

# Essentials of HRM

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## C H A P T E R

### HR AUDIT, AND ACCOUNTING

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**INTRODUCTORY CASELET****HRIS IMPLEMENTATION BY BRISBANE CATHOLIC EDUCATION, AUSTRALIA**

Brisbane Catholic Education (BCE) is a learning community comprising over 130 schools in Australia. There are more than 64,000 young people registered in their schools and colleges from preparatory to 12th standard. BCE has a staff of over 9500 employees. In order to provide effective support to such a large number of employees, BCE required a more efficient HR management system.

In order to improve their human resource, payroll and operations, BCE approached Talent2, an HR solutions and service provider. BCE and Talent2 coordinated together to implement Talent2 HRIS software. BCE selected this software because of its enhanced system capability and great value. Talent2 HRIS provided an online user interface platform called **Web Self Service**, where employees can access relevant human resource information easily. Apart from this, the software also helped BCE with better report generation and knowledge solutions.

The results of the implementation of the new integrated HRIS software were found to be extremely positive as employees were more engaged and actively participated in various events on the online data sharing platform. BCE has collaborated with Talent2 to ensure all customer queries are addressed and effective solutions are provided. Currently, both BCE and Talent2 are involved in further developing and improving their HRIS software product in order to achieve maximum efficiency and return on investment.

In his testimony, Kerry Edwards-Williams, Manager Business Information Services at BCE, stated, “The Web Self Service system has proven the most popular way for staff to interact with the application because of its ease of use and accessibility.”

## LEARNING OBJECTIVES

After completing this chapter, you would be able to:

- Explain the concept of HR audit
- Discuss the process of HR audit
- Explain the concept of HR accounting
- Discuss the methods of HR accounting
- Explain the concept of HRIS
- List the components of HRIS

## 12.1 INTRODUCTION

HR audit is a process of examining and evaluating HR policies, procedures, and practices to determine the effectiveness of the HRM function of an organisation. The main aim of the HR audit is to facilitate the optimum utilisation of human resource and accurate human resource planning in an organisation. HR audit helps organisations in ensuring compliance with all regulatory norms; correcting existing gaps in the HRM function; establishing sound HR policies; and so on. In addition, it enables an organisation to keep pace with changes that take place in the business environment.

HR accounting is an attempt to estimate the cost incurred on employees towards their recruitment, training and development, salaries, and other benefits paid in return for their contribution to organisation's profitability. It aims at calculating the total amount to be spent on acquiring, allocating, developing, and maintaining human resource; making effective decisions related to recruitment, selection, promotions and transfer, retrenchment, etc.

Both the processes HR audit and HR accounting can only be successful if accurate HR information is available. HR information system is a set of interrelated components that collects, stores, processes, generates, and disseminates human resource information for effective decision making. It manages, analyses, and reports of all information related to the employees and HR policies of an organisation. In this chapter, you will study about HR audit, HR accounting, and HR information system in detail.

## 12.2 HR AUDIT

The term **audit** can be defined as an unbiased examination and verification of an organisation's financial statements, employee records, etc. to determine their accuracy and outline any issues that need to be addressed. An audit can be conducted internally in organisations or by external agencies. Irrespective of the type, an audit aims at providing

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recommendations to an organisation in the form of audit reports based on the findings. Similarly, HR audits are conducted in organisations to determine the accuracy of the HRM function of an organisation.

HR audit is a systematic process of examining the policies, procedures, practices, structure, strategies, employee documents, etc. with respect to an organisation's HRM function. It aims to evaluate the strengths, weaknesses, and developmental needs of employees with a view to enhance organisational performance. It helps an organisation to determine the effectiveness of its HRM function. The following are some famous definitions of HR audit:

**Jack J. Phillips** defined HR audit as “an investigative, analytical and comparative process that attempts to reflect the effectiveness of the human resource functions.”

**David Campbell et al.** defined HR audit as “an investigation into size, skill, structure, and all other issues surrounding those currently employed by the organisation and its future human resource needs.”

According to **Rosemary Harrison**, “HR audit is defined as a way of assessing the nature and impact of human resource development activity at particular points in time.”

According to **Eric G. Flamboltz**, “Human Resource Audit is a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organisational performance.”

HR audit plays a crucial role in an organisation as it helps managers to take decisions on current HR problems so that overall productivity is not affected. Let us now discuss the need and objectives of HR audit.

