

Part 3: Supporting Activities

**Human Resource Management,
Financial & Accounting,
Management Information System**

Human Resource Management

Definition

Human resource management (HRM): the process of acquiring, training, appraising, and compensating employees, and of attending to their labour relations, health and safety, and fairness concerns.

HRM involves all management decisions and actions that affect the nature of the relationship between the organization and its employees – its human resources.

HRM Activities

Employee resourcing: planning, recruitment, selection

- Equality and diversity and work-life balance

Employee development: training, development, employee branding

- Employee training, employee development, management development (e.g., MBA), career development, employee branding (ensuring that employees act in accordance with the organisation's brand values)

Pay and performance: methods and types of remuneration and how performance is managed

- Pay and reward system, performance management

Employment relations: communication, participation, and listening to your employees

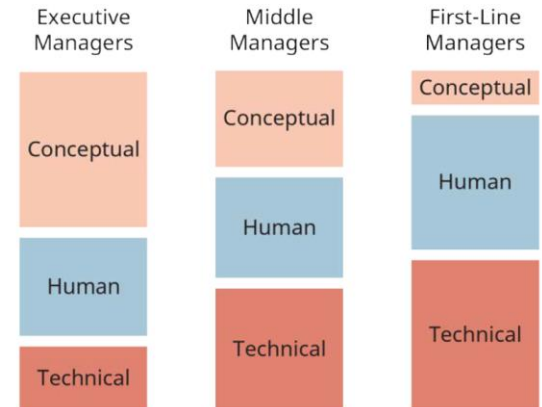
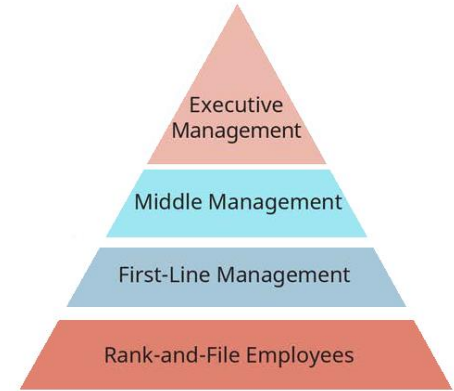
- Employment involvement, employee unions

Levels of Management & Managerial Skills

Technical skills: the ability to use the tools, procedures, and techniques of their special areas.

Human relations skills: the ability to work with people and understand employee motivation and group processes.

Conceptual skills: the ability to organise and analyse information to improve organisational performance, and the ability to see the organisation as a whole and to understand how various parts fit together to work as an integrated unit.



Management Functions

Planning: setting goals and standards; developing rules and procedures; developing plans and forecasts

Organising: assigning each subordinate a specific task; establishing departments; establishing channels of authority and communication; coordinating the work of subordinates

Staffing: determining what type of people should be hired; recruiting prospective employees; selecting employees; setting performance standards; compensating employees; evaluating performance; counselling employees; training and developing employees

Leading: getting others to get the job done; maintaining morale; motivating subordinates

Controlling: setting standards (e.g., sales quotas, quality standards, production levels); checking to see how actual performance compares with these standards; taking corrective action

Managers Play in Organisations

TABLE 7.2

Mintzberg's manager roles

<i>Roles</i>	<i>Function</i>
<i>Informational roles</i>	
<i>Monitor</i>	seeks out and analyzes information to understand the organization and its environment
<i>Disseminator</i>	shares information with members of the team and others in the organization
<i>Spokesperson</i>	represents the organization to the rest of the world: outward facing communicator
<i>Interpersonal roles</i>	
<i>Figurehead</i>	symbolic representative of the organization
<i>Leader</i>	focuses on communicating with and motivating subordinates and colleagues
<i>Liaison</i>	focuses on making contacts outside the organization
<i>Decisional roles</i>	
<i>Entrepreneur</i>	initiates change
<i>Disturbance handler</i>	deals with unexpected changes
<i>Resource allocator</i>	chooses between competing demands for resources
<i>Negotiator</i>	reaches agreement particularly over the allocation of scarce resources

Financial Management

Definition

Financial management is concerned with

- Raising capital to finance an organisation's operations
- Ensuring that a company can generate sufficient revenue to cover **the cost** of raising this finance

The cost may be in the form of interest rates payable to banks or dividend paid out to shareholders.

