

STRATEGIC FINANCIAL AND HUMAN RESOURCE MANAGEMENT: CONCEPTS AND PRACTICES

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Abstract

A strategy is an action that involves planning how to do or achieve something. Strategic management involves:

1. Setting objectives.
2. Analysing the competitive environment.
3. Analysing the internal organization.
4. Evaluating strategies.
5. Ensuring that management implements the strategy throughout the company.

The primary responsibility of finance is to allocate and monitor resources that support the organization's goals while ensuring a balance between revenue and costs. On the other hand, HR is responsible for recruiting, motivating, and managing the people who advance those goals. It has become necessary for the HR and finance departments to collaborate to advance the company's goals.

Cost per hire, revenue per employee, and training cost per employee are three finance HR metrics that, when used effectively, can play a role in a company's success.

HR can use financial information to enhance financial strategy, analyse resources, and estimate project financial impact. These are some examples of how HR may utilize financial data to make better decisions, i.e., understanding and interpreting financial statements, income statements, balance sheets, cash flow statements, costing for HR, and understanding budgeting for HR.

Introduction

For many firms, the HR and finance divisions are two separate entities. Although finance teams look into the distribution of resources by monitoring the expenditure vs. income generated by all departments in the firm, HR directors primarily concentrate on recruiting, training, and motivating employees.

The separate functions played by the two departments aid in compartmentalizing duties and administration, but it has become clear through time that an integration of these tasks may aid in the overall development of an organization. By keeping expenses and revenues in check, finance supports organizational goals by allocating resources. To further these objectives, HR recruits, employs and inspires personnel.

- **What is the meaning of Strategy?**

A strategy describes how the means (resources) will achieve the ends (goals). Strategy can be intended or emerge as a pattern of activity as the organization adapts to its environment or competes. It involves activities such as strategic planning & strategic thinking.

- **What is Strategic Management?**

Strategic management is the process of establishing goals, processes, and objectives to increase the competitiveness of a firm or organization. Usually, strategic management considers how to employ people and resources best to achieve these objectives. Strategic management frequently comprises strategy appraisal, internal organization analysis, and strategy implementation across the enterprise.

- **What is Finance?**

Finance is the administration, creation, and analysis of money and investments. It involves using credit and debt, securities, and investment to finance current initiatives with the proceeds of future revenue flows. Because of its temporal component, finance is inextricably tied to the time value of money, interest rates, and other related issues.

- **HR Finance**

In a contemporary firm, HR finance combines the HR and finance departments. While HR and finance have traditionally been two separate departments with their responsibilities, financial awareness has become vital for HR employees in most modern businesses.

Finance's primary role is distributing and overseeing resources supporting the organization's goals while balancing income and costs. Conversely, HR is responsible for recruiting, motivating, and managing those who help with those goals. The HR and finance departments must work together to achieve the company's objectives.

- **Strategy and Human Resource management**

The successful human resource strategy of a corporation supports the entire corporate Strategy. A good human resource strategy involves how the business intends to grow its workers and give them fair chances and improved working circumstances to ensure their voluntary participation.

This includes hiring the best possible candidates, ensuring a good match between the employee & the position, and keeping, motivating, and enabling people to perform successfully in support of company goals.

Strategic human resource management integrates human resource management with strategic goals and objectives to improve corporate performance. An organization's success is determined by its people resources. This includes their acquisition, development, motivation, and retention.

- **Why does HR need to know finance?**

Labour costs such as salary, benefits, and related taxes can account for up to 70% of a company's overall operating costs. As a result, in most businesses, planning and budgeting begin with HR.

HR specialists must be educated in budget preparation and management for all departments inside the firm. HR is responsible for meeting the budget and assisting with cost budgeting.

HR plays a crucial role in producing value in the firm by making recruiting and training choices.

Finance for HR is crucial to ensuring that the department's actions adhere to established norms and regulations while adding value to the company's broader goals and objectives.

Another reason HR must understand their company's finances is to recruit top employees. Potential hires nowadays are intelligent and often conduct extensive research on a firm before deciding to join them.

- **How HR can utilize the financial information**

HR choices daily may either help or hurt the organization's financial success. According to a recent study by management and consulting company McKinsey, firms with HR that make choices quickly and effectively are twice as likely to achieve 20% better financial returns. These are examples of how HR may utilize financial data to make better decisions.

