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## **A study of relation between the discipline of HR and finance**

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### **Abstract**

This paper focuses on the relation between Human Resource Management & Financial Management. Finance people can understand HR by working more closely and take advantage of HR people's expertise in areas such as recruitment, training and development, communication, motivation, dispute resolution, termination. To keep the process running smoothly, finance department should treat HR like an internal client. Whenever HR initiates a project, there is always someone standing by in finance to assist and there also are people in HR who serve as primary contacts for finance. HR is used as a resource on everything from conducting recruitment and selection to team building to employee communication. HR is a service provider to the organization much like finance. In fact, a finance department employee is appointed to serve as HR liaison. High degree of coordination and understanding between these two departments directed organizations toward better working environment and growth prospects.

**Keywords:** Financial management, human resource management

### **1. Introduction**

Financial management is related with human resource management which provides manpower to all the functional areas of the management. Financial manager should carefully evaluate the requirement of manpower to each department and allocate finance in the form of wages, salary, remuneration, commission, bonus, pension and other monetary benefits to the human resource department. Hence, financial management is directly related with human resource management.

#### **1.1 Financial Management**

Financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm. Financial management is one of the important parts of overall management, which is directly related with various functional departments like personnel, marketing and production. Financial management covers wide area with multidimensional approaches. Financial Management focuses on planning, organizing, directing and controlling of financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

#### **1.2 Human Resource Management**

Behind production of every good and delivery of service there is human mind, effort and time invested. Human Resources refers to the scarcest and most crucial productive resource that creates the largest and longest lasting advantage for an organization and support systems within an organization responsible for personnel hiring and firing, applicant tracking, skills development, training, benefits administration, and compliance with government regulations. Human Resource Management focuses on recruitment and selection of employees, providing proper orientation, induction and training, developing skills, assessment of employee (performance of appraisal), providing proper compensation and benefits, motivating, maintaining cordial relations with labor and with trade unions, maintaining employee's safety, welfare and health by complying with labor laws of concern state or country. The core purpose of the human resource management is to obtain maximum individual

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development in the organization and to affect the moulding of human resources as contrasted with physical resources. The Best example at present situation is, construction industry has been facing serious shortage of skilled workforce. It is expected to triple in the next decade from the present 30 per cent, will negatively impact the overall productivity of the sector. Every organization's desire is to have skilled and competent people to make their organization more effective than their competitors. Humans are very important assets for the organization and HR department need finance to afford highly skilled professionals. HR professionals keep their companies in compliance, develop viable employment policies and practices, and keep up to-date with emerging trends.

## 2. Review of Literature

Researcher John Innes, explains-It was commonly considered that while HR can benefit from getting financial input on how to structure bonus schemes and strategies, that finance can equally benefit from working with HR to understand how viewing employees as 'assets' rather than 'costs' can lead to a net positive effect on an organization's long-term performance.'

Masahiro Abe & Takeo Hoshi, 2004 in their research paper on "Corporate Finance and Human Resource Management" defined corporate governance as -corporate governance is a system of various sub-systems that are complementary to one another. This paper focuses on two subsystems of the Japanese corporate governance: one on corporate finance and another on human resource management. After briefly documenting the characteristics of the Japanese corporate governance in these two sub-systems, the paper discusses how each sub-system has been going through substantial changes in recent years.

CIMA (Chartered Institute of Management Accountants) funded research has discovered that the closer the co-operation between finance department and human resources (HR) departments on areas like bonus schemes, the better the organizational performance will be. Top level findings show that HR and finance teams need to work closely with one-another on HR policies to ensure better performance across the entire business. Where the tone is set at the top, with HR Directors and Finance Directors being seen to liaise on bonus schemes and benchmarking exercises, it is generally felt that a better working relationship between HR and finance can be achieved.

A research was carried out by John Innes, University of Dundee; Reza Kouhy, Glasgow Caledonian University; Rishma Vedd, California State University, Northridge; and Takeo Yoshikawa, Yokohama National University on a CIMA grant. The project examines the relationship between HR management, management Accounting and organizational performance. Six case studies covering the UK, Canada and Japan were analyzed with the results tested in a series of 100 telephonic interviews.

Mark A. Huselid 1995 focuses on the linkage between systems of High Performance Work Practices and firm performance. Results based on a national sample of nearly one thousand firms indicate that these practices have an economically and statistically significant impact on both intermediate outcomes (turnover and productivity) and short and long-term measures of corporate financial performance. Support for the predictions that the impact of High Performance Work Practices is in part contingent on their

interrelationships and links with competitive strategy was limited

Stephen Paladino, CFO for Fala Direct Marketing Inc., in Melville, N.Y., says: "Finance typically looks down on HR." Human resources specialists, on the other hand, think that finance department is filled with a bunch of pencil-necked bean counters whose sole enjoyment in life comes from saying "no" to every requested project.

Anupa Chaudhary, and Sumit Prasad, Member, IEDRC 2010 published a research paper on "Human Resource Financial Management" in International Journal of Trade, Economics and Finance 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. The focus of the paper was on 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 spent in doing so is now considered 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.

## 3. Need of the Study

To make any organization effective finance and HR department should work together. If an organization is struggling with ways to improve the relationship between finance and HR, it has to learn where HR is heading and how finance can help it get there. Like many contentious relationships, the problem between these two departments stems from a lack of understanding and appreciation. This paper critically examines to bridge the gap between finance department and human resource department of an organization and will provide a good understanding to HR people and finance persons in the organization for doing work together.