Goals of Financial Management

1. Shareholder Wealth Maximisation

- A company's primary goal is raising its common stock price.

$$\text{EPS} = \frac{\text{Net Income of the Company}}{\text{Average Outstanding Shares of the Company}}$$

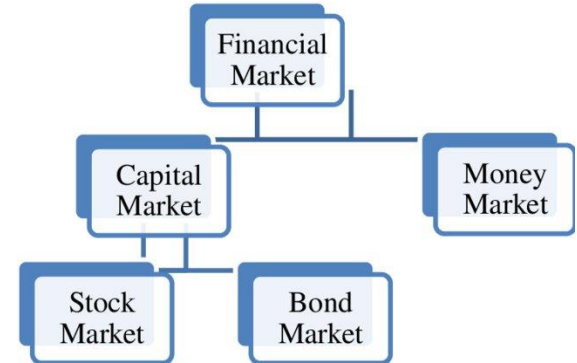
2. An obligation to behave ethically, and to follow the laws and society-imposed constraints

- People can impose an unethical company: boycotted, lawsuits, regulations, negative publicity.
- Lead to a reduction of shareholder value

Responsibilities of Financial Manager

Financing fund

- Money market (<1y): overdraft account, treasury bills, etc.
- Capital market (>1y):
 - Stock market (preferred stock, common stock)
 - Bond market (debentures, government bonds, etc.)



Allocation fund (Investment decision)

- Current asset (short-term funds), fixed asset (long-term funds)

Financial analysis and planning

- Develop reports, make investment decision, determine the ratio of funds

Financial control and coordination

- Coordinate with other managers to control financial plans

Assets		Liabilities	
Long Lived Real Assets	Fixed Assets	Current Liabilities	Short-term liabilities of the firm
Short-lived Assets	Current Assets	Debt	Debt obligations of firm
Investments in securities & assets of other firms	Financial Investments	Other Liabilities	Other long-term obligations
Assets which are not physical, like patents & trademarks	Intangible Assets	Equity	Equity investment in firm

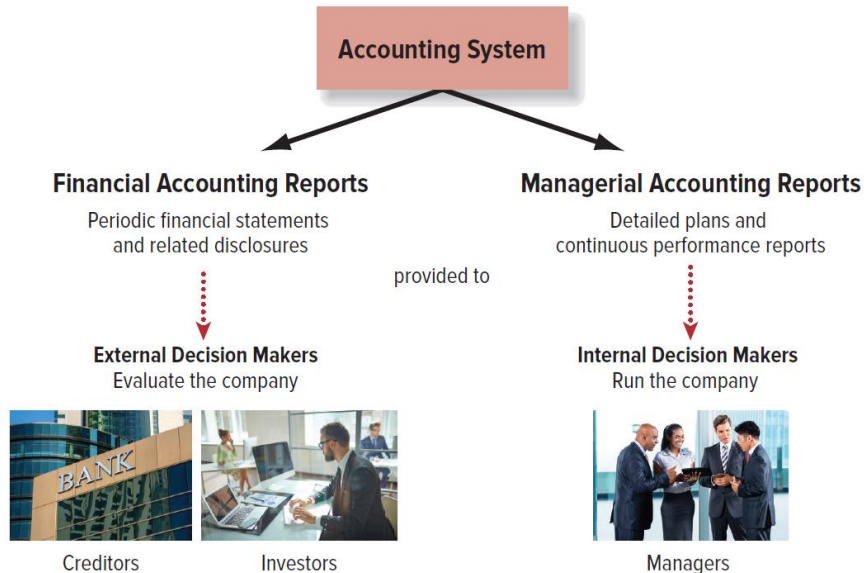
Allocation fund Financing fund

Financial Accounting

All businesses must have an **accounting system** that collects and processes financial information about an organisation's business activities and reports that information to decision makers.

External decision makers

Stockholders and creditors need information about these same business activities to assess whether the company will be able to pay back its debts with interest and pay dividends.