### 12.2.1 NEED AND OBJECTIVES OF HR AUDIT

HR audit is needed to ensure that all HR principles and practices are correctly followed in the organisation. Moreover, it helps organisations to monitor the effectiveness of its HRM function. The following points explain the need for HR audit:

- ❑ HR audit is performed to determine whether HR objectives are aligned with organisational objectives and employees are committed towards achieving the organisational goals and objectives.
- ❑ HR audit is needed to determine whether employees follow organisational standards, maintain discipline, and work as per the organisation's policies.
- ❑ HR audit is needed to review the effectiveness of various HR programs, such as selection and recruitment, training and development, and performance appraisal, and improve them.
- ❑ HR audit helps to determine whether the HRM function is in compliance with the national and state HR laws.



- ❑ It focuses on identifying gaps or drawbacks in the implementation of policies, rules, regulations, and other practices of the HR department and recommending corrective measures.
- ❑ HR audit aims to check all possible documentation with regards to performance appraisal reports, data related to the functions of the HR department, manager feedback reports on employees' performance, etc.

### 12.2.2 ROLE AND SIGNIFICANCE OF HR AUDIT

HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation. The following points explain the role and significance of HR audit:

- ❑ HR audit acts as an important tool to determine the effectiveness of HR policies and procedures.
- ❑ HR audit helps to determine any competency gaps in existing employees and identify the requirement for hiring.
- ❑ HR audit provides insight into the cost involved in conducting training and development programs, coaching and mentoring sessions, career development programs, etc.
- ❑ It plays a crucial role in determining employee needs, for example, whether employees are satisfied, motivated, etc. so that overall organisational productivity can be maintained.

### 12.2.3 PROCESS OF HR AUDIT

HR audit is a systematic process that consists of a number of steps. Figure 12.1 shows the steps in the HR audit process:

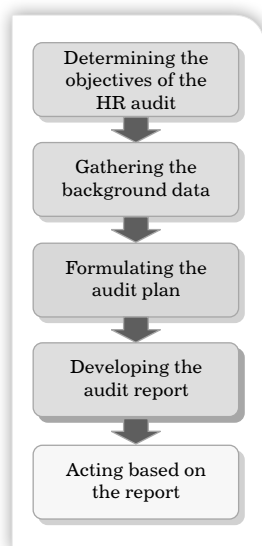


Figure 12.1: HR Audit Process

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Let us discuss these steps in detail.

1. **Determining the objectives of the HR audit:** In this step, the objectives of conducting HR audit are determined. These objectives can be to finding out whether HR objectives are aligned with organisational objectives; the HR practices of the organisation effective; and so on.
2. **Gathering the background data:** In this step, the auditor collects data about an organisation's internal and external business environment. The data gathered from the internal business environment can be employee details, managers' details, HR policies and plans, organisation's mission, vision and business strategy, etc. On the other hand, the data collected from the external business environment can be market conditions, political and legal changes, socio-economic and cultural changes, current positioning of the organisation in comparison to its competitors, etc. This data can be collected through surveys, interviews, focus groups, observations and document reviews.
3. **Formulating an audit plan:** In this step, the auditor prepares a plan on how to start, where to start, what sources to be used, etc. In addition, this step involves deciding the overall budget of the HR audit process and the number of people required for conducting the audit.
4. **Developing the audit report:** In this step, the auditor prepares an audit report. This report highlights the strengths of the existing HR system of the organisation and the areas that require improvements. The audit report is used by the organisation in the future for developing new HR policies.
5. **Acting based on the report:** This is the final step of the HR audit process wherein organisations take actions based on the recommendations given by the HR auditor. The actions can be redefining HR strategies, restructuring the HR department, changing HR policies, etc.

A sample HR audit checklist generally used by organisations is depicted in Figure 12.2:

**N O T E S**

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____				
<b>ORGANIZATION NAME</b> <b>INTERNAL CONTROL QUESTIONNAIRE</b>				
<p><b>PURPOSE:</b> Audits help determine the effectiveness of an HR department and/or HR systems.                  They are a systematic, objective tool to assess regulatory or policy compliance in the workplace.                  The following list of HR audit questions is not meant to be comprehensive to every organization, merely a representation of the types of questions that may be found in an HR audit.</p>				
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 2px;"><b>Department:</b></td> <td style="padding: 2px;"><b>Auditable Function: Human Resources Audit Checklist</b></td> </tr> <tr> <td style="padding: 2px;"><b>Discussed with:</b></td> <td style="padding: 2px;"><b>Date:</b></td> </tr> </table>	<b>Department:</b>	<b>Auditable Function: Human Resources Audit Checklist</b>	<b>Discussed with:</b>	<b>Date:</b>
<b>Department:</b>	<b>Auditable Function: Human Resources Audit Checklist</b>			
<b>Discussed with:</b>	<b>Date:</b>			

