Bringing HR and Finance Together with Analytics

By Jeff Higgins, Human Capital Management Institute

As a frequent speaker on workforce analytics at HR conference events, I often start with what could be called a confession to the audience, admitting that I was formerly a vice president of Finance and CFO earlier in my career. I share that in this role, I often worked closely with HR in much the same way that Finance likely works with the HR professionals in most organizations. I listen politely to HR's request for resources to invest in staff, systems or training, after which I would say "No" to whatever the request was. This description of events usually gets a laugh from the crowd. In fact, I often see knowing nods in the audience and comments to the effect of having to work with just such a Finance clone at their own organization.

What is even funnier is that I tell the same story when speaking at Finance/CFO conferences and they laugh even harder. Yes, the Finance crowd also thinks it is funny that they seemingly always say "No" to HR requests for spending or investment. The sad fact is that in most organizations, HR is denied for spending requests and investments perhaps often more than any other function in the organization.

And yet, Finance professionals often also feel guilty about so consistently denying HR on requested investments. Offline those same CFOs and Controllers who laugh at the joke often confide their wish for HR to make a stronger business case with numbers, including costs, benefits and a valid return on investment (ROI). They sometimes sound a bit like the famous line from the movie Jerry Maguire "Help me Help You! Help me Help You!" The twist is being that Finance CFOs say "I can't help HR, until they can help themselves."

Interestingly, if one asks most CFOs if people are a source of competitive advantage, a strategic asset and something which the organization should invest in, they almost invariably answer "Yes, of course."

That's long been the problem for Human Resources. Organizations do believe in and publicly state workforce and talent to be their most valuable assets and key to future success. However, because the value of talent is difficult to measure, and few HR leaders have been able to effectively use metrics to measure workforce talent impact, Finance therefore defaults to measuring workforce talent only as a cost to be minimized.

Highlighting the dramatic disconnect between what companies say about their employees, "most valuable asset," and how they show employees on their financial statements, I often ask Finance professionals where in the balance sheet is the company's stated most valuable asset, the employees, shown? I usually get a wry smile since the answer is in fact, from an accounting standpoint, employees, aka human capital, is defined as a liability not an asset on a company's balance sheet. This means the only place that employees, workforce and talent show up on a typical balance sheet is on the liability or negative side, and that's troubling.

HR as a result often feels misunderstood, unsupported, underfunded and left to simply execute on company initiatives without adequate resources or the ability to strategic drive talent management initiatives in the organization.

So how can it be that HR and Finance agree on people as a source of competitive advantage, a strategic asset and worthy of increased investment, yet Finance so quickly and routinely declines HR spending requests?

The answer is both simple and yet complex. The simple answer is really about communications and language. Finance believes HR needs to be able to speak the language of business, which is numbers, more specifically, business and financial results ($$$). This is the language that every publicly traded company, as well as non-profit and public sector organization speaks. It is the language that Finance thinks, speaks, lives and breathes. Finally, it is the language that top management also lives and speaks, and is known and spoken by every other functional group in the organization.

What HR needs are some standard metrics that are included in standardized workforce or human capital talent reports and scorecards, which clearly show the value of the human capital, thus translating the language of talent into the language of business, so even the most diehard Finance professional can better understand talent, its impact, and its worth.

Why must HR learn to speak this language of business numbers (i.e. money/cost/ROI)?

HR professionals often ask, shouldn't CEOs and CFOs learn to speak the language of talent, a language that HR knows well? Of course, it would be great if CEOs and CFOs really understood what managing talent from HR's perspective is all about (note many CEOs do put talent management at the top of their priority list) but realistically speaking as a former CFO, it does not seem likely to happen. After all, where in traditional public company annual reports is talent reported on, quantified and clearly shown to drive business results? Sadly, most public company annual reports contain very little information on what most would agree is a company's most valuable asset – its people.

If the overwhelming majority of management teams across the business world, including non-profits and the public sector, all speak the financial language of business, then is it the 95 percent in most organizations that should stop and learn the language of HR – or is it the 5 percent in HR who need to learn the language of finance?