Internal decision makers

Managers need information about the company's business activities to manage the **operating, investing, and financing** activities of the firm.

Recorded Activities

Operating activities:

The day-to-day activities performed by each department

Financing activities:

- (1) borrowing or paying back money to lenders
- (2) receiving funds from stockholders or paying them dividends

Investing activities:

Buying and selling assets/items

Balance Sheet

A statement of assets, liabilities, and stockholders' equity

The Balance Sheet

Assets		Liabilities	
Long Lived Real Assets	Fixed Assets	Current Liabilities	Short-term liabilities of the firm
Short-lived Assets	Current Assets	Debt	Debt obligations of firm
Investments in securities & assets of other firms	Financial Investments	Other Liabilities	Other long-term obligations
Assets which are not physical, like patents & trademarks	Intangible Assets	Equity	Equity investment in firm

Assets	=	Liabilities	+	Stockholders' Equity
Economic resources (e.g., cash, inventory, buildings)		Financing from creditors (e.g., amounts owed to suppliers, employees, banks)		Financing from stockholders (e.g., common stock, retained earnings)

LE-NATURE'S INC.* Balance Sheet At December 31, 2015 (in millions of dollars)		EXPLANATION
		<i>Name of the entity</i>
		<i>Title of the statement</i>
		<i>Specific date of the statement</i>
		<i>Unit of measure</i>
Assets:		Resources controlled by the company
Cash	\$ 10.6	<i>Amount of cash in the company's bank accounts</i>
Accounts receivable	6.6	<i>Amounts owed by customers from prior sales</i>
Inventories	51.2	<i>Ingredients and beverages ready for sale</i>
Property, plant, and equipment	459.0	<i>Factories, production equipment, and land</i>
Total assets	\$527.4	Total amount of company's resources
Liabilities and stockholders' equity:		Sources of financing for company's resources
Liabilities		<i>Financing supplied by creditors</i>
Accounts payable	\$ 26.0	<i>Amounts owed to suppliers for prior purchases</i>
Notes payable to banks	381.7	<i>Amounts owed to banks on written debt contracts</i>
Total liabilities	407.7	
Stockholders' equity		<i>Financing provided by stockholders</i>
Common stock	55.7	<i>Amounts invested in the business by stockholders</i>
Retained earnings	64.0	<i>Past earnings not distributed to stockholders</i>
Total stockholders' equity	119.7	
Total liabilities and stockholders' equity	\$527.4	Total sources of financing for company's resources
The notes are an integral part of these financial statements.		

Income Statement

A statement reports the accountant's primary measure of performance of a business, revenues less expenses during the accounting period.

LE-NATURE'S INC.* Income Statement For the Year Ended December 31, 2015 (in millions of dollars)		EXPLANATION
		<i>Name of the entity</i>
		<i>Title of the statement</i>
		<i>Accounting period</i>
		<i>Unit of measure</i>
Revenues		<i>Cash and promises received from sale of beverages</i>
Sales revenue	\$275.1	
Expenses		
Cost of goods sold	140.8	<i>Cost to produce beverages sold</i>
Selling, general, and administrative expenses	77.1	<i>Other operating expenses (utilities, delivery costs, etc.)</i>
Interest expense	17.2	<i>Cost of using borrowed funds</i>
Income before income taxes	40.0	
Income tax expense	17.1	<i>Income taxes on period's income before income taxes</i>
Net income	\$ 22.9	<i>Revenues earned minus expenses incurred</i>
<p>The notes are an integral part of these financial statements. *The Le-Nature's statements presented are a simplified version of its audited 2005 statements.</p>		

$$\begin{array}{r}
 \text{Revenues} \\
 \hline
 \text{(Cash and promises received from} \\
 \text{delivery of goods and services)}
 \end{array}
 =
 \begin{array}{r}
 \text{Expenses} \\
 \hline
 \text{(Resources used to earn} \\
 \text{period's revenues)}
 \end{array}
 +
 \begin{array}{r}
 \text{Net Income} \\
 \hline
 \text{(Revenues earned minus} \\
 \text{expenses incurred)}
 \end{array}$$

Cash Flows

The statement of cash flows (cash flow statement) shows the cash flows from **operating**, **investing**, and **financing** activities.

