

Here is how companies are approaching HR budget

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Exclusive

As HRs' newly defined strategic roles put the employer brand on the pedestal in par with the company brand, there cannot be any compromise in the case of HR budget. And, the HR budget turns out to be strategic for companies to win the talent war.

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Highlights

- Stability is one of the key aspects of HR budget planning.
- HR budget depends on the industry, nature of the business, its size as well as the growth stage.
- A mix of zero-based and incremental budgeting provides flexibility to be independent of earlier targets and plan special events for the next financial year.

All eyes are on the Union Budget. And, the wait is almost over. Finance Minister Nirmala Sitharaman will soon reveal the nation's financial planning for the next fiscal year in a few hours. With an expected recession in 2023, the government's plans for sustaining the job market and generating employment opportunities amidst the layoff series can definitely be a hot point to be touched in the upcoming budget.

Just like the nation's budget, every other financial entity has its own niche budget plans to organise, track and improve their financial situation. Looking through the lens of the HR domain, spending on HR budget is basically the investment in the internal factors (talent) that ultimately helps in meeting the organisational objectives.

As HRs' newly defined strategic roles put the employer brand on the pedestal in par with the company brand, there cannot be any compromise in the case of HR budget. And, the HR budget turns out to be strategic for companies to win the talent war. A Gartner survey revealed that two-thirds of the HR leaders had planned to double their HR budget in the previous year.

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Research shows that a solid and well-planned HR budget reduces over-hiring and controls employee turnover through talent retention measures like L&D programmes, D&I initiatives and employee wellbeing interventions. The HR tech investment also cannot be missed, as it takes over the repetitive HR tasks, and enables HRs to focus on more value-added human interference, which ultimately fosters the employee value proposition (EVP).

In this context, ETHRWorld interacted with HR leaders of various organisations to understand their approach to the HR budget, people involved and the roles that they plan in preparing the HR budget, and get an idea about the HR budget allocation shares.

How companies decide their HR budget

M Lakshmanan, CHRO, L&T Technology Services (LTTS), says that the estimate for any upcoming fiscal year depends on a combination of factors, including the previous year performance, strategic goals for the organisation and new employee engagement, and

campaigns to be launched.

“Stability is one of the key aspects of our HR budget planning and we make a note of the various costs that might be incurred throughout the year. A mix of zero-based and incremental budgeting gives us the flexibility to be independent of earlier targets and also plan any special events that may be lined up for the specific year,” Lakshmanan adds.

LTTS adopts a mix of zero-based and incremental budgeting that involves planning with the finance and the operations teams to determine what would be the best fit for the employees.

Smitta Kejriwal, Director - HR, Indus Net Technologies (INT), says, “The traditional budgeting calls for incremental increases over previous budgets, such as a 2 per cent increase in spending, as opposed to a justification of both old and new expenses, as called for with zero-based budgeting.”

“With a steep target for growth of 2.5X with 25 per cent PAT, we need to balance our top line and bottom line to get the exact balance in the matrix. It is a necessary step for freeing the resources and funds needed for growth initiatives,” Kejriwal adds.

INT makes a conscious decision to cut down its unnecessary expenses and give a fresh outlook to its HR budget aligning to the business requirements. The company cross checks if the HR budget expense contributes to its main goals for the current year. If there is a significant value add, then it goes ahead with the expense or defer it.

Quess Corp adopts a hybrid approach to budgeting as its nature of business is very diverse ranging from Manpower Staffing, which comprises hiring for Front Line Staff, to Product Led Business, where employees work on New Age Technologies.

“While budgeting, we look at Capital Expenditure and Operating Expenditure. We consider the business plan for the year basis which manpower planning is arrived at, and we consider the feedback on existing programmes, and the voice of employees on their changing needs,” says Ruchi Ahluwalia, CHRO, Quess Corp.

Fingent also follows a hybrid approach for the HR budget that combines an incremental approach with a zero-based approach. The variance from the previous two annual budgets is factored in to give a base budget. And, to facilitate agility and quick decision-making, the company layers the zero-based approach on a monthly basis for items that may not have been considered when the base budget was made.

Before the budget process is started, there are two important pre-conditions that the organisation considers:

- A retrospective review of the previous budget is completed with best practices and lessons learned identified from the previous year’s experience.
- The HR strategy for the coming year along with the key objectives are defined.

Though a long time back, a half-yearly review was sufficient, over the last couple of years, Fingent has reviewed the budget every quarter due to external pressures, including changes in customer spending patterns, the pandemic, and volatility in the hiring market.

