Costing Human Resources

The Financial Impact of Behavior in Organizations

Wayne F. Cascio

Costing Human Resources

- First recognized approach was developed by R.G. Barry Corp. of Columbus OH in 1967.
- Department managers measured on five costs:
  - Recruiting
  - Acquisition
  - Formal Training
  - Informal Training
  - Development

“People are our most valuable asset.”

Asset Based Strategies

- Historical Cost
- Replacement Cost
- Present Value of Future Earnings
- Value to the Organization

Historical Cost

- Assets are placed on the books at acquisition cost.
- Assets are depreciated of their anticipated useful life.
- Maintenance costs for the assets are expensed during each operating period.

Replacement Cost

- A reasonable substitute for market value.
- Confounded by cost of acquisition (inefficient hiring).
- Often, turnover is low enough to make replacement cost only an educated guess.

Present Value of Future Earnings

- A projection of a person's future compensation in today's dollars.
- Limited by forecasting the contribution based on average output.
- Limited by measuring worth as cost, not contribution to revenue or profit.

Value to the Organization

- Value is determined by internal competition of managers to obtain services of that individual.
- Difficult to implement.

Strengths/Weaknesses

- Investment is tracked and is appropriate for external reporting.
- Dollar is not stable over time.
- Write-offs of failed programs is subjective.
- People, as assets, are not saleable, value is not confirmed in the marketplace.
- Only costs are measured, not value to the current organization.

Strengths/Weaknesses

- People are thought to gain value with experience.
- People measures are usually behavioral and statistical, rather than financial.
- Economic measures of people are typically cost-based, rather than asset based.

Behavioral Costing

Cascio's Approach

- Effective measurement must include the value of employee output, as well as cost.

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- Effective measurement must include variability of output and cost by individual and group.
- Many organizations do not want to measure and be accountable for how well they manage people.

Behavioral Costing

Cascio's Approach

- Focus on dollar value of behavioral outcomes in organizations.

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- Do not focus on the value of the individual, but on the economic consequences of behavior.

Behavioral Costing

Cascio's Approach

- Focus on dollar value of behavioral outcomes in organizations.
- Do not focus on the value of the individual, but on the economic consequences of behavior.
- This is an expense model, not an asset model.

Behavioral Costing

Two Considerations

- Outlay costs (materials) + Time costs (supervision)
- Fixed (independent of output) + Variable (dependent on output) + Opportunity (alternative use of resource)

Behavioral Costing

	Fixed	Variable	Opportunity
Outlay	Rest Rooms Parking Time Clocks	Wages Freezer Gear	Automation
Time	HR Staff Government Reporting	Supervisors	Customer Service