Question	Yes	No	N/A	Comments
<b>Management</b>				
1. Are HR goals in line with those of the organization?				
2. Are workweeks identified and defined?				
3. Are full-time and part-time hours defined?				
4. Are shifts defined?				
5. Is there open communication to and from the HR department?				
<b>Hiring</b>				
1. Do job descriptions exist?				
2. Are job descriptions up to date?				
3. Are 1-9 forms and acceptable documentation reviewed annually?				
Are job openings offered to current employees?				
4. Are applicant references checked?				
5. Are turnover rates monitored?				
6. Are selection processes used with reference to the Uniform Guidelines?				
7. Are all applicants required to fill out sign an application form?				
<b>ICQ.doc</b>				

Figure 12.2: Sample HR audit checklist  
 (Source: <http://img.docstoccdn.com/thumb/orig/446840.png>)

## N O T E S

The above HR audit checklist shows various questions that can be asked with regard to management and hiring. The responses are usually given in Yes/No form and comments are mentioned beside each response.

### 12.2.4 LIMITATIONS OF HR AUDIT

In the previous section, you have studied that HR audit has a number of benefits, such as identifying and resolving HR issues and maintaining better work standards. However, there are certain limitations of HR audit. Some of these limitations are given as follows:

- HR audit can lack uniformity as auditors tend to follow different auditing standards and guidelines. This is because there is no set standard or principles for HR audit.
- Sometimes HR personnel fail to provide relevant information, which leads to inaccurate and ineffective audit process.
- HR audit can turn to subjective in nature when there is a lack of statistical data.
- HR auditors may lack the required skills and knowledge, which may lead to a failure of the audit process.
- HR auditors sometimes fail to recognise valuable inputs from senior HR personnel which might be useful for the audit process.



#### SELF ASSESSMENT QUESTIONS

1. Which of the following is the second step in the HR audit process?
  - a. Formulating the audit plan
  - b. Developing the audit report
  - c. Gathering the background data
  - d. Acting based on the report
2. HR audit can lack \_\_\_\_\_ as auditors tend to follow different auditing standards and guidelines.



#### ACTIVITY

Assume yourself to be a junior auditor. You have to carry out an audit in an esteemed IT company. How will you conduct the audit?

## 12.3 HR ACCOUNTING

Human Resource Accounting (HRA) is defined as a system of identifying, collecting and reporting data on investments in human assets.

In other words, HRA is a future approach that reflects the potential of human resource in monetary terms. The following are some popular definitions of HRA:

According to **American Accounting Society Committee**, “*Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.*”

According to **Woodruff**, “*Human Resource Accounting is an attempt to identify and report investments made in human resources of an organisation that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resource in the business.*”

**Davidson and Roman L. Wheel** defined HRA as “*a term used to describe a variety of proposals that seek to report and emphasize the importance of human resources - knowledgeable, trained and loyal employees in a company earning process and total assets.*”

According to **Eric Flamholtz**, “*Human resource accounting is the measurement of the cost and value of the people for the organisation.*”

HRA acts as an important tool to human asset control and provides information to an organisation whether the asset is appreciated, depleted, or conserved. Let us now discuss the need and objective of HR accounting in detail.

### 12.3.1 NEED AND OBJECTIVES OF HR ACCOUNTING

Accounting principles and practices often neglect the human resource aspect. However, the optimum utilisation of other physical assets of an organisation, such as land, building, plant, and machinery, depends largely on the efficiency of human resource. Thus, HRA is needed to enlist human resources as assets. The following points explain the need and objectives of HRA:

- ❑ HRA helps in estimating the expenses on human resources, listing the expenses correctly in the book of accounts, and reporting the record of expenses in financial statements.
- ❑ HRA provides information about cost and value of human resource to managers. This helps them to take decisions regarding recruitment, selection, and training and development of human resource.

As per Likert (1971), in an organisation, HRA intends to serve the following objectives:

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- ❑ It provides information for making decisions related to the acquisition, allocation, and development of human resource to achieve cost-effectiveness.
- ❑ It allows managers to monitor the utilisation of human resource.
- ❑ It provides a basis of human asset control, that is, whether the asset is appreciated, depleted, or conserved.

