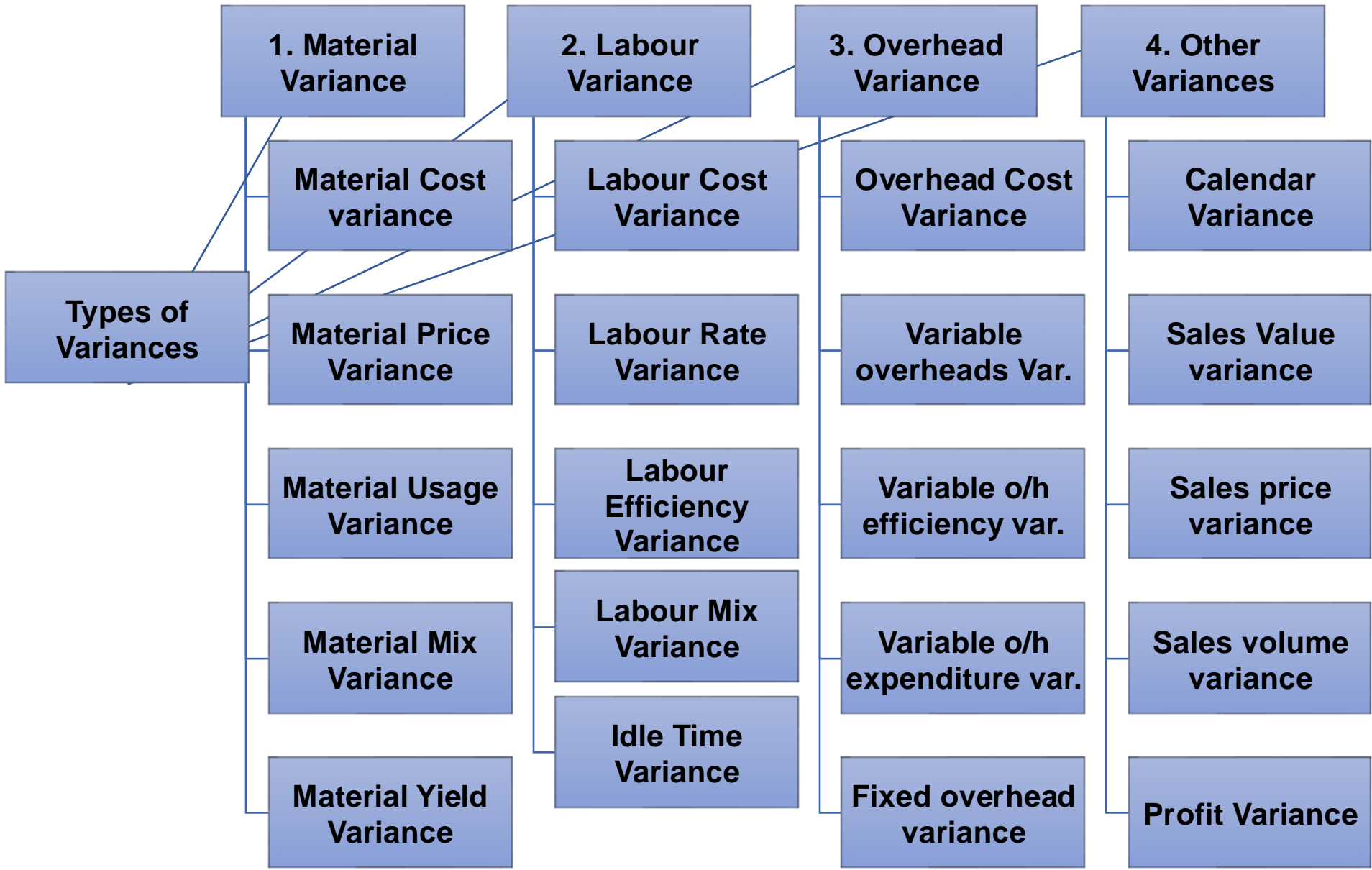


Variance Analysis

- **Cost Variance:** is the difference between the standard cost and the actual costs.
- **Variance Analysis:** is the resolution into constituent parts and the explanation of the variances.
- ❖ **Favorable & Unfavorable Variances.**
- ❖ **Controllable & Uncontrollable Variances**



What all could be the reasons for the actual cost or the sales/profit to vary from their standard costs and price/profit?