Behavioral Costing

Challenges

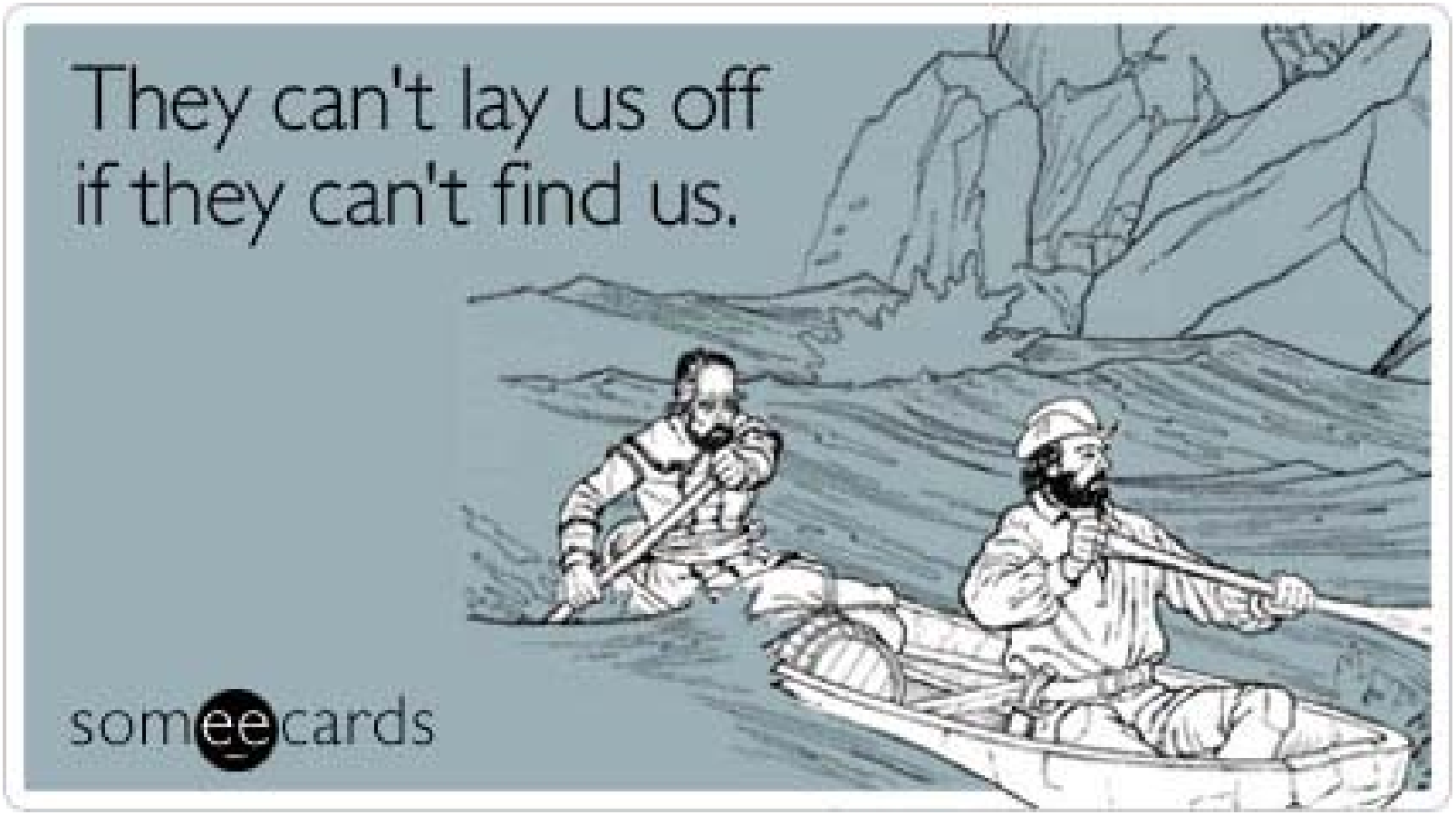
- No methods of measurement.
- Top management believes the cost is unquantifiable.
- Some managers want to avoid measurement.
- Past efforts have failed.

Behavioral Costing

Cost Impact Categories

- Compensation Programs
- Benefits
- Personnel Taxes
- Recruiting and Training
- Affirmative Action/Selection
- Turnover
- Safety

Turnover



Turnover

Turnover =
(Separations/Average Work Force Size) X 100

- **Voluntary**
- **Involuntary**
  - **Employee – Conduct**
  - **Employer – Operations**

Turnover

Cost of Turnover =

Separation Costs

+

Replacement Costs

+

Training Costs

Turnover

Separation Costs

Exit Processing	$ 35
Plant Staff (1x$25)	
Payroll (.5x$20)	
Separation Pay	$ 0
Unemployment Tax Impact	$ 6,750
20 Weeks x $320	
ESD, WA 2011	

Turnover

Replacement Costs

Communication of Vacancy	$	85
Pre-employment Admin (2x$25)	$	50
Selection Interviews (.5x$100)	$	50
Testing – Fit for Duty + Drug	$	170
Orientation (1x$25)	$	25
Relocation Expense	$	0

Turnover

Training Costs

Materials - Books	$	30
Equipment - Boots	$	75
Formal Training (4x$150)	$	600
Training Wages (32x$11.75)	$	376
OJT Observation (12x1x$30)	$	360

Turnover

Cost of Turnover =

Separation Costs	**$6,785**
+	
Replacement Costs	**$ 380**
+	
Training Costs	**$1,441**
----------	**----------**
Total	**$8,606**

Turnover

Cost of Turnover =

Average Work Force	**420**	
X		
Turnover Rate		**.15**
X		
Turnover Costs		**$8,606**
----------	**----------**	**----------**
Total	**$542,178**	

Turnover

Difference in Performance =

Pay:

$(Rate_{Leaver} – Rate_{Replacement})$ X Hours

✚

Productivity:

$(Rate_{Leaver} – Rate_{Replacement})$ X Cost/Unit

Turnover

Remedies

- Realistic Job Preview
- Performance Testing
- Training Payback Plans: Airlines
- Pre-Employment Training Program
- Job Enrichment