### 12.3.2 SCOPE OF HR ACCOUNTING

HRA helps organisations in performing various HR functions, such as recruitment and selection and training and development. The following points explain the scope of HRA:

- ❑ HRA helps in recruitment and selection of employees as it provides managers an estimate of the cost required to hire a new candidate and determine whether the organisation needs new hiring.
- ❑ HRA helps managers to plan and fix the cost of training programs of new employees and development programs for existing employees.
- ❑ It also helps managers to determine the cost of any career development programs for existing employees of the organisation.
- ❑ It allows managers determine the performance of employees by measuring the effectiveness of performance appraisal and the cost involved in the appraisal process.

### 12.3.3 METHODS OF HR ACCOUNTING

HRA methods are used for the valuation of human assets. There are two main methods of HRA, which are shown in Figure 12.3:

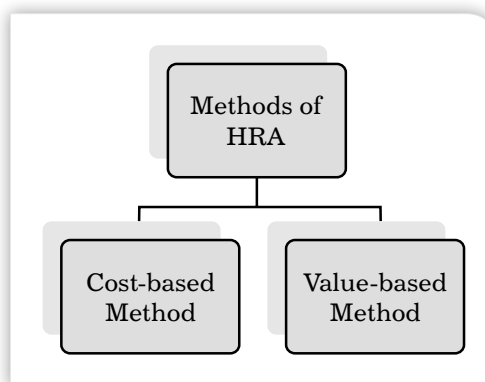


Figure 12.3: Methods of HRA

Let us now study these two methods in detail.

- **Cost-based method:** This refers to the total cost incurred by an organisation on employees starting from their recruitment to separation from the organisation. There can be three types of costs incurred on human resource, which are:
  - ◆ **Historical cost:** This refers to an accounting method in which assets are listed on a balance sheet considering the value at which they were bought instead of the present market value. Historical cost can be of two types, namely acquisition cost and learning cost. Acquisition cost is incurred on recruitment, selection, and placement of individuals in an organisation. Thus, this cost is mainly borne by the organisation on new employees. On the other hand, learning cost is incurred on the training and development of existing employees. Historical costs can be calculated easily.
  - ◆ **Replacement cost:** This cost is incurred on hiring a new employee to replace an existing employee in an organisation. The replacement cost is calculated by considering various expenses, such as acquisition and learning costs. Measuring replacement cost is quite useful as it provides a fair idea of the total cost that might be involved in hiring a new employee. However, the main limitation of this method is that the right replacement may not be obtained easily on whom a certain amount is spent. This may lead to operational issues within the organisation.
  - ◆ **Standard cost:** This refers to a predetermined or estimated cost of employees for each employee acquisition in a given accounting period. It is used as a benchmark against which the cost variances and financial performance are measured. The standard cost of employees varies and can be obtained from historical data analysis or from time and motion studies.
- **Value-based method:** This method is used to determine the value of human resources and their contribution to the organisations' profits in monetary terms. There are two value-based methods commonly used by organisations, which are:
  - ◆ **Present value of future earnings:** This refers to the estimated current value of a future amount which is to be received or given and is discounted at the current market value rate. There are numerous models used by organisations to estimate the present value of employees, such as Lev and Schwartz (1971) model, Eric Flamholtz (1974) model, and Jaggi-Lau's model.

Among these models, the Lev and Schwartz (1971) model is the most commonly used by organisations. According to the model, the value of human capital represented by a person of age 'r' is the present value of his/her remaining future earnings

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from his/her employment.” Lev and Schwartz devised the following formula to calculate the value of an individual:

$$V_r = \sum_{t=r}^T \frac{I(t)}{(1+r)^{t-r}}$$

Where,  $V_r$  = The value of an individual  $r$  years old

$I(t)$  = An individual's annual earning up to retirement,

$T$  = Retirement age,

$r$  = Discount rate specific to the person,

$t$  = Active service (in years)

Organisations usually make necessary changes to this model according to their requirements, for example, discount rates can be altered to determine the present value of future cash flows. Therefore, this model helps to identify an employee's economic value to the organisation to his future earnings until his/her retirement. The employee's expected future earnings are discounted by an appropriate rate to obtain the present value of his/her work in the organisation.

- ◆ **Expected realisable value:** This refers to the personal attributes, attitude, and behaviour that an employee is expected to have in an organisation. The employee is judged by the organisation based on these values, which would impact his/her work performance and the overall productivity.