LE-NATURE'S INC.* Statement of Cash Flows (Summary) For the Year Ended December 31, 2015 (in millions of dollars)	
Cash flows from operating activities	\$ 87.5
Cash flows from investing activities	(125.5)
Cash flows from financing activities	<u>47.0</u>
Net increase (decrease) in cash	9.0
Cash balance December 31, 2014	<u>1.6</u>
Cash balance December 31, 2015	<u><u>\$ 10.6</u></u>
<p>The notes are an integral part of these financial statements. *The Le-Nature's statements presented are a simplified version of its audited 2005 statements.</p>	

EXPLANATION

Name of the entity

Title of the statement

Accounting period

Unit of measure

Cash flows directly related to earning income

Cash flows from purchase/sale of plant, equipment, & investments

Cash flows from investors and creditors

Change in cash during the period

Last period's cash on the balance sheet

Ending cash on the balance sheet

Analysing Statements

1. Basic

1.1 Horizontal analysis:
the year-over-year
(YoY) change in each
line item

(\$ in millions)	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Revenue	51,585	53,494	55,749	NA	3.7%	4.2%
COGS	27,697	28,429	29,200	NA	2.6%	2.7%
Gross Profit	23,888	25,065	26,550			
SG&A	5,877	6,006	6,144	NA	2.2%	2.3%
Other	1,764	1,931	2,026	NA	9.5%	4.9%
EBITDA	16,247	17,128	18,380	NA	5.4%	7.3%
Depreciation	2,960	3,196	3,452	NA	8.0%	8.0%
Earnings Before Interest and Taxes	13,287	13,932	14,928	NA	4.9%	7.1%
Interest Expense	1,488	2,580	2,448	NA	73.4%	(5.1%)
Earnings Before Tax	11,799	11,352	12,480	NA	(3.8%)	9.9%
Tax	3,155	2,861	3,012	NA	(9.3%)	5.3%
Net Income	8,644	8,491	9,468	NA	(1.8%)	11.5%

$$\text{Horizontal Analysis (\%)} = \frac{\text{Amount in Comparison Year} - \text{Amount in Base Year}}{\text{Amount in Base Year}} \times 100$$

Analysing Statements

1.2 Vertical analysis: proportions based on revenue

(\$ in millions)	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Revenue	51,585	53,494	55,749	100.0%	100.0%	100.0%
COGS	27,697	28,429	29,200	53.7%	53.1%	52.4%
Gross Profit	23,888	25,065	26,550	46.3%	46.9%	47.6%
SG&A	5,877	6,006	6,144	11.4%	11.2%	11.0%
Other	1,764	1,931	2,026	3.4%	3.6%	3.6%
EBITDA	16,247	17,128	18,380	31.5%	32.0%	33.0%
Depreciation	2,960	3,196	3,452	5.7%	6.0%	6.2%
Earnings Before Interest and Taxes	13,287	13,932	14,928	25.8%	26.0%	26.8%
Interest Expense	1,488	2,580	2,448	2.9%	4.8%	4.4%
Earnings Before Tax	11,799	11,352	12,480	22.9%	21.2%	22.4%
Tax	3,155	2,861	3,012	6.1%	5.3%	5.4%
Net Income	8,644	8,491	9,468	16.8%	15.9%	17.0%

Analysing Statements

1.3 Trend analysis: the percentage change for one account over a period of time of two years or more

Calculation of Trend Percentages

	20X1	20X0	20W9	20W8	20W7
Historical Data					
Inventory	\$ 12,309	\$12,202	\$12,102	\$11,973	\$11,743
Property & equipment	74,422	78,938	64,203	65,239	68,450
Current liabilities	27,945	30,347	27,670	28,259	26,737
Sales	129,000	97,000	95,000	87,000	81,000
Cost of goods sold	70,950	59,740	48,100	47,200	45,500
Operating expenses	42,600	38,055	32,990	29,690	27,050
Net income (loss)	8,130	(1,400)	7,869	5,093	3,812
Trend Percentages					
Inventory	104.8	103.9	103.1	102.0	100.0
Property & equipment	108.7	115.3	93.8	95.3	100.0
Current liabilities	104.5	113.5	103.5	105.7	100.0
Sales	159.3	119.8	117.3	107.4	100.0
Cost of goods sold	155.9	131.3	105.7	103.7	100.0
Operating expenses	157.5	140.7	122.0	109.8	100.0
Net income (loss)	213.3	(36.7)	206.4	133.6	100.0

Analysing Statements

2. Ratios

Profitability ratios:

- Return on investment (ROI) shows how the company uses its investments.

