Human resource and financial measures issue

This paper explains the significance of establishing measurable outcomes before business procedures and activities take place. It describes four functions of the management cycle such as planning, organizing, leading and controlling and demonstrates how they interact with each other. Four business areas are considered such a human resource, financial, production and marketing department. It is proven that they all operate in accordance with four management functions and need measurement system for correct and unequivocal tasks formulation.

Four metrics were chosen for conducting an analysis on them. Absenteeism and turnover were selected as representatives of the human resource measurement system. Return on investment (ROI) and profit margin were chosen from financial area. The measures such as market share and sales volume are indispensable in marketing. Finally, such indicators of production department as survey of customer satisfaction and product rate of failure were selected to analyze their causes and effect. It was demonstrated that correct showing of measures of any business department depends on accurate and timely information that received from other business departments. It is also explained that interdependence of planning and controlling functions makes necessary getting timely and accurate information from all departments of the organization, because any deviation in information flow causes distortion in a measurement system of all depending spheres of business. Since planning and controlling are interdependent it is obvious that organizing and leading are interdependent too. Therefore, plans and procedures that stipulate measurement system are necessary for establishing standards, and these standards are the basis of comparison within business processes and activities of the organization. The results of comparison indicate the level of performance and define zones of growth within the organization.

Human Resource and Financial Measures

“ Management is the attainment of organizational goals in an effective and efficient manner through planning, organizing, leading and controlling organizational resources” (Richard L. Daft, Management, 2008, p. 4). Although each of the management functions answers for a specific set of activities and measurements, they are interrelated. Planning sets direction and goals for the organization. Organizing arranges the human and material resources to achieve these goals. Leading bears responsibility for effective work of the organization. Purpose of controlling to define whether the goals are achieved or not. Management includes rules and procedures, productivity and efficiency reports, vertical and horizontal organizational relations; however, it does not focus on controlling functions and measures of the organizational structure, it focuses on developing them to achieving high levels of performance and competence.

Standards and procedures are the foundation for detecting level of performance and competence; they compare the information which is obtained by managers with established rules and indicate whether there are deviations or correspondences. Standards and procedures are effective due to measurement systems, which are used to compare actual and normative performance. Measurement systems are the practical way to evaluate the performance, appropriate usage and achievements of organizational resources within each function of the management cycle.

Function of Planning uses measurement systems to define the goals for an organization; it establishes certain terms, level of performance and figures through planning tools such as budgets, schedules, standards, policies and procedures. Every department of organization answers for certain business sphere, such as finance, human resources, marketing and production. Therefore, special set of assessing metrics developed for each of the business department. Hence, performance evaluations, productivity reports, turnover, absenteeism and employee satisfaction are metrics of assessment for human resources department. The business is impossible without record about profits and losses. Financial or accounting records exist to plan, summarize and control organization’s financial activities and figures. Budgeting is the most comprehensive tool of financial planning; it accounts almost everything expenses, revenue, profit margin and return on investment. Prospected budget depends on planned production and sales volume which depend on indicators such as customer satisfaction, rate of customer returns, product rate of failure and the total number of clients. If those control figures are positive, the prospected production and sales volume will be higher, and, on the contrary, if those control figures are negative, the prospected production and sales volume will be lower. The levels of budget figures also depend on size of company; bigger size of company indicates bigger market share and product distribution in comparison to competitors.

After planning is being complete, managers of organization know the direction, in which they need to go, goals, which they should achieve, and terms, during which they should accomplish their task. Therefore, what they need now is to organize the process to meet all planned requirements and obligations. In other words, they need to deploy the organizationl resources in order to accomplish planned strategic and tactical goals. Second function of management, organizing, represents the coordinating, delegating, combining or uniting the tactics, mechanisms and techniques among different lines of authority as well as different business departments of organization. Thus, planning defined what and in what terms to achieve; organizing defines how to achieve. Next key management function is leading which reflects the methods for accomplishing organizational goals in a competent and efficient way. Leading involves motivating, encouraging, communicating and guiding. The human resources and managers are those who responsible for creating favorable working atmosphere in the organizations. The conditions that make one working place desirable and another unbearable are much more than wages and bonuses; they include working relationships, attitude as well as a possibility for self-realization and development. Respective attitude and acknowledgement define cognitive, affective and behavioral aspects of job satisfaction and, as a consequence, level of employee performance. Measurement system plays an influential role in evaluating and understanding factors which have positive or negative impact on the effectiveness of human resources. Finally, the fourth management function, controlling, means supervising activities and performance level in order to determine whether the organization achieved its goals and figures or not. Measuring functions of previous stages undergo the inspection of this last one. Qualitative controlling takes into account every indicator of success or failure and provides managers with the necessary information for correct changes in planning for a new period. Since, controlling in the management cycle is closely related to planning, the standards and procedures of the control systems are based on figures of the previous business periods. After predesigned objectives are established, appropriate control standards are being developed for them; these standards are units of the measurement system, which established to be a basis of specifying time lines and periods, scheduling, sets and sequences of activities, as well as distribution and allocation of resources. These objectives and standards should be measurable and comprehensible. Below there is listed several objectives that necessary for measuring performance or effectiveness in different categories, such as human resources, finance, production and marketing.