#### 12.3.4 LIMITATIONS OF HR ACCOUNTING

From the discussion so far, it can be said that HRA is helpful in deciding the total budget of an organisation on human assets. However, there are certain limitations of HRA:

- ❑ HRA doesn't have any set accounting standards for measuring human resource value. Thus, organisations follow their own HRA standards to measure the values of human assets. This difference in approaches in organisations leads to non-comparison of values of human assets.
- ❑ The human asset valuation is dependent on the assumption that employees stay in organisations for a certain period of time. However, over the years, human resource mobility has increased; thus, this assumption might not work in some organisations.
- ❑ Organisations may lose valuable human resource if the valuation is incorrectly carried out. This situation can also arise if the results of the valuation of human resource are not utilised effectively.



- ❑ There are no specific guidelines to determine the cost and value of an organisation's human resources as the current methods of HRA have their own limitations.
- ❑ The life span of individuals cannot be predicted; thus, their values are also uncertain.



#### SELF ASSESSMENT QUESTIONS

3. HRA provides information about cost and value of human resource to managers. (True/False)
4. Which of the following refers to a predetermined or estimated cost of employees for each employee acquisition in a given accounting period?
  - a. Replacement cost
  - b. Standard cost
  - c. Historical cost



#### ACTIVITY

Assume you are responsible for conducting HR accounting in a manufacturing company. Apply the suitable methods of HR accounting and finalise a report.

## 12.4 HR INFORMATION SYSTEMS (HRIS)

Human Resource Information System (HRIS) is a system designed to provide necessary information for effective management of human resource. In other words, HRIS is an online database system that helps in managing information related to all employees of an organisation at one place. This information can be related to employees' salary structure, appraisal, and leaves, and so on. The following are some popular definitions of HRIS:

According to **Tannenbaum (1990)**, HRIS is defined "*as a system that is used to acquire, store, manipulate, analyse, retrieve, and distribute information about organisation's human resources.*"

**Kovach and Cathcart (1999)** defined HRIS "*as a system for collecting, storing, maintaining, retrieving and validating data needed by an organisation about its human resources.*"

**Broderick and Boudreau (1992)** defined HRIS "*as a composite of databases, computer applications, and hardware and software that are*

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*used to collect/record, store, manage, deliver, present and manipulate data for human resources.”*

**Nel et al. (2008)** stated HRIS *“as a computerised system that collects, stores, analyses, distributes and retrieves information about employees and their jobs.”*

**Hedrickson (2003)** defined HRIS *“as integrated systems used to gather, store and analyse information regarding an organisation’s human resources.”*

HRIS collects, stores, processes, generates, and disseminates human resource information for effective business decision making. It provides information on various HR policies formulated by the organisation to HR personnel as well as employees.

#### 12.4.1 NEED AND OBJECTIVES OF HRIS

The need for HRIS arises in business organisations having a large number of employees. In such organisations, it is extremely difficult to manage and maintain employee data manually. HRIS enable organisations to maintain employee database and retrieve it as and when required. The following points explain the need and objectives of HRIS:

- ❑ **Effective planning and policy formulation:** HRIS aims to provide support to managers for future planning and the formulation of HR policies. This support is extended to both at macro and micro levels. At the macro level, HRIS is concerned with overall organisational productivity. On the other hand, at the micro level, it specifically relates to the performance of the HR department.
- ❑ **Monitoring and evaluation:** In an organisation, HRIS aims to monitor an organisation’s requirements related to HR demand and supply. This further helps in preventing the situations of shortage and excess of human resource.
- ❑ **Decision making:** HRIS intends to provide inputs to managers in making strategic decisions related to technological changes, employee turnover, competency profiling of employees, etc.
- ❑ **Increased accuracy:** HRIS is free from human errors and provides accurate information to managers related to employees. This ultimately leads to sound HR decisions; thereby increasing overall organisational effectiveness.
- ❑ **Increased productivity:** HRIS contributes largely to an increase in organisational productivity by providing information on any gaps in the skills and competency of employees and training and development requirements.