So if HR and Finance do speak different languages, how do we bring them together?

Perhaps the best argument for HR to adopt and use human capital metrics and analytics is that it puts numbers to people that CFOs and the rest of the organization can finally begin to understand – and from which HR can change the game to drive superior decisions about people and talent using facts and numbers woven into a story that HR is uniquely qualified to tell.

A case-in-point story called *"Guarding the Wrong Gate,"* shows how HR, in mastering its own data and facts, can change an organization's narrative and strategic decision making.

The CEO of a midsized financial services firm based in the southwestern U.S. felt uncomfortable with the speed and frequency of promotions in the organization, driven by the company's rapid growth and need to fill managerial and critical operational roles to support and sustain company growth.

Over time, the CEO had grown increasingly frustrated with the inability of HR to clearly answer a series of questions about the company's frequent promotions and the accompanying salary cost increases. *"Why on Friday is an employee worth one amount and on Monday after a promotion is suddenly worth 20 percent more? What if the person cannot perform in the new role?" "How do we know if we are promoting too fast?"* These were all questions the CEO asked the HR leadership, but which HR was initially unable to answer.

As a result, the CEO felt the company was increasing workforce costs at an unsustainable rate and ordered the formation of a special committee made up of HR leadership and his own C-suite executive management team to meet monthly to review promotions. At this monthly meeting, each senior executive was to personally present each and every promotion recommendation from their respective groups, all of which had to be personally approved by the CEO in order to be effective. Further, all newly promoted employees were not to be paid their promotional increase until after successfully demonstrating competence via a 90-day performance review rating of "good." Then the promotion would be final and the employee would be entitled to a salary and compensation increase, back-dated to the original effective promotion date.

The CEO's new committee had the desired effect and the volume of promotions inside the company dramatically declined. Not only was top management afraid to go before the CEO to risk rejection of any promotion increases, even if they obtained approval, they had to tell the employee to successfully perform in the new role for 90 days without a pay increase and that they must receive a "good" or better rating on a 90-day performance review or else the promotion would not be effective. While the CEO's intention to reduce the number of promotions and the respective costs was achieved, there was another unintended consequence – a skyrocketing voluntary turnover rate of high-performing employees, many of whom were doing bigger jobs than their titles, but suffered from leadership's fear of submitting them for any promotion.

In order to address complaints about the promotion process across the company and the rising turnover rates among high performing key workers, HR conducted a detailed analysis to see if facts and data could offer an alternative. Promotions over the past two years were analyzed and trended in a chart. Also, historically, two-thirds of open positions at the company had actually been filled by outside new hires, and now nearly 90 percent of positions were being filled from the outside. By studying the data, HR identified what it termed replacement hires, meaning outside hires brought in to fill roles had to be replaced due to the increased rate of voluntary terminations in the company.

HR's "aha" moment was when they tabulated the total cost of all promotions over the year prior to the new promotion monthly review committee with both historical and current replacement costs for new externally hired employees who qualified as "replacement hires" of previous employees who had terminated. What HR found, and now had the data to prove, was that the total cost of all promotions even before the new promotion policy, was only equal to one percent of the total cost of the entire workforce while the cost of replacement hires was, on average, 30-35 percent more than the departed employees they were replacing. In other words, the cost of replacement hires for these positions was actually increasing workforce costs far more than the promotions that the CEO had successfully stifled.

Upon presenting this analysis and the data-driven reality to the CEO, there was an immediate change of heart. The CEO announced "I have been guarding the wrong gate," to his top management team and within the next month was recommending to HR and his management team "where it makes sense, we should promote more often."

The dreaded monthly promotion review committee was ended and promotion review and approval delegated back to HR. HR then utilized the data and information at their disposal to set up revised promotion policies that encouraged regular promotions on a defined career path rather than the previous ad hoc promotion practices of line managers.

What is interesting about this true story is the amazing power of facts and data to educate and influence decision-making and strategy for the organization.

Where do we go from here? How can HR better learn to speak with metrics and numbers that show directly the impact of workforce decisions on business results?