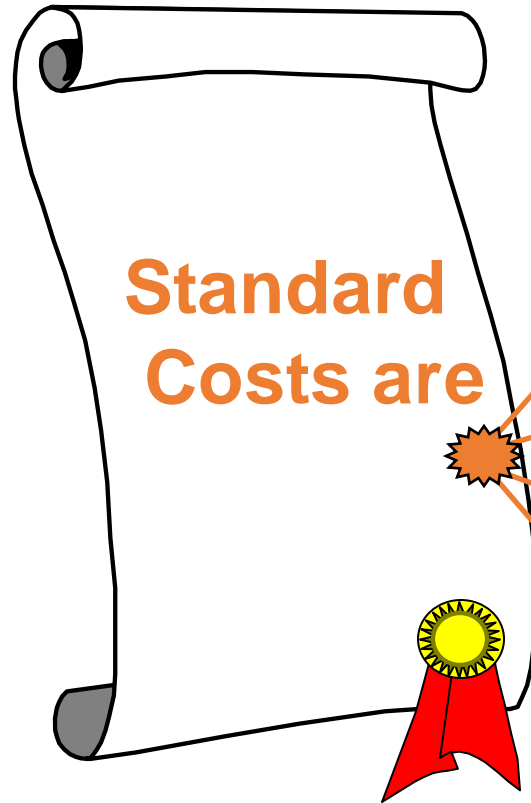


Favorable & Unfavorable Variances

- Favorable variances(F) arise when actual costs are less than budgeted costs or actual sales/profit exceed budgeted.
- Un favorable variances(U) arise when actual costs exceed budgeted or actual sales/profit are less than budgeted.

	Profit	Revenue	Costs
Actual > Expected	F	F	U
Actual < Expected	U	U	F

Standard Costs



**Standard
Costs are**

**Based on carefully
predetermined amounts.**

**Used for planning labor, material
and overhead requirements.**

**The expected level
of performance.**

**Benchmarks for
measuring performance.**



Recruitment Budgeting & Variance Analysis

- You are the HR manager of a mid-sized company, and you've been tasked with **preparing the recruitment budget for \$100,000** for the year. The company **expects to hire 100** new employees to support its growth. You prepare a budget and, at the end of the year, you compare the actual costs incurred to the budgeted costs to understand where variances occurred and why.

Cost Component	Budgeted Amount per Employee (\$)	Total Budget for 100 Employees (\$)
Job Advertisements	200	20,000
Recruitment Agency Fees	500	50,000
Interview Costs	100	10,000
Employee Referral Bonuses	150	15,000
Background Checks/Assessments	50	5,000
Total Budgeted Cost	1,000	100,000

Actual Recruitment Costs

- At the end of the year, you gather the actual recruitment costs. Let's assume the company recruited 110 employees (10 more than planned due to higher-than-expected attrition), and the actual cost component per hire were as follows:

Cost Component	Actual Amount per Employee (\$)	Actual Total for 110 Employees (\$)
Recruitment Agency Fees	450	49,500
Interview Costs	120	13,200
Job Advertisements	250	27,500
Employee Referral Bonuses	100	11,000
Background Checks/Assessments	60	6,600
Total Actual Cost	980	107,800

Variance Analysis (Total Costs)