Once these actions are in place, the core budgeting process is started at the organisation. “Our HR department plays a central role here. We start by basing the budget on the previous year's figures with appropriate adjustments made for inflation. We then consider market trends, growth plans, and the HR department’s objectives, and add overages for the same,” says Christy Maria Jose, Senior Manager - People Operations, Fingent.

“Market trends, growth plans, and the Human Resources strategy and goals are all considered as significant inputs in the budgeting process. The department also gathers and analyses data on past expenses and project costs for the upcoming budget period, including items such as salaries, benefits, training and development, and recruitment expenses,” Jose adds.

Lendingkart follows the zero-based budgeting approach to review all the components from a fresh lens and include the components as appropriate. “We ensure our People Strategy is in line with our Business Strategy and it all starts with HR Budget preparation along with the company's Annual Operating Plan (AOP) exercise every year,” says Asit Kumar, CHRO, Lendingkart.

“We look at the complete Employee Life Cycle and review each component which leads to a great employee experience while creating the HR budget. High Level areas we consider while creating the HR Budget are Talent Acquisition, Learning & Development, Rewards & Recognition, HR Tools & Operations, Talent Management, Compliance and Exit,” Kumar adds.

There are also a number of elements used to establish the company's HR budget. These include the company's overall financial health, its expected future growth, and the expense of enticing and maintaining top employees.

Further detailing the approach that they follow, Kumar says, “While creating a budget under the category of Talent Acquisition, we look at the overall hiring number and the level of hirings as per the business’ Annual Operating Plan. This gives us an indication of expenses towards hiring portal subscriptions (including LinkedIn, Naukri etc), budget for employee referral, budget for recruitment agency, travel expenses towards senior candidate hiring, outside office hiring events, candidate engagement, goodies or joining kit, TA Team capability and their hiring (if any) and TA incentives.”

When Lendingkart looks at Learning and Development, it considers the budget towards Functional and Technical Training. “We work on the budget keeping in mind the number of people we have in various functions as well as people we are adding in the financial year, functional and technical skills these people need to build for next year's strategic initiatives and expenses towards any certification or subscriptions,” Kumar says.

From the point of view of Rewards and Recognition (RnR), Lendingkart looks at the existing RnR policy it has in operations and budget around the same. In addition, the company also looks at each policy and benefits where it has monetary or non-monetary benefits for the employees and then keeps the budget for the same. Kumar points out that all employee events, festivals, expenses that they incur towards employee all hands, employees' lunch (dinner, offsite, leadership offsite, etc) comes under this category of employee experience and engagement.

Besides this, the company reviews all the HR tools which are existing, or it is planning to procure in the financial year. This doesn't restrict to annual tools subscription for payroll, background verification vendor or payment towards compliance help, but also covers any employee engagement tool, compensation, or any benchmark study, and participation in employee pulse survey.

“We ensure that we focus heavily on Talent Development and invest well on Leadership Development. This includes expenses towards Leadership Development Programme, coaching or any team building programme. This entire approach holistically covers most or all of the HR budget and helps in looking at each area from a fresh lens, review the last year utilisation and adopt the best,” Kumar says.

SecureKloud Technologies too follows a zero-based approach. Siva Kumar, Head of People & Culture, SecureKloud Technologies, expresses that zero-based budgeting aligns well with the changing dynamics of HR in their domain. Given that they are in the niche market of cloud platforms and services, their HR spending greatly depends on the needs for resources both human and technological.

People involved in preparing the HR Budget and the roles that they play

As every strategy of different domains in an organisation affects the people function in one way or another, the HR department cannot work in silos; so is their budget. Thus, to create a strategic HR budget, the HR department consults with various stakeholders of the organisation to understand the holistic organisational objectives for the upcoming year.

At Fingent, Jose points out that the HR budget is planned after a close consultation with the Senior Management and the Finance team. Besides this, the heads of other departments are also consulted to understand key variances.

Also, at SecureKloud Technologies, the heads of Talent Acquisition, HR Operations, and business units come up with data to prepare the HR budget. In addition to these inputs, the company looks at three other data points which are historical, experiential and market driven to fine-tune its HR budget.

Reiterating a similar notion, Kejriwal of INT says, “Successful companies are not working in silos anymore and the business heads are partnering with all the functions to make faster decisions using connected, accurate and timely information. In this new world, connected enterprise planning is not just a best practice, it is a necessity.”

At INT, Finance, Operations, Marketing and Sales teams are all asked to give inputs towards preparing the HR budget. The Sales team shares the pipeline of projects which helps the Recruitment team design their hiring pattern. The Operations team has to get involved to analyse the cost benefit of projects with increments in salaries, other changes in policy, business strategy, law or regulation that may impact costs.