Job Enrichment

Expected Outcomes

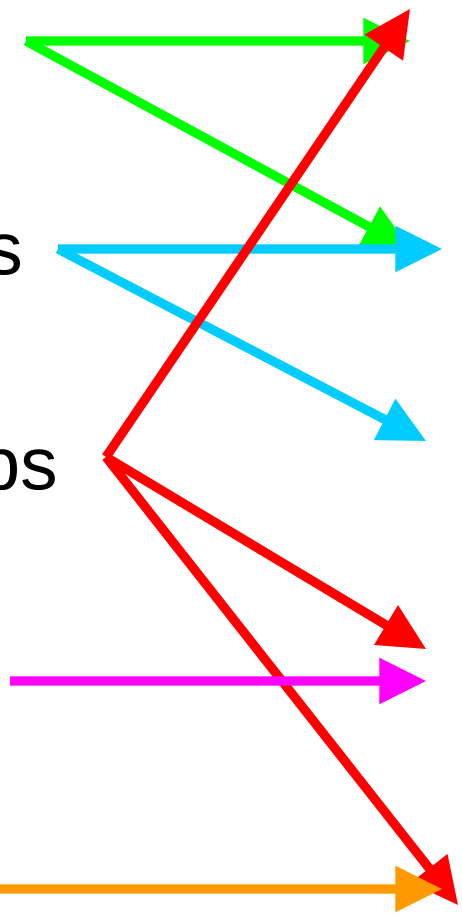
- Hackman & Oldham – Job Diagnostic Survey
  - Travelers Insurance, data entry workers
- High internal work motivation
- High work performance
- High work satisfaction
- Low absenteeism and turnover

Job Enrichment

- Experience meaningfulness of work
  - Skill Variety
  - Task Identity
  - Task Significance
- Responsibility for work outcomes – Autonomy
- Knowledge of work results - Feedback

Job Enrichment

- Combining Tasks
- Natural Work Units
- Client Relationships
- Vertical Loading
- Communication



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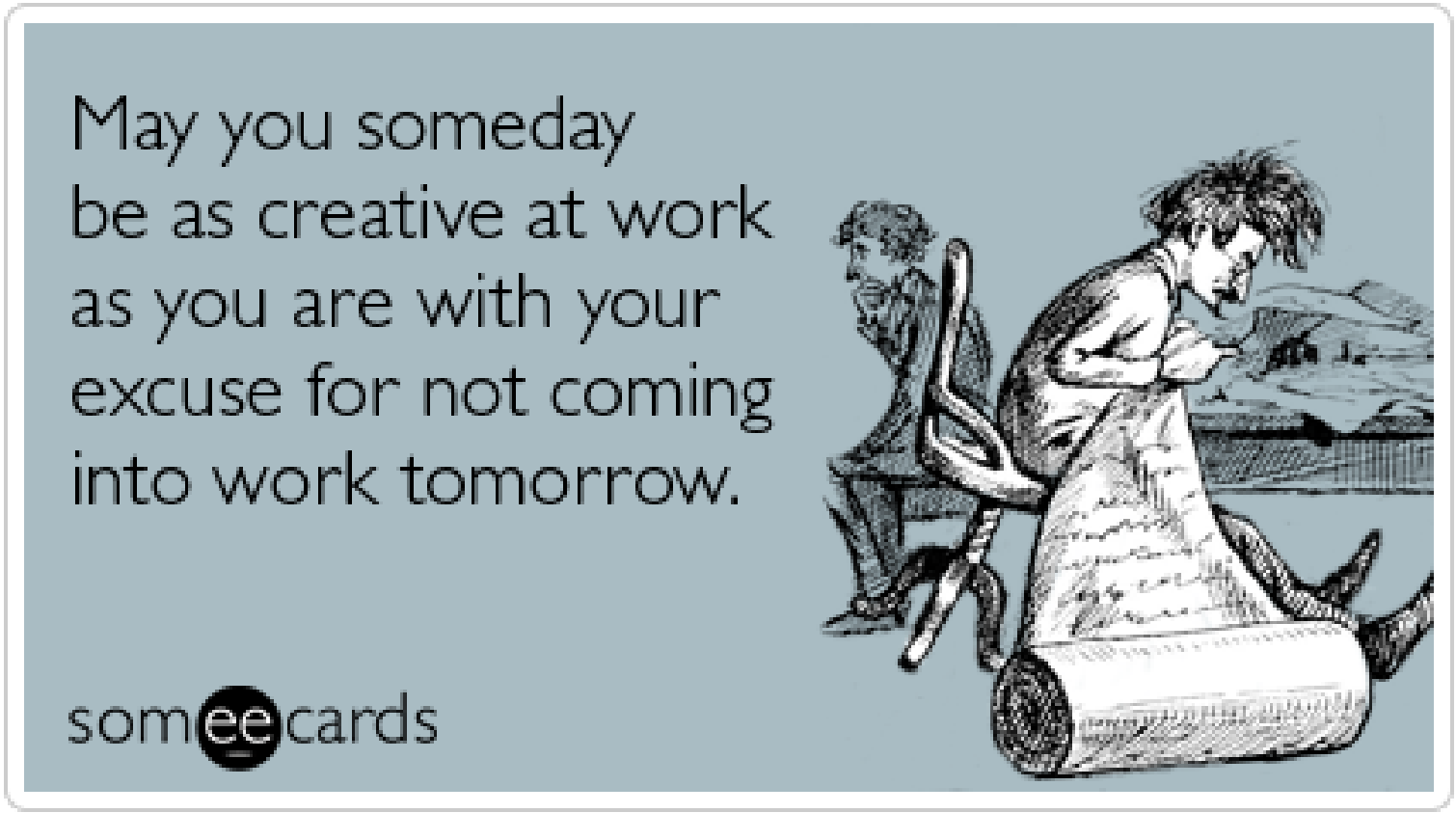
Absenteeism