**12.4.2 COMPONENTS OF HRIS**

In HRIS, employee information is collected, stored, and recorded with the help of its three important functional components, which are explained as follows:

- ❑ **Input:** This component enters employee data into HRIS. The processes and procedures needed for data collection are initially established. Once the data is collected, it is entered into the system in a coded form. Next, the data is validated using validation tables. The input system of HRIS can change or update the validation table whenever needed. The working of the input component is shown in Figure 12.4:

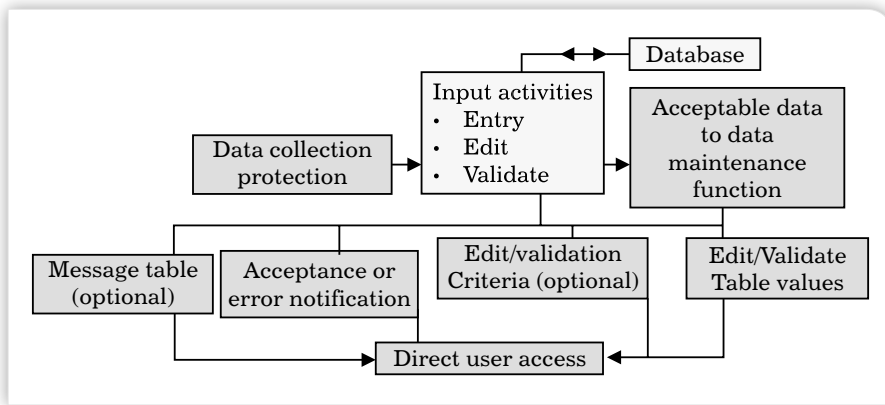


Figure 12.4: Working of Input Component

(Source: <http://books.google.co.in/books?id=Webti-aBy8EC&pg=PA126&dq=components+of+hris&hl=en&sa=X&ei=pp3XU-vDCIi7uASgjoLgCg&ved=0CFAQ6AEwCA#v=onepage&q=components%20of%20hris&f=false>)

- ❑ **Data maintenance:** This component of HRIS updates the data which is stored in the storage device. Although new data is included in the system, the old data is also kept as a backup. The working of the data maintenance component is shown in Figure 12.5:

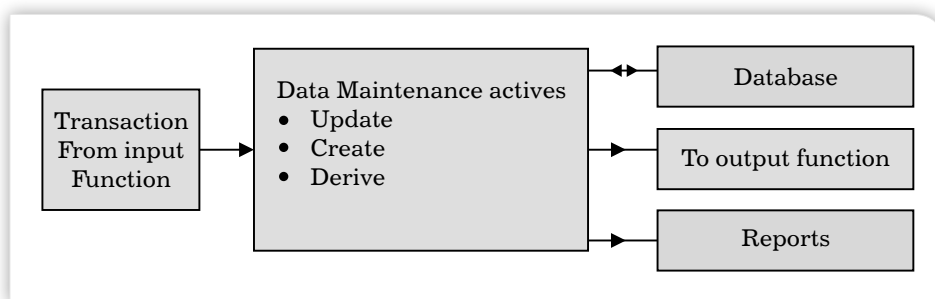


Figure 12.5: Working of Data Maintenance Component

(Source: <http://books.google.co.in/books?id=Webti-aBy8EC&pg=PA126&dq=components+of+hris&hl=en&sa=X&ei=pp3XU-vDCIi7uASgjoLgCg&ved=0CFAQ6AEwCA#v=onepage&q=components%20of%20hris&f=false>)

## NOTES

- ❑ **Output:** HR managers tend to be more interested in this component of HRIS as essential information and reports of human resources are generated. This helps managers to evaluate, perform calculations, plan and forecast future human resource needs and development in the organisation. The working of the output component is shown in Figure 12.6:

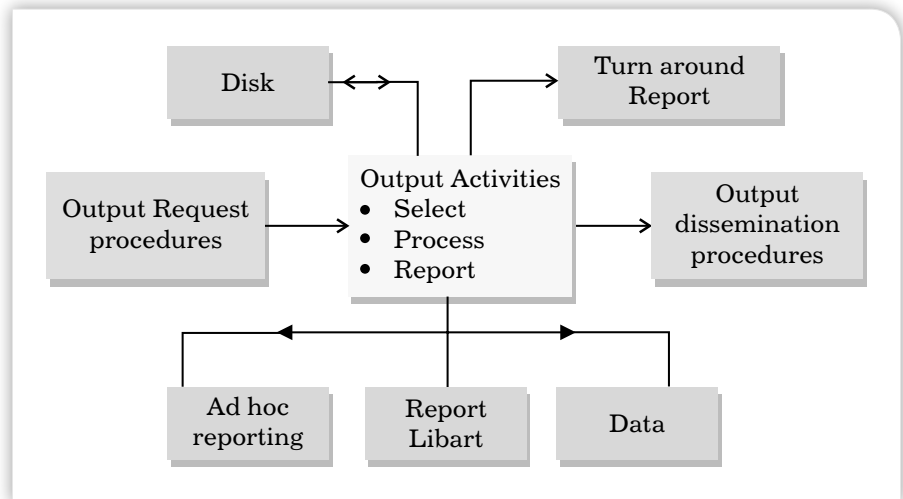


Figure 12.6: Working of Output Component

(Source: <http://books.google.co.in/books?id=Webti-aBy8EC&pg=PA126&dq=components+of+hris&hl=en&sa=X&ei=pp3XU-vDCIi7uASgjoLgCg&ved=0CFAQ6AEwCA#v=onepage&q=components%20of%20hris&f=false>)