Cost Component	Budgeted Total (\$)	Actual Total (\$)	Variance (\$)	Variance (%)
Job Advertisements	20,000	27,500	+7,500	+37.5%
Recruitment Agency Fees	50,000	49,500	-500	-1%
Interview Costs	10,000	13,200	+3,200	+32%
Employee Referral Bonuses	15,000	11,000	-4,000	-26.7%
Background Checks/Assessments	5,000	6,600	+1,600	+32%
Total	100,000	107,800	+7,800	+7.8%

Cost Component	Budgeted Total (\$)	Flexible Budget (\$)	Actual Total (\$)	Variance (\$)
Job Advertisements	20,000	22000	27,500	5,500 (U)
Recruitment Agency Fees	50,000	55000	49,500	5500 (F)
Interview Costs	10,000	11000	13,200	2,200 (U)
Employee Referral Bonuses	15,000	16500	11,000	5500(F)
Background Checks/Assessments	5,000	5500	6,600	1100 (U)
Total	100,000	1,10,000	107,800	2200(F)

Labour Variances

- Labour Cost Variance
- Labour Usage/Efficie. Var
- Labour Rate Variance
- Idle time Variance

$$SH * SR - AH * AR$$

$$(SH - AH_{\text{actual}}) * SR$$

$$(SR - AR) * AH$$

$$SR * \text{Idle time}$$

Practice Problem

A firm gives you the following data:

Standard time per unit 2.5 hours

Actual hours worked 2,000 hours

Standard rate of pay Rs. 2 per hour

25% of the actual hours has been lost as idle time.