The first step in learning to speak the language of business is simply to ask the right questions about talent and the workforce. The right questions must be business questions, not HR questions and should combine or link directly to the workforce and talent. Many of these types of questions are already being asked actively in organizations around the world; however HR has historically not seen such questions as falling within their area of responsibility.

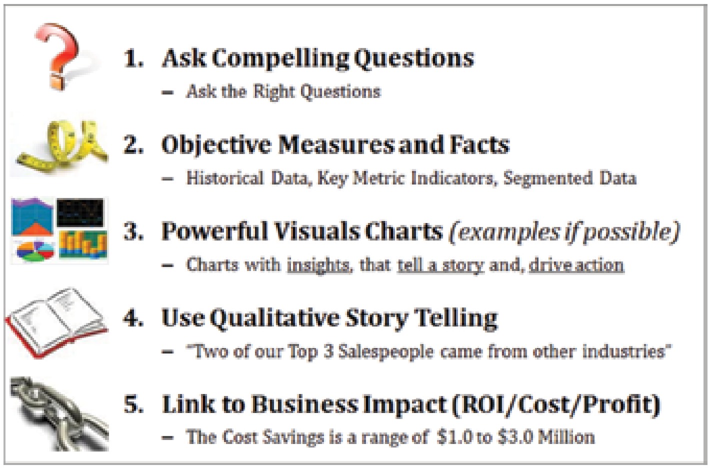

Chart 1.1. Five Steps to Speak the Language of Business.

For example, questions that many CEOs ask include:

- How do we know we have the right size and cost of workforce?
- What is our workforce productivity and is it improving?
- Are we hiring, promoting and retaining the best talent?

Such questions are clearly aimed at the workforce, but historically HR has not addressed or answered such questions.

The second step in and the method by which to answer such complex questions starts with the uniquely powerful data and potential metrics from such data that HR has at its disposal. HR today is increasingly swimming in a sea of data. Harnessing this ocean of data by integrating it from the many HR systems and computers where it may be stored and then analyzing and reporting on it via metrics will allow HR to begin to speak this new language.

The third step is to put data analysis into charts that enable management to gain actionable insights into specific workforce and talent management issues. Ideally such insightful charts will answer one of the key business questions identified in step one.

In step four HR harnesses all of steps one, two and three to do what it is already very good at, telling a story. However by combining a compelling question, good data and metrics, a powerful visual chart, a Finance or line management audience is finally ready to hear and understand the story. It is often the same story that HR may have told before, but the difference is that HR is now using the tools and language of business, data and numbers, to support and tell its story.

The fifth and last step is to top off all of steps one, two, three and four with a final cost-benefit, ROI or value creation metric that speaks squarely to Finance and line management executives.

Imagine for a moment, if you could clearly show that investing an additional $1.0 million dollars in training, which will reduce the voluntary turnover rate by 10 percent, will save $1.5 million dollars while simultaneously increasing workforce productivity by 5 percent. By means of training, HR can improve the productivity of the workforce – yes HR can. This means the organization can increase revenue, production, or customers served by 5 percent, with only minimal increases in workforce cost. For a company with $1.0 billion dollars in annual revenue, this would be worth up to $50.0 million in ROI to the organization as increased revenue, improved profit margins and reduced costs. Now those numbers are a language that even the most skeptical Finance person could understand.

Chart 1.2. Learning the Language of Business, Key Requirements. (Note: COE stands for Center of Excellence or Expertise.)

What does it take to learn the language of business, numbers and financial impact?

Chart 1.2 shows a breakdown of requirements from "A" to "J" to master the language of business. Follow the steps and start speaking the language of CEOs and CFOs.

About the Author

Jeff Higgins is the CEO of the Human Capital Management Institute, a driving force in workforce analytics helping companies transform data into intelligence via workforce planning and predictive analytics. With his unique experience as a senior HR executive and former CFO, he helps organizations rapidly advance their analytics and workforce planning journey to unlock billions of dollars in workforce ROI. He is a founding member of the Workforce Intelligence Consortium and a member of the SHRM Global Standards Committee on human capital. He can be reached at ***jeff.higgins@hcminst.com***.