## 4. Objectives of the Study

The main objective of this study are-

- To identify the interdependency between human resource management and financial management.
- To study and explain the role of financial management in human resource management and vice-versa.
- To give suggestions for better co-ordination between HR department and finance department.

## 5. Methodology of the Study

The paper is conceptual in nature. Data collected for this paper is basically from secondary sources. Research papers information is collected from secondary sources like books, journals, online articles etc. for analyzing the linkage between discipline of finance and HR. Cases are taken of foreign organizations from articles published online.

### 5.1 Need of Financial Knowledge for HR Professionals

An HR manager is expected to use financial data to make decisions, allocate resources, and budget expenses. Deep understanding of the basics of financial management and measurement helps in understanding: -

- Which financials may be needed when you're developing a human capital strategy.
- How to calculate return on investment.
- How to instill financial intelligence throughout your team.
- Ways to use financial information to better support your business units and do your own job.
- What your company's income statement, balance sheet, and cash flow statement really reveal

### 5.2 Breaking down Barriers between HR and Finance

Even when the HR is not diagnosing a problem, the department relies on a lot of financial data. Labor and benefits, after all, make up the largest expense in most companies. In fact, there is so much overlap between the two departments. In many smaller companies, HR activities are actually managed by the accounting department.

Fala Direct Marketing, a 300-employee direct-mail service provider. Here, because the controller heads up the HR function, finance and HR activities are so interrelated that many times it is difficult classifying which tasks are solely HR-related. Payroll is an accounting issue, for instance, but it is also an HR activity. So it is hard to divide the responsibilities. This is not the only area of overlap. The company is in the process of implementing a cost accounting system that will be used not only to identify profit measures but to develop financial incentives for the company's hourly employees. Clearly, the project offers both financial and HR benefits. The finance department also is responsible for developing competitive compensation plans, crafting overtime policies and purchasing benefits-all of which are typically found in HR department domain.

National Education Corporation also discovered a lot of overlap between HR and accounting, particularly in the area of payroll. In its reengineering project, payroll and HR activities have been merged into one six-person department. Before it was not clear who should take ownership of the payroll process because company dealing with the same group of employees, the same data and the same system, a lot of things fell through the cracks. HR would hire someone and forget to tell payroll. Merging the two departments has not only improved the payroll process, it has allowed for better financial management of HR activities. For example, financial managers in the new hybrid department discovered the company had paid \$750,000 too much for health insurance because of poor administration. By working together, these kinds of mistakes are avoided. Today, all HR professionals know how to read spreadsheets and conduct financial analyses before making major financial decisions.

The experiences of *NEC and Fala Direct Marketing* are not intended to be an argument for joining the finance and HR functions but rather to illustrate how closely they must work together to make good business decisions. Unfortunately, in companies with rigid functional boundaries, employees in both departments have acquired the mind-set that a task should be either finance or HR's responsibility. In reality, a lot of HR decisions should be the responsibility of both departments.

### 5.3 HR-Finance co-operation: Better organizational performance

Human Resource Department and the Financial Resource Department fulfill the objective to ensure effective human, financial and resource management of the company, at

headquarter and in the field. Human Resources management is used to ensure effective human resources development and consistency with companies' strategies, policies, regulations and rules providing advice and services on staff development, management and planning, social protection and welfare services. Finance people ensure sound financial management of the company and provide support and advice on financial and budgetary matters to senior management and members of the legislative and supervisory bodies.

### 5.4 Boost a Link between Finance and HR

There are a lot of similarities between the two professions. If Finance is fully integrated with the business it serves, there are huge benefits in cost management and control. The Finance function understands the business and can therefore plan investment and expenditure to meet trading patterns rather than simply reacting to events that have already occurred. Similarly an integrated HR department can preempt people issues and can act quickly to resolve them before they become problems. It is all about being visible in the organization, talking to people, understanding their needs and being commercially focused.

### 5.5 Growing HR-Finance Partnership

Finance, more than any other function, is in a key position to help HR achieve its objectives. Because in many organizations; finance is becoming the primary source of performance measurement data. The information finance gathers on earnings, productivity and customer satisfaction provides tremendous insight into the staffing and development needs of an organization. Unless this information is shared with HR, without this information HR cannot do its job promptly.

## 6. Suggestions

- Finance manager should co-operate human resource manager by financing requested project by human resource department.
- The relationship between HR and Finance should be a partnership because two distinct specializations but working together as equals to support the business most important assets.
- The company objectives should be the driving force instead of group spirit and personal incentives or establishment of supremacy.
- A multi-disciplinary training system is required to develop a better understanding of the complications and higher degree of coordination.

## 7. Conclusion

Financial Management & Human Resource management are said to be interdependent because without one another they will not operate in an efficient and effective way. The common factor with each of the HR & the finance people is that either they are finance specialists or HR professional; they also had huge amounts of business acumen and understood their businesses thoroughly. So HR professional are not different from finance colleagues in that respect. The relationship between HR and Finance is pivotal to achieving great things. Financial management provides each of the other key business functions like operations, marketing & human resources with budgets, cost centers etc. So without finance, human resources that are made up of employees

and employers will not be paid and therefore will not work efficiently. Combined efforts of Human Resource Management and Financial Management is the platform at which the disciplines of HR, Finance meet to carry businesses on the path of enhance excellence, productivity and profitability

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