Actual output 1,000 units

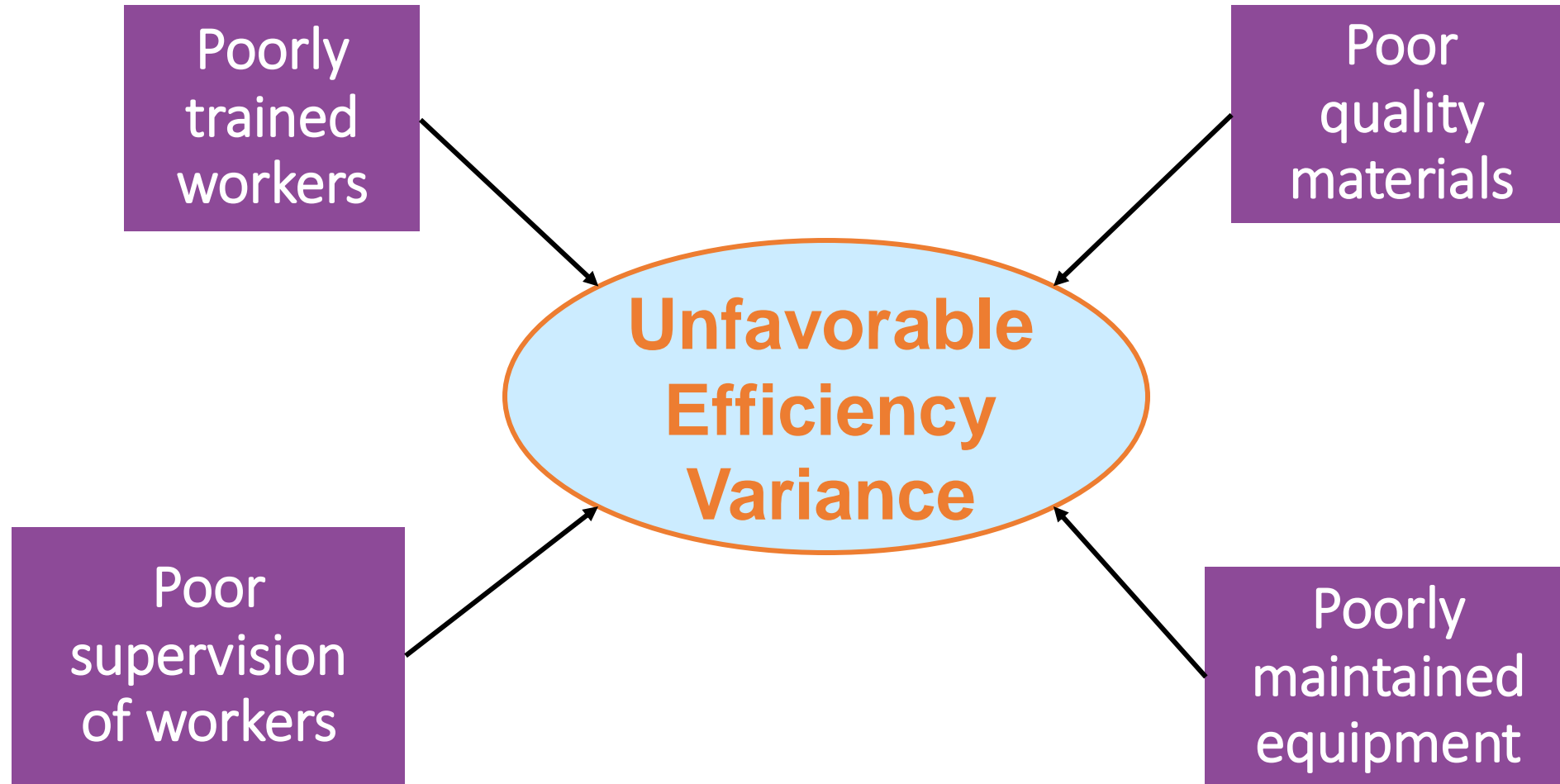
Actual wages Rs. 4,500

Calculate all labour variances.

Solution:

St. Rate	2	LEV	2000F
St. Hrs	2500	LRV	-500U
Actual Rate	2.25	ITV	1000F
Actual Hrs	2000	LCV	500F
Idle time	500		

Labor Efficiency Variance- Causes



Responsibility for Labor Variances



You used too much time because of poorly trained workers and poor supervision.

I am not responsible for the unfavorable labor efficiency variance!

You purchased cheap material, so it took more time to process it.



Present Value application for SHRM

Present Value application for SHRM

PV calculates the current value of future cash flows by discounting them back to the present using a specified discount rate.

PV helps in understanding the current worth of future cash flows or investments.

PV provides a single value representing the present worth of future cash flows or investments at a specific point in time

Example-1

Example-1

- Assume that one of your manufacturing units has 2,000 employees working 40 hours per week. Your firm has just signed a large contract that will mean for the next 3 years the output of this unit will need to be expanded by 10%. You quickly realize that you could expand output in one of two ways.
- You could hire no new employees but have the current employees increase their workweek by 10%. That would mean each worker would work 44 hours instead of 40, with the last 4 being paid at time and one-half. If the current average hourly wage in this unit is \$18.50, the overtime premium would be \$9.25 per hour. .
- You could keep hours per week constant and expand the workforce by 10%. That would mean hiring 200 new employees. In addition to their wages, each new employee would receive a benefits package costing \$8,850 per year. Recruitment cost would be 10000 per employee
- At the end of at the end of the 3-year spike in demand need to be adjusted that require termination of some of the recently hired workers. If 80 employees must be terminated at an average termination cost (processing, unemployment insurance, and so on) of \$1,800, the total would be \$144,000. Further at the end of the three years remaining 120 of the recent hires would be moved into vacancies elsewhere in the firm. That would avoid having to spend an additional \$10,000 to fill each of those vacancies, saving the firm \$1,200,000.

PV(rate, nper, pmt, [fv], [type])

- rate: The interest rate per period. In this case, it's the discount rate, which is 10% or 0.1.
- nper: The number of periods. In this case, it's 3 years.
- pmt: This argument is not used in this scenario, so it's set to 0.
- fv: The future value, which is \$144,000.
- type: This argument specifies whether payments are due at the beginning (type = 1) or end (type = 0) of the period. Since the termination costs are incurred at the end of the period, this argument is set to 0.