Activity ratios:

- Inventory turnover indicates the speed with which parts and components are used.

Others:

- Liquidity ratios reflect a company's ability to pay short-term obligations (current ratio), to use its near cash or quick assets to extinguish its current liabilities (current ratio).
- Earnings per share indicates how much each share has earned over the accounting period.

$$\text{ROI (Return On Investment)} = \frac{\text{Return} - \text{Investment}}{\text{Investment}}$$

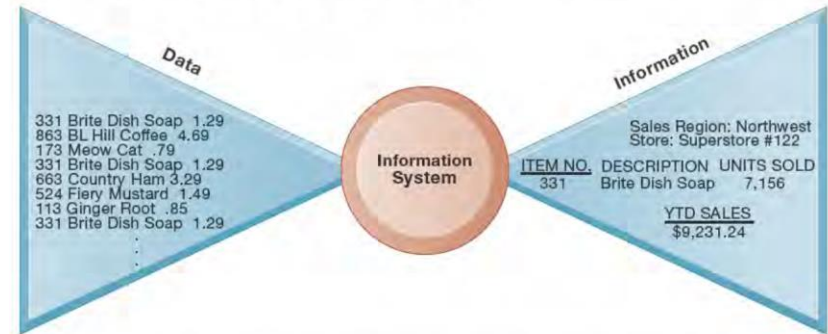
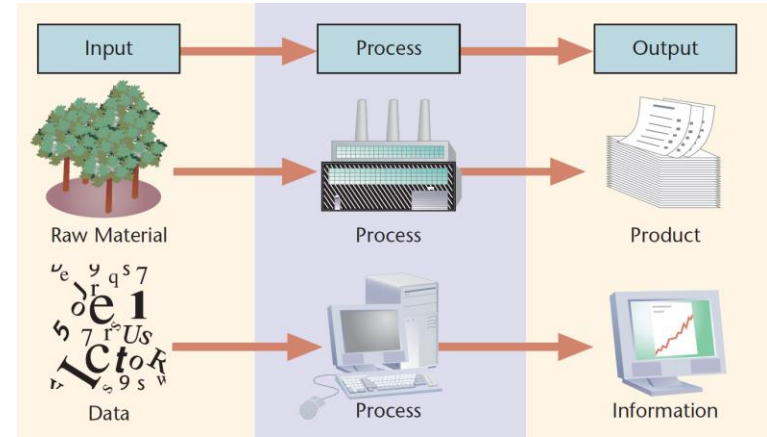
$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