- a) **Enhancing financial Strategy:** Human resources must comprehend the aspects that determine expenses and income in their firm. This will assist them in making judgments that support the general aims and objectives of the firm.
- b) **Generating value across the organization:** A firm performs better when HR and finance work together successfully. When both departments collaborate, the organization will optimize the returns on its personnel. For example, HR may collaborate with finance to develop a functioning recruiting model that considers scenarios such as the company's projected growth and optimizing recruitment and training expenses.
- c) **Doing resource analysis:** When assessing and understanding an organization's financial health, its financial statements are helpful. HR can make better-informed decisions about how and where to deploy resources and which techniques work best to move the firm closer to its objectives.
- d) **Estimating the financial impact of projects:** To properly manage a company's human resources, HR must determine which projects and initiatives are worthwhile investments and which are not. HR may leverage cost and revenue data from finance to compute project ROIs and anticipate profits before the firm begins or completes a project.

- **Understanding and interpreting financial statements**

Human resources must comprehend and interpret the organization's financial statements. These professionals must comprehend the financial measures that drive an organization's costs and income and the factors that impact them.

HR can recognize the linkages between their actions and the firm's financial performance if they thoroughly grasp financial statements.

Furthermore, comprehending financial accounts is beneficial in analysing human capital worth and making good outsourcing selections. Finance in HR may be highly beneficial in improving the workforce to increase the organization's efficiency, performance, and overall bottom line.

- **Understanding an Income Statement**

An income statement is a type of financial statement used to report a company's financial performance over a certain period. It focuses on the revenue and costs used to determine profits and losses during a specific period.

Understanding the income statement is crucial for HR since it allows them to see how well the firm performs. It also allows you to examine areas where HR may contribute value to improve the company's success.

- **Understanding the balance sheet**

The balance sheet is a financial record showing a company's financial situation at a specific time. The document outlines the company's assets and capital sources, including stock and liabilities.

HR may utilize the balance sheet to better understand the company's financial condition at any given time. This information may be used to prepare for the company's short-term resource demands and allocations and make recruiting and firing choices.

- **Understanding the cash flow statement**

The cash flow statement summarises all cash and cash equivalents that enter and leave the firm. Throughout a given period, the statement comprises aggregate statistics on cash collected from the company's operations and any external investments and cash paid out for business activities and investments.

A cash flow statement is an essential tool that HR must regularly analyse to gain valuable insights into the company's financial health. They may also utilize this statement to detect future and emerging resource allocation difficulties and get insights about how to avoid or address them.

- **Understanding costing for HR**

Costing is a technique for allocating expenses to various aspects of a firm. Costing is used in finance to create expenses for employees, customers, goods, distribution networks, processes, product lines, and even whole branches.

Fixed, variable, direct, and indirect costs are the four categories of expenses. In human resources, costing considers both the outlay or material cost and the time cost. Another factor to examine is the total fixed, variable, and opportunity costs.

HR experts utilize costing to examine each company department's spending and its overall influence on business goals. HR, for example, may utilize costing to analyse the company's spending line by line in revenue and cash flow statements and identify cost-cutting opportunities.

- **Understanding budgeting for HR**

Budgeting is the financial process of deciding how a company's money should be spent. A budget is a name given to the spending plan. Developing a spending plan allows the firm to predict how much money it will require to conduct its operations and how much they expect to make.

Knowing the budget is crucial for assisting HR in developing a resource stability strategy. The department can better forecast and manage resources based on predicted expenditures and revenue. It also assists HR in understanding company-wide personnel requirements to avoid over- and under-hiring.

From the HR department's point of view, budgeting enables the division to predict expenditures associated with benefits and salaries, expected turnover rates, and the number of employees the business needs or can afford.

- **Financial HR metrics to consider**

These are three key HR measures that, when properly applied, contribute to a business's success.

1. Cost per hire

A business's average sum to hire an employee is known as cost per hire. Calculating or monitoring the expenses of hiring employees is an important measure. The cost per hire, for instance, is \$500 when the firm funds \$5,000 to recruit ten individuals.

2. Revenue per employee

Revenue per employee is calculated by dividing a company's total revenue by the number of current employees. HR may utilize this crucial ratio to determine how much each employee contributes to the business.

3. Training cost per employee

This is calculated by dividing the entire cost of a company's training courses and programs by the total number of workers. Employee training expenditures that are budgeted can reduce staff turnover and increase productivity.

Conclusion

Both finance and HR work to further the organization's goals. HR must thus be knowledgeable about money. As HR's primary activities directly or indirectly incur costs and earn income, there are several advantages for the business when HR thoroughly understands finance. Financial data may be used by HR to improve financial strategy, examine resources, and calculate project financial effects.

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