Costing Human Resources

The Financial Impact of Behavior in Organizations

Wayne F. Cascio
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.
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.
Behavioral Costing

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- Effective measurement must include variability of output and cost by individual and group.
Behavioral Costing

Cascio’s Approach

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

<table>
<thead>
<tr>
<th>Outlay</th>
<th>Fixed</th>
<th>Variable</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rest Rooms</td>
<td>Wages</td>
<td>Automation</td>
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<tr>
<td></td>
<td>Parking</td>
<td>Freezer Gear</td>
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<td></td>
<td>Time Clocks</td>
<td></td>
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<tr>
<td>Time</td>
<td>HR Staff</td>
<td>Supervisors</td>
<td>Customer Service</td>
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<td></td>
<td>Government</td>
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<td></td>
<td>Reporting</td>
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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

They can't lay us off if they can't find us.
Turnover

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

Voluntary
Involuntary
Employee – Conduct
Employer – Operations
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
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
X
Turnover Rate .15
X
Turnover Costs $8,606

------------------------------------------
Total $542,178
Turnover

\[
\text{Difference in Performance} = \]

\[
\text{Pay:} \quad (\text{Rate}_{\text{Leaver}} - \text{Rate}_{\text{Replacement}}) \times \text{Hours} \\
\]

\[
\text{Productivity:} \quad (\text{Rate}_{\text{Leaver}} - \text{Rate}_{\text{Replacement}}) \times \text{Cost/Unit} 
\]
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

Skill Variety
Task Identity
Task Significance
Autonomy
Feedback
Absenteeism

May you someday be as creative at work as you are with your excuse for not coming into work tomorrow.

someecards
Absenceeism

Cost of Absence =

Hours X (Sick Pay + Benefits)

+ 

Hours X Replacement Wage

+ 

Staff Costs

+ 

Difference in Performance
Cost of Absence = @2% \( \$708/\text{employee} \)

\[ 40 \text{ Hours} \times (\$0 \text{ Sick Pay} + \$7 \text{ Benefits}) \]

\[ + \]

\[ 40 \text{ Hours} \times 0.5 \times \$17 \text{ Replacement Wage} \]

\[ + \]

\[ 5 \times 0.2 \times \$20 \text{ Staff Costs} \]

\[ + \]

\[ 40 \times 0.1 \times \$17 \text{ Difference in Performance} \]
Absenteismism

Productivity

Absence: 0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5
Productivity: 100 90 80 70 60 50
### Overtime

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<tr>
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I've had a horribly busy day converting oxygen into carbon dioxide.
Productivity

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

- Standard Deviation $.02/CWT
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 × 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.
Atitudes

- Survey to measure:
  - Job satisfaction
  - Job involvement
  - Employee intrinsic motivation

- Measure performance:
  - Attendance/Turnover/Error/Output

- Determine correlation between attitude and performance
Develop an OD project to improve attitudes

Value of OD Project =

\[ r \times SD_{Performance} \times \uparrow SD_{Attitude} = \uparrow Output \]

\[ \uparrow Output \times \text{Cost/Unit} = \$\$\$\$\$ \]
Example:

Motivation – Mean 70, SD 10
Performance – Mean 8,000, SD 700
Correlation – $r = .20$

$.20 \times 700 \times .5 = 70$ Pounds / Hour

$70 \times 1,800 \times$.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
Let's try and remember to stop electing people who are as terrible with money as we are.