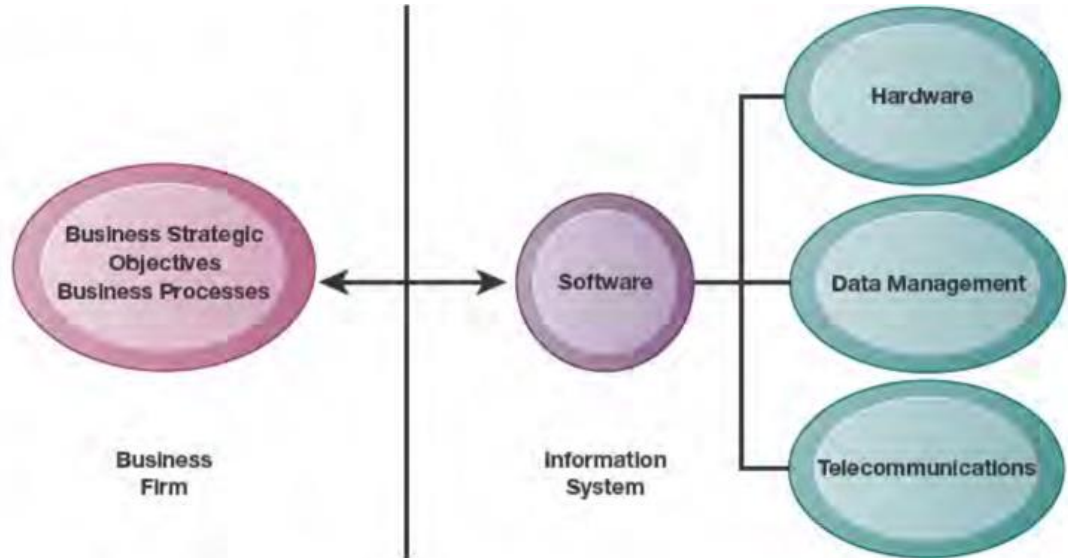
Management Information System

- **Data:** a given or fact, which might take the form of a number, a statement, or a picture
- **Information:** facts or conclusions that have meaning within a context
- Data is rarely meaningful, but when it is **processed**, it will become useful information.
- **Information system:** a set of interrelated components that **collect, process, store,** and **distribute** information to support decision making and control in an organisation
- **ISs** are then used to support business activities/function: it is called **MIS**.



Components of an Information System

- **Data:** input that the system takes to produce information
- **Hardware:** a computer, its peripheral equipments and database
- **Software:** instructions telling the computer how to work with data and information
- **Telecommunications:** hardware and software facilitating transmission and reception of electronic data
- **People:** IS professionals and users who use the information system
- **Procedures:** instructions telling people who use the information system



Types of Information Systems

Operational-level systems

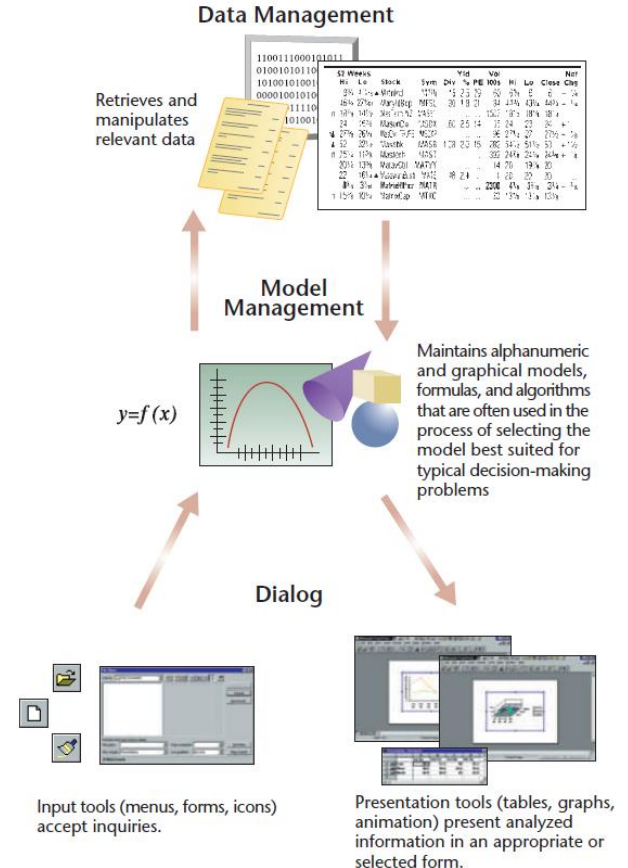
- Transaction processing systems (TPS): recording daily routine transactions necessary to conduct business
- E.g., sales, receipts, cash deposits, payrolls, credit decisions, and the flow of materials

TYPE OF TPS SYSTEM					
	Sales/ marketing systems	Manufacturing/ production systems	Finance/ accounting systems	Human resources systems	Other types (e.g., university)
Major functions of system	Customer service Sales management Promotion tracking Price changes Dealer communications	Scheduling Purchasing Shipping/receiving Operations	General ledger Billing Cost accounting	Personnel records Benefits Compensation Labor relations Training	Admissions Grade records Course records Alumni records
Major application systems	Sales order information system Sales commission system Sales support system	Machine control systems Purchase order systems Quality control systems	General ledger Payroll Accounts receivable/payable Funds management systems	Employee records Benefit systems Employee skills inventory	Registration system Student transcript system Curriculum class control systems Alumni benefactor system