### 12.4.3 TYPES OF HRIS

Different organisations use HRIS for different purposes. Thus, HRIS differs across organisations based on their requirements. Figure 12.7 shows different types of HRIS:

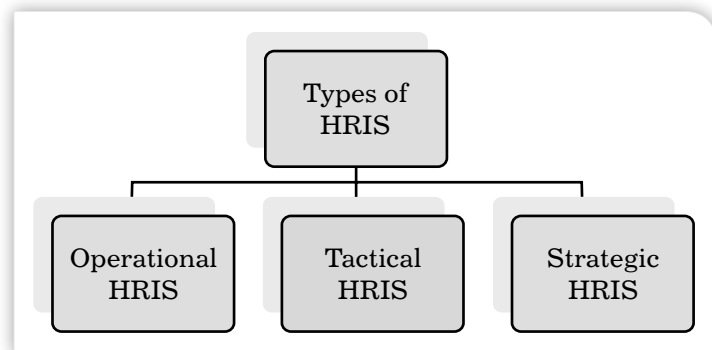


Figure 12.7: Types of HRIS

Let us now discuss about these types of HRIS in detail.

- ❑ **Operational HRIS:** This type of HRIS provides information to managers for making routine HR decisions. Operational HRIS contains general information about employees, HR policies, government policies, etc. The following are the functions of operational HRIS:
  - ❑ **Employee database management:** Operational HRIS provides employees' personal details, such as name, address, sex, minority status, marital status, educational background, and citizenship as well professional details like previous experience, employment history current job title, salary, retirement and health plan choices, and so on.
  - ❑ **Recruitment and selection:** After recruitment, candidates are screened, assessed, selected and placed in a specific job position. Operational HRIS helps HR personnel with such tasks.
  - ❑ **Performance management:** Operational HRIS provides information of the performance of employees in terms of their work targets, deadlines, etc. This information helps managers to decisions related to retention, promotion, transfers, or termination of employees.
  - ❑ **Government reporting and compliance:** This system helps to provide information on the latest government laws, compliance guidelines to be followed, etc.
  - ❑ **Tactical HRIS:** This type of HRIS helps managers to take decisions on the allocation of human resources in the organisation. The following are the different functions of tactical HRIS:
    - ◆ **Job analysis and design:** Tactical HRIS helps managers in analysing and designing jobs in an organisation by providing relevant information. This information is collected through job description, job specification, interviews with supervisors and workers, action guidelines, government reports, competitors' executive summaries, etc.
    - ◆ **Compensation and benefits management:** This system helps managers in maintaining a fair and equitable compensation system by providing information on industrial compensation standards.
    - ◆ **Employee training and development:** Tactical HRIS provides information on any gaps in the skills, abilities and competencies of employees; thereby planning for training and development programs.
  - ❑ **Strategic HRIS:** This type of HRIS helps managers to make decisions related to workforce planning, labour negotiations, etc. Such

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decisions are generally taken by managers in case of introduction of new products, entry in new markets, new locations of operation, and so on.

#### 12.4.4 APPLICATION OF HRIS IN HR MANAGEMENT

The advent of globalisation and liberalisation has led to an increase in the number of employment opportunities, which, in turn, has broadened the scope of HR functions. In such a case, it is important for organisations to automate its HR functions with the help of HRIS. The following are the applications of HRIS in HRM:

- ❑ **Job description:** HRIS produces reports describing jobs according to employee specifications and other information. HRIS offers flexibility to the user to update and change any job details according to the requirements of the specified job. This helps managers in preparing job descriptions for employees.
- ❑ **Training and development:** HRIS provides information on training courses, location, timings, details of the trainer, list of trainees, competency levels of trainees, etc. Managers can use these details to plan training and development programs in the future. HRIS also provides flexible on-line training courses that employees can avail from remote locations.
- ❑ **Performance appraisal:** HRIS enables managers to conduct real-time performance appraisal by filling online forms, taking feedback from various parties on employees' performance, etc.
- ❑ **Retention strategy:** HRIS provides information on employees' performance, attitudes, behaviour, etc. as reflected in survey sheets and online reports. This helps managers to decide whether the employees should be retained or not.