Absenteeism

Cost of Absence =

Hours X (Sick Pay + Benefits)

✚

Hours X Replacement Wage

✚

Staff Costs

✚

Difference in Performance

Absenteeism

Cost of Absence = @2% $708/employee

40 Hours X ($0 Sick Pay + $7 Benefits)

✚

40 Hours X .5 X $17 Replacement Wage

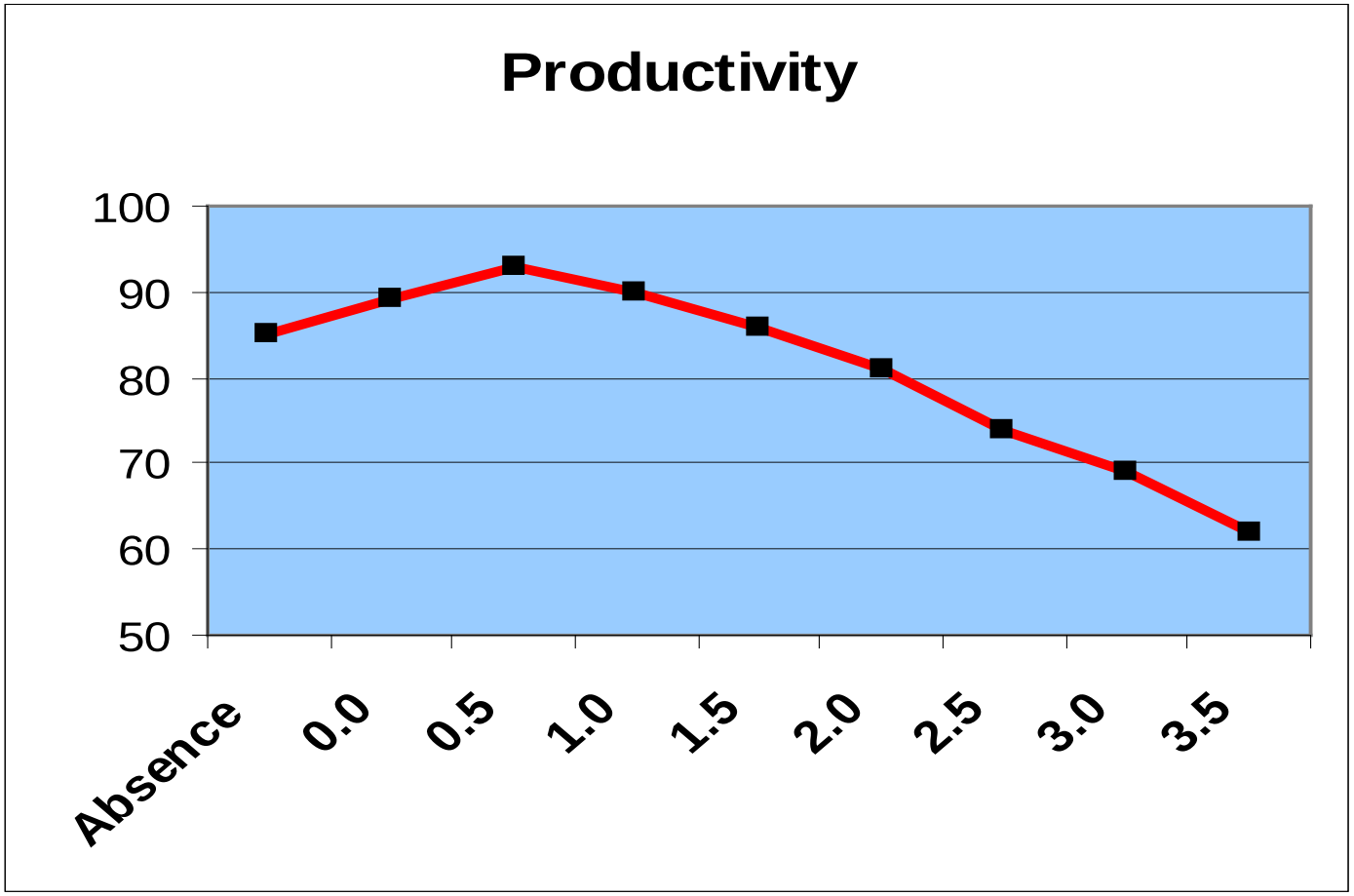
✚

5 X .2 X $20 Staff Costs

✚

40 X .1 X $17 Difference in Performance