Types of Information Systems

Management-level systems

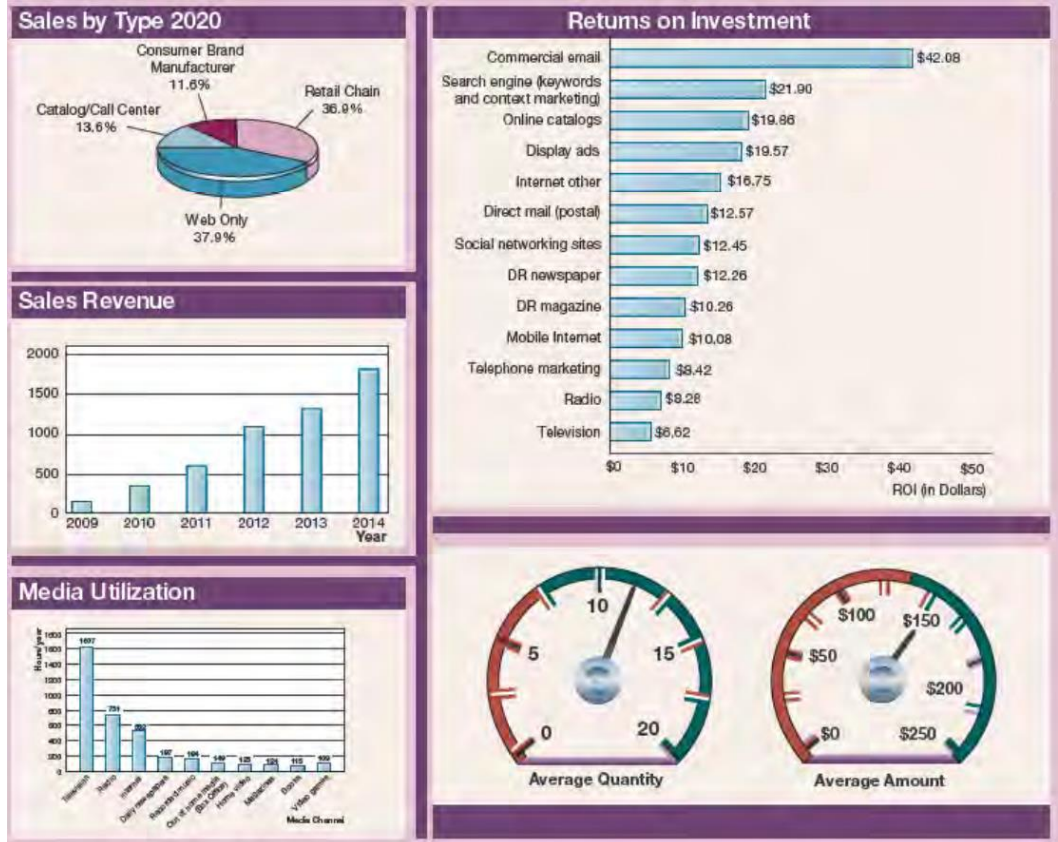
- Decision-support system (DSS): processing data from TPS to derive information for management functions for managers to make decision
- E.g., models and formulas to produce concise information for decision making



Types of Information Systems

Strategic-level systems

- Executive-support system (ESS): summarising information from DSS and displaying results in a less informative approach
- E.g., digital dashboard



Business Processes Supported by Information Systems

Marketing: order processing, quotes, contracts, product configuration, pricing, billing, credit checking, incentive and commission management, and sales planning

Operations: procurement, inventory management, purchasing, shipping, production planning, production scheduling, material requirements planning, quality control, distribution, transportation execution, plant and equipment maintenance

Human resources: personnel administration, time accounting, payroll, personnel planning and development, benefits accounting, applicant tracking, time management, compensation, workforce planning, performance management, travel expense reporting

Financial & Accounting: general ledger, accounts payable, accounts receivable, fixed assets, cash management and forecasting, product-cost accounting, cost-center accounting, asset accounting, tax accounting, credit management, financial reporting

