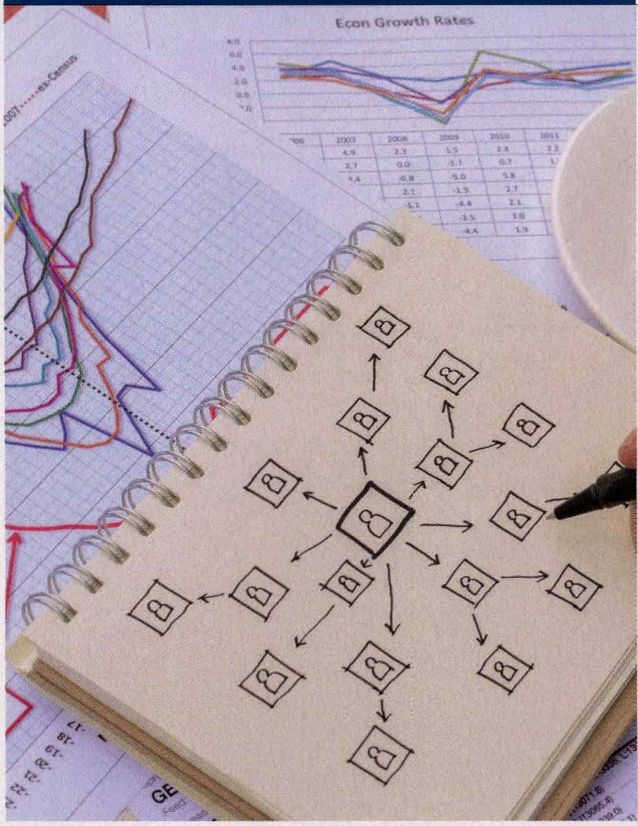

Bringing HR and Finance Together with Analytics

By Jeff Higgins, Human Capital Management Institute

As a frequent speaker on workforce analytics at HR conferences, I often start with a confession to the audience: I was formerly a vice president of finance and CFO.

In that role, I explain, I worked closely with HR in much the same way that finance professionals likely collaborate with HR professionals in most organizations. I would listen politely to HR's requests for resources to invest in staff, systems or training. And then I would say "no."

This usually gets a laugh from the crowd. In fact, I often see knowing nods and hear comments about working with just such a finance professional at their own organizations. I tell the same story when speaking at finance/CFO conferences, and the audience laughs even harder.

The sad fact is that, in most organizations, HR is denied spending requests perhaps more often than any other function.

And yet, finance professionals often feel guilty about so consistently denying HR. Those same CFOs and controllers who laugh at the joke often confide their wish for HR to make stronger business cases with numbers, including costs, benefits and a valid return on investment (ROI). Their sentiments are like the famous line from the movie "Jerry Maguire": "Help me help you!"

How can it be that HR and finance professionals agree on people as a source of competitive advantage, yet the finance department continues to so routinely decline HR's spending requests?

The simple answer has to do with communications and language. Finance believes HR must be able to speak the language of business, which is numbers and, more specifically, business and financial results. This is the language that every publicly traded company, nonprofit and public-sector organization speaks. It is the language that finance professionals think, speak, live and breathe; it is the language that top management lives and speaks; and it is the one spoken by every other functional group in the organization.

What HR needs are some standard metrics that are included in workforce or human capital talent reports and scorecards that clearly show the value of the human capital—thus translating the language of talent into the language of business so that even the most die-hard 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 why CEOs and CFOs aren't expected to 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 that many CEOs do put talent management at the top of their priority list.) Realistically, however, and 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 human capital.

If the overwhelming majority of management teams across the business world, including those at nonprofits and in 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?

If HR and finance professionals speak different languages, how do we bring them together?

Perhaps the best argument for HR to adopt and use human capital metrics is that it puts numbers to people so that CFOs and the rest of the organization can finally begin to understand. HR can change the game to drive superior decisions

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about people and talent by using facts and numbers woven into the story that HR is uniquely qualified to tell.