Absenteeism



Overtime

2011	STRAIGHT	OVERTIME
WAGE	15.00	22.50
FICA	1.15	1.72
UI	0.47	0.71
WORKERS COMP	1.05	1.05
HEALTH/LIFE	4.50	0.00
PROFIT SHARING	1.05	0.00
401K MATCH	0.60	0.00
PAID TIME OFF	1.27	0.00
BONUS	0.75	1.13
TOTAL	25.84	27.11

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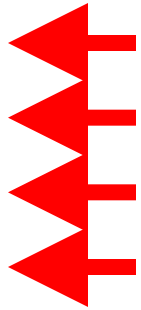
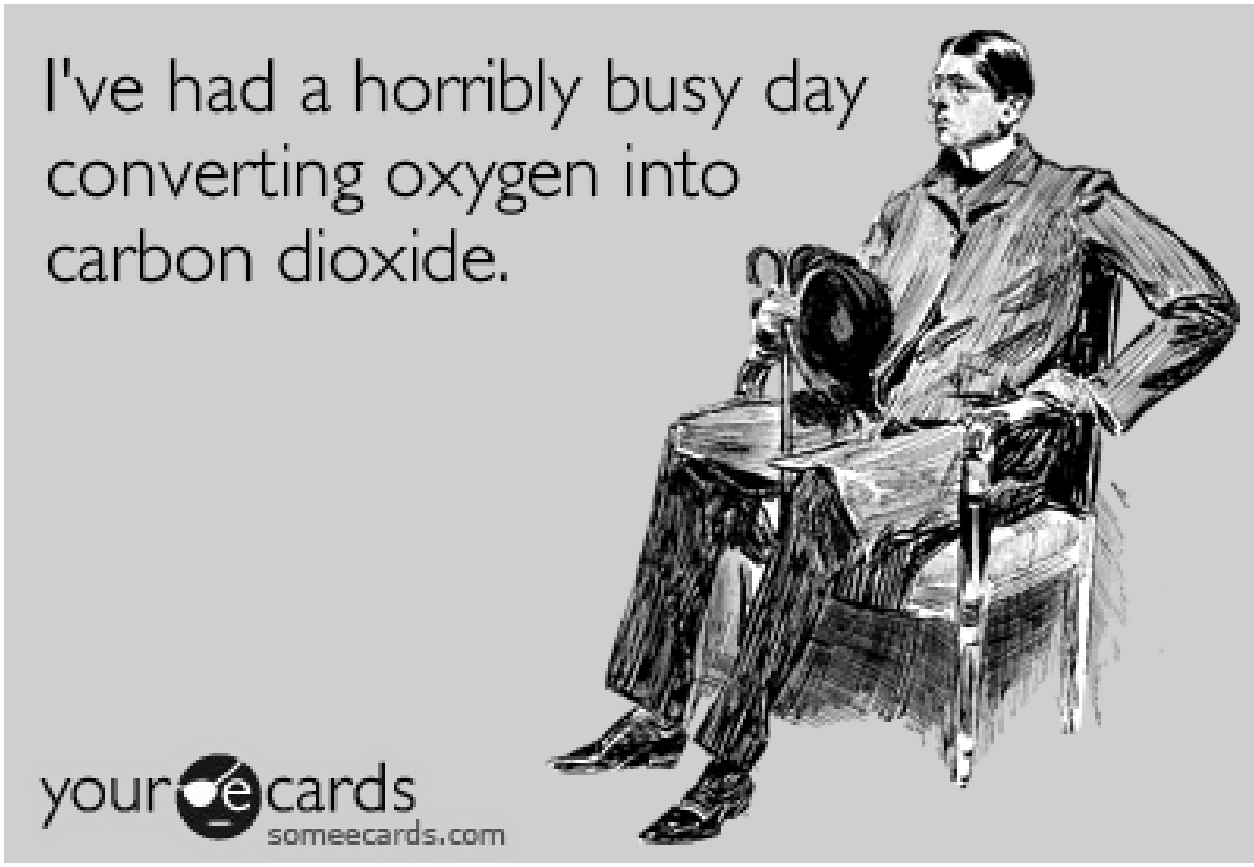