#### 12.4.5 LIMITATIONS OF HRIS

HRIS plays an important role in collecting, storing, and recording employees' information in an organisation. However, HRIS has certain limitations. Some of these limitations are given as follows:

- ❑ **Costs associated with HRIS implementation:** Transaction costs associated with acquiring the latest equipment and technology for HRIS may be too high, especially for small and medium-sized organisations.
- ❑ **Resistance to change:** Employees might feel comfortable in the old paper system of recording HR data. They might find it difficult to adapt to this change. Organisations then face a tough situation in making employees understand the benefits of HRIS.

- ❑ **Security:** Highly confidential employee information can be misused due to the negligence of the concerned system operator or the failure to monitor and maintain the system.
- ❑ **Data entry errors:** Human errors commonly occur while entering data into the system. If data is wrongly entered, updated or changed, this might lead to a loss of data and the organisation can face high costs to rectify the system along with legal complications.



#### SELF ASSESSMENT QUESTIONS

5. HRIS collects, stores, processes, generates, and disseminates human resource information for effective business decision making. (True/False)
6. Which of the following HRIS component updates the data which is stored in the storage
  - a. device?
  - b. Input
  - c. Output
  - d. Data Maintenance
7. Tactical HRIS provides information to managers for making routine HR decisions. (True/False)



#### ACTIVITY

Assume you are a junior executive of the HR department of a medical equipment company. The company wants to install the latest HRIS software. Provide your recommendations to your manager regarding the features of all the latest HRIS software that is currently available in the market.

## 12.5 SUMMARY

- ❑ HR audit is a systematic process of examining the policies, procedures, practices, structure, strategies, employee documents, etc. with respect to an organisation's HRM function.
- ❑ HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation.
- ❑ HR audit can lack uniformity as auditors tend to follow different auditing standards and guidelines.
- ❑ Human Resource Accounting (HRA) is defined as a system of identifying, collecting and reporting data on investments in human assets.

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- ❑ HRA helps organisations in performing various HR functions, such as recruitment and selection and training and development.
- ❑ HRA methods are used for the valuation of human assets.
- ❑ Human Resource Information System (HRIS) is a system designed to provide necessary information for effective management of human resource.
- ❑ HRIS enable organisations to maintain employee database and retrieve it as and when required.
- ❑ The advent of globalisation and liberalisation has led to an increase in the number of employment opportunities, which, in turn, has broadened the scope of HR functions.
- ❑ HRIS plays an important role in collecting, storing, and recording employees' information in an organisation.



## KEY WORDS

- ❑ **Retrenchment:** This refers to the termination of employees by an organisation to cut down on costs.
- ❑ **HR audit:** This refers to a systematic process of examining policies, procedures, practices, documentation and systems with regards to an organisation's HR functions.
- ❑ **Compliance:** This refers to the act of complying or following specific guidelines, rules and laws.
- ❑ **Book of accounts:** This refers to the cash-books, ledgers, etc. that comprise accounts of an organisation.
- ❑ **Time and motion studies:** This refers to the analysis of the efficiency with which an organisation's operations are carried out.
- ❑ **Competency profiling:** This is a method of identifying the skills, competencies, and behaviour of an employee needed to perform a specific task.

## 12.6 DESCRIPTIVE QUESTIONS

1. Explain the process of HR audit.
2. Discuss the methods of HRA.
3. Elaborate on the applications of HRIS in HRM.



## 12.7 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No	Answers
HR Audit	1.	c. Gathering the background data
	2.	Uniformity
HR Accounting	3.	True
	4.	b. Standard cost
HR Information Systems (HRIS)	5.	True
	6.	c. Data Maintenance
	7.	False

### HINTS FOR DESCRIPTIVE QUESTIONS

1. The HR audit process involves a number of steps, i.e. determining the objectives of the HR audit, gathering the background data, formulating the audit plan, developing the audit report and acting based on the report. Refer to section **12.2 HR Audit**.
2. There are mainly two types of methods of HRA, i.e. cost-based method and value-based method. The cost-based methods involve historical cost, replacement cost and standard cost while the value-based method involves present value of future earnings and expected realisable value. Refer to section **12.3 HR Accounting**.
3. HRIS can be applied in HRM in various ways, for example, job description, training and development, performance appraisal, retention strategy, etc. Refer to section **12.4 HR Information Systems (HRIS)**.

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