Lakshmanan of LTTS says that the HR budget preparation is a collaborative process led by the CHRO, in conjunction with the LTTS Leadership team, including the CEO, the CFO and the COO. Initially, HR leaders from various geographies and COEs viz Leadership Development, Talent Management, C&B, Talent Acquisition, etc share their plans and budgetary requirements.

The HR budgeting includes funds allocated for talent acquisition and talent management, hiring, training, succession planning, DEI, workforce engagement, and employee wellness planning. So, leaders from each of these sub verticals of HR also weigh in and give their recommendations, helping the CHRO's office to draw up a consolidated budget requirements for the next fiscal.

The HR Head then discusses the budgetary requirement along with the CFO and the Leadership team, and firms up the HR budget, based on the Company Budgets, i.e., Growth, Margin, New Geography expansions, Global Trends in HR viz Digitation, BOTs and HR Apps. Finally, the overall organisation budget is then approved by the CEO & MD and this includes the HR Budget also, Lakshmanan says.

Kumar of Lendingkart says Business Finance plays a significant role in providing all the relevant data or expenses of past year utilisation to help the HR team to make informed decisions. At Lendingkart, the core responsibility of the HR budget lies in the hands of the HR team. While the HR Head assumes the core responsibilities of the HR budget preparation, Head - TA, Head - HRBP, Head - HR Operations and Head - Talent and Learning take care of their respective areas.

This also involves people from business who gives clarity on hiring by level, number of additional headcount and skills requirements throughout the year. These details help in building the Talent Acquisition strategy as well as working on the skill building plan and budget planning.

The people involved in the budget at Quesst Corp are HR Head, Head of Talent Development, Head of Talent Acquisition, Head of Compliance & Benefits, and Finance Controller (FP&A). At the organisation, the following HR departments calculate the spending across each domain:

- **Talent Acquisition:** Vendor Cost, Recruitment Marketing, Referral Cost, etc
- **Learning & Development:** Procuring New Content, Trainer Cost, Training Programme/Initiatives Cost, Certification, Workshops, Courses, LMS
- **Compensation & Benefits:** Wellness Plans, Insurance, Leaves
- **General HR Administration & Operations:** BGV (Background Verification) Vendor, and Compliance

- **HR Technology:** HRMS, Payroll Tools, Employee Engagement Tools
- **Employee Engagement:** Activities, Events and R&R

What percentage of the overall revenues is allocated to the HR Budget?

It is an obvious fact that the HR budget depends on factors like the industry, the business nature of the company, its size as well as the growth stage. Comparing the cases of various industries, Ahluwalia of Ques Corp says that the HR budget for services industry like IT or software ranges from 30 per cent to 50 per cent of the revenue; while for manufacturing, it could be in the range of 4 per cent to 6 per cent. And, for traditional companies, it could be as low as 1 per cent to 2 per cent.

Jose of Fingent also agrees that depending on the company and the financial health of the firm, the percentage of the overall revenues allocated to the HR budget can vary. She says, for the small and mid-sized firms, the budget allocation can be between 3 per cent and 5 per cent of their revenues, while larger tech firms are known to allocate about 10 per cent of their revenues to the HR budget.

LTTS, which has an employee strength of around 22,000, budgets about 5 percent of its revenues towards employee engagement, investment in talent development, culture building, etc. At LTTS, the HR budget is prepared keeping in mind important factors like employee motivation, employee engagement, talent retention and hiring niche resources, etc.

Ques Corp being a people services company engaged in providing manpower and business outsourcing with more than 5 lakh employees (Billable 1.5 per cent and Non-Billable 98.5 per cent), almost up to 85 per cent of the revenue is attributed to the HR costs, wherein the bulk of the cost goes towards employees' salaries and welfare, reveals Ahluwalia.

The overall share of the revenues allocated to the HR budget at Lendingkart (780 employees) and SecureKloud Technologies (650 employees) are 1.5 per cent and 1.4 per cent respectively. Whereas Fingent, with an employee strength of 560 employees, allocates about 8-10 per cent of its revenues to the HR budget.

Kejriwal of INT says, "The percentage of the revenues allocated differs for us YOY, depending on the focus of the company that year. This year, we are looking at skilling our teams on emerging technologies to deliver in the emerging IT markets."

Hence, INT has allocated around 41 per cent of its total revenue to the HR budget. It includes salaries, benefits, rewards and recognition, training, payroll processing costs, advertising, and legal fees.

That is the wrap for the theoretical side of the HR budget planning. Also, it is to be noted that like every other budget, even the HR budget cannot be static. Depending on the organisational needs or other emergency situations, the HR budget does take calculated revisions and turns.