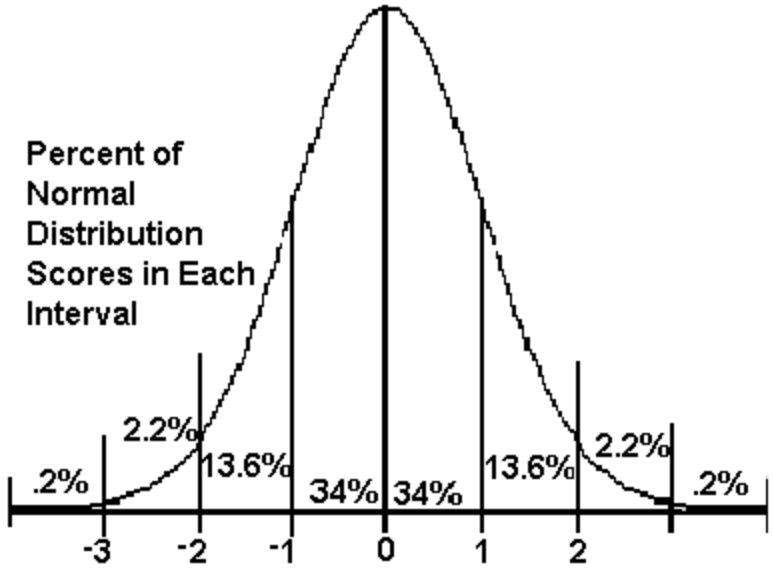
Productivity



Productivity

- Wage (Pounds/Hour) = Cost/CWT
- Pay for Longevity can be a cost trap.