The competent management of human resources is significant for any organization; it has set of measures that help to handle human capital effectively. Absenteeism and turnover are some of them. Absenteeism means that employee misses working hours due to sickness or personal circumstances; it may last for a few hours, days or, even, months for reasons that an organization cannot control. Turnover is the rate of employees who was fired or leaves the organisation voluntary. Absenteeism and turnover have a similar impact on productivity and costs within the organization. Both absenteeism and turnover lead to downtimes due to the amount of time which needed to replace vacant place. The organization loses access to knowledge, experience, and skills permanently in case of turnover, and in case of absenteeism it loses them temporarily. Poor management and, as a consequence, job dissatisfaction and low personal motivation are main reasons of absenteeism and turnover. There are other reasons, such as alcohol and drug abuse, personal or personality problems which can cause absenteeism and turnover. Surveys, testing and questioning help reveal the inclination, problems or dissatisfaction of employee, and use this information to minimize the risk when it is possible. Discovering the employee’s motivation gives information about what genuinely drives his loyalty and can improve his productivity.

Return on investment (ROI) and profit margin are two significant measures of financial performance within an organization. Return on investment is an powerful indicator for investors that define the historical returns on invested capital; it is high for successful companies. To measure ROI the total amount of profit or loss, related to investment, should be divided by the total amount of investment, including expenses and fees. Return on investment is meant for measuring the ratio of one investment’s performance to another during specified time period. For measuring profit margin, the revenue should be divided by expenses, then the result is converted into a percentage. The profit margin varies significantly from industry to industry, so it is usually used for inside company’s comparisons. Measuring profit margin can determine the price of the product or services that provide the company with enough money to maintain and develop its market position.

Market share is an indicator of competitive strength of an organization; it is measured by comparing the companies which operate on the same segment of the market. Market share is comprehensible measure that includes level of production, sales volume, quantity of retail stores, and how wide or deep target audience. Changes in market share demonstrate the level of organizational development from year to year. Since the market share takes in account the comparison of one company with other ones that operate in the same segment of the market, there is no need to consider conditions of market. The macro economical recession or raise of trade level usually has the similar impact on players of the same industry. The best quality or unique product, aggressive and competent advertising, and flexible and sensible price policy can increase distribution and demand of the product as well as market share. However, increasing market share by sacrificing profit due to massive advertising expense or substantial price reduce is not always the right way. When company does not get enough return for investing in equipment or human resources in order to improve its product or service, it may lose market position. Therefore, managing market share requires an approach that is thorough and wise.

The sales volume is the most popular indicator of organizational activity that influences and participates in every aspect or function within the organization. There are a lot of methods to measure sales volume; each industry has its own. Sales can be measured per month, per square meter, per hour, per client, per check and so on. The managers draw diagrams and tables which demonstrate dynamics, comparison and changes in sales, which in his turn demonstrate failure or success of product, promotion, advertising, distribution, sales employees and management in general. The customer satisfaction is the necessary condition for good sales. When customers are satisfied with quality, design and price of the product or service, it positively influences on sales volume and brings profit to the company. Hence, it is essential to know the customer’s opinion.

For a survey of customer satisfaction is significant what, how and when questions should be asked. The second significant thing is proper usage of the results of the survey. Survey can be held face-to-face, and can be done by phone or through e-mail, but it should be based on a client's fresh experience. The one of the important questions for the survey is about the willingness of the customer to buy the product or service again, and the second fundamental question is about the willingness of the customer to recommend the product or service to somebody else. After finishing the customer satisfaction survey, gathering all answers and dividing them in accordance to their contents are necessary. Negative comments need to be considered with great attention, and, in case the amendments are made based on them, the customers should be advised about it.

Robert Cooper in the book “ Winning at New Products” reports that at least half of all resources that were assigned to “ product development and commercialization” in the United States turns into the product that companies sooner or later withdraw from production. Although, the assessment of new product and service failure ratio differs significantly from company to the company, or from industry to industry, in the best case scenario the odds of developing and producing a booming new product or service are not more than 50 chances out from 100. It is a fact that making a successful product is almost the same as building a successful company. Marketing studies should be done comprehensively in order to define adequately trends and tendencies, right time and right product. After that the right audience and positioning strategy should be chosen as well as adequate pricing policy and advertising company. Mistake in any above mentioned conditions may lead to product failure. Although, the rate of product failure is not a pleasant measure, it needs to be measured and analyzed because this experience provides companies with valuable information how do not repeat the same mistake.

Close relationships between planning and controlling facilitate getting timely and accurate information, provide conditions for success of the organisation, and simultaneously prevent its failure. Since planning depends on controlling, timely and accurate delivering of any information that concerns the organization can identify problem areas before they become irreparable, or in the case, that the information is positive, company will not lose the profit. The reports, letters, procedures and budgets that are correctly prepared and delivered in time prevent mistake, misunderstanding and disinformation; it enables correct and competent planning, organizing, implementing and controlling. Time and information are the most valuable assets that can be reliable allies if they are utilized properly or bitterest enemies if they are utilized inappropriately in the modern, dynamic business world. Four functions of the management cycle use the single system of measurement but every time for different goals, which are not only interlinked but interloped. Therefore, deviation or discrepancy on one of the stages will lead to deviation or discrepancy on another stage; then it inevitably will affect all parts of the organization. For example, retail department made a mistake in forecasting the expenses and incomes of developing retail chain, so financial department made incorrect budget, procurement department made inadequate delivery. When this mistake would be discovered the arrangements have been already set, so the retail, financial and procurement department will not meet their commitments, and, as a result, the entire organization either. All elements of the organization are so correlated that, sometimes, it is impossible to understand what exactly causes the problem. Therefore, every piece of management mosaic is paramount and need to be correct, accurate and well-timed.