A case-in-point story shows how HR, in mastering its own data and facts, can change an organization's narrative and strategic decision-making.

The CEO of a midsize financial services firm based in the Southwest was uncomfortable with the speed and frequency of promotions in the organization, which were driven by the company's rapid growth and need to fill managerial and critical operational roles to support and sustain it.

Over time, the CEO had grown increasingly frustrated with the inability of HR to clearly answer questions about the company's frequent promotions and accompanying salary increases. Among the CEO's concerns: "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?"

The CEO felt that workforce costs were rising at an unsustainable rate, and formed a committee of HR leaders and C-suite executives to meet monthly to review promotions. At this meeting, senior executives were to present every promotion recommendation from their group for CEO approval. In addition, newly promoted employees were not to be paid their promotional increase until after receiving a 90-day performance review rating of "good." Then the promotion would be final and the employee would receive the new salary,

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backdated to the promotion date.

The new committee had the desired effect, and the number of promotions dramatically declined. Not only was top management afraid to go before the CEO to risk rejection of any promotions, they also were reluctant to impose the 90-day probationary period.

But reducing the number and cost of promotions had an unintended consequence—a skyrocketing voluntary turnover rate of high-performing employees, many of whom were doing bigger jobs than their titles suggested but were suffering due to leadership's fear of submitting them for promotion.

To address complaints about the promotion process and

5 Steps to Speak the Language of Business

1. Compelling Questions— Ask the right questions.

2. Objective Measures and Facts— Historical data, key metric indicators, segmented data.

3. Powerful Visuals and Charts— Charts with insights that tell a story and drive action.

4. Qualitative Storytelling— "Two of our top three salespeople came from other industries."

5. Link to Business Impact (ROI/Cost/Profit)— "The cost savings is in a range of $1 million to $3 million."

the rising turnover rates among high-performing key workers, HR conducted a detailed analysis of promotions over the previous two years. Historically, two-thirds of open positions had been filled by external hires, and now nearly 90 percent of positions were being filled from the outside—what HR called "replacement hires."

What HR found, and now had the data to prove, was that the cost of all promotions before the new policy was 1 percent of total workforce costs, while the cost of replacement hires was, on average, 30 percent to 35 percent more than the departed employees they replaced. The replacement hires were increasing workforce costs far more than the promotions that the CEO had successfully stifled.

Upon presenting this analysis to the CEO, there was an immediate change of heart. The CEO announced to his top management team "I have been guarding the wrong gate" and agreed that "where it makes sense, we should promote more often."

The committee was disbanded. Promotion review and approval were delegated back to HR. HR used the data 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. Many of these questions are already being asked in organizations, but often not by HR.

For example, questions that many CEOs ask include the following:

- 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?

The second step—and the method with which to answer such complex questions—starts with the uniquely powerful metrics that HR has at its disposal. HR today is increasingly swimming in a sea of data. Harnessing this data from HR systems 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 talent management issues. Ideally, such charts will answer the key business questions identified in step one.

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In step four, HR harnesses all of steps one, two and three to do what it is already very good at—telling a story. After HR has combined a compelling question, good data, metrics and powerful visuals, a finance or line management audience is finally ready to hear and understand the story. It is often the same narrative HR has told many times before; the difference is that HR is now using the tools and language of business to support and tell its story.

The fifth and last step is to create a final cost-benefit ROI or value creation metric that speaks squarely to finance and line management executives.

Imagine for a moment that you could clearly show that investing an additional $1 million in training would reduce voluntary turnover by 10 percent, save $1.5 million and increase productivity by 5 percent. This means the organization could increase revenue, production or customers served by 5 percent, with only minimal increases in workforce cost. For a company with $1 billion in annual revenue, this would be worth up to $50 million in ROI to the organization as increased revenue, improved profit margins and reduced costs. Those numbers are a language that even the most skeptical finance professional could understand.