- Standard Deviation $.02/CWT



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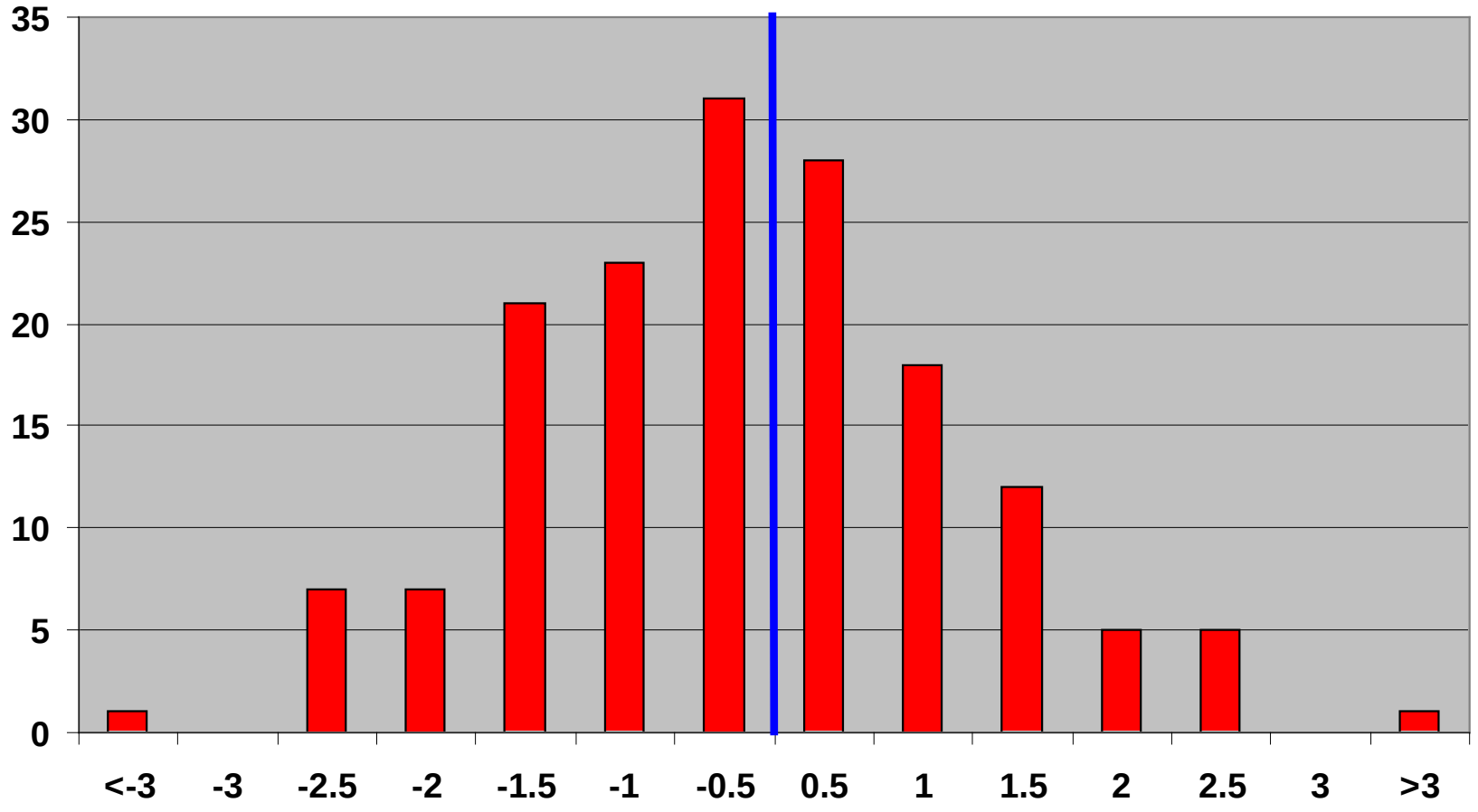

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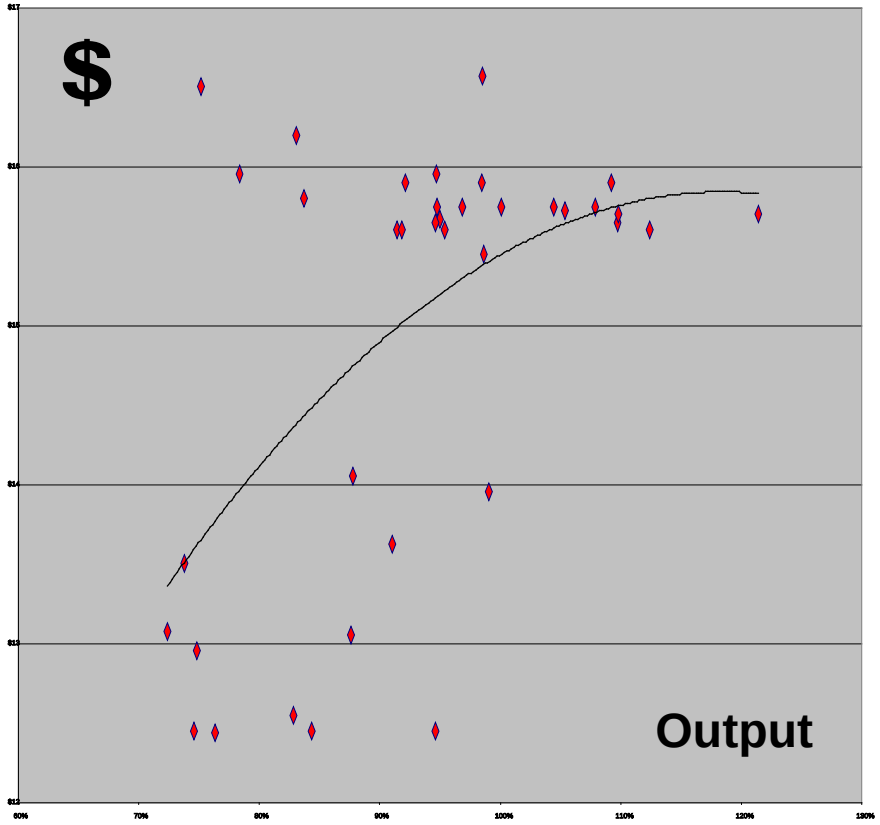

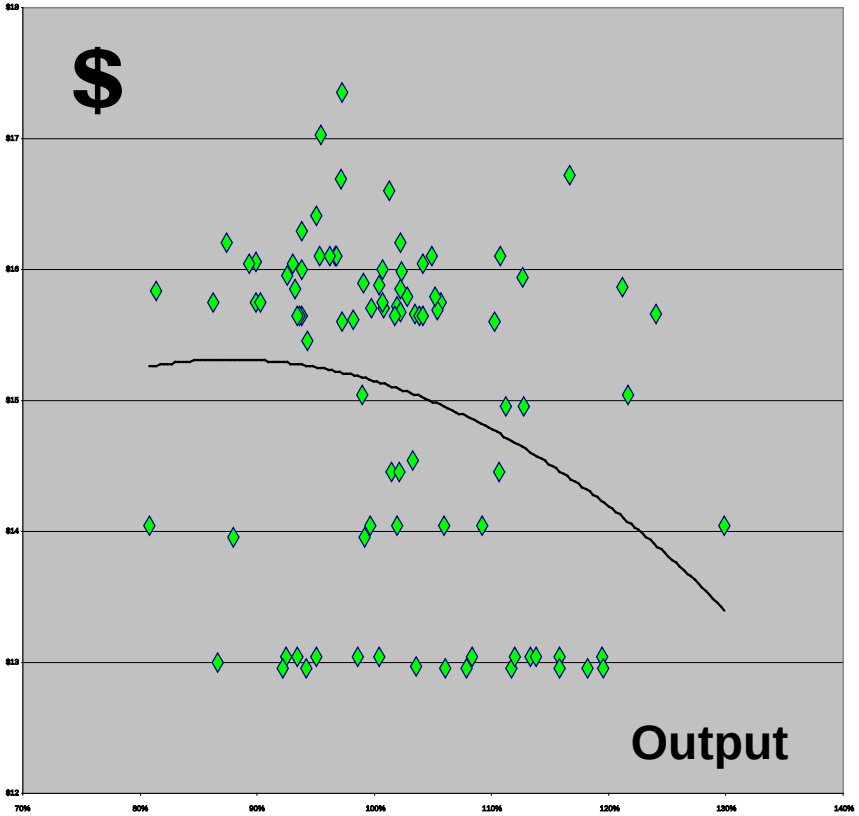

Productivity

Attitudes

- Attitudes have 3 elements:
  - Cognition – Knowledge of the focal object
  - Emotion – Feeling toward the focal object
  - Action Tendency – Readiness to respond
- Attitude→Behavior→Outcome
- Performance = Attitude X KSAO's

Attitudes

- One method of costing uses correlations between attitude survey response and unit cost of production
- Weaknesses:
  - Vulnerable to confounding variables
  - Attitude-Behavior relationships may not be stable over time

Attitudes

- Survey to measure:
  - Job satisfaction
  - Job involvement
  - Employee intrinsic motivation
- Measure performance:
  - Attendance/Turnover/Error/Output
- Determine correlation between attitude and performance

Attitudes

- Develop an OD project to improve attitudes
- Value of OD Project =

$r \times SD_{Performance} \times \uparrow SD_{Attitude} = \uparrow Output$

$\uparrow Output \times Cost/Unit = \$\$\$\$\$$

Attitudes

Example:

Motivation – Mean 70, SD 10

Performance – Mean 8,000, SD 700

Correlation – r = .20

.20 X 700 X .5 = 70 Pounds / Hour

70 X 1,800 X $.0021 = $265

Attitudes

Training

- Kirkpatrick Model
  - Reaction – Did participants appreciate it?
  - Learning – Did participants gain skill?
  - Performance – Did on the job behavior change?
  - Results – Did the behavior change produce economic benefit?
- What is the duration of the benefit?
- What is the cost of the training?

Further Study

- Performance Management
  - Dr. Aubrey C. Daniels
- Analyzing Performance Problems
  - Dr. Robert F. Mager
- accountingforpeople.org
  - Human Potential Accounting
  - Dr. Michael Reddy

Questions?


Let's try and remember to stop electing people who are as terrible with money as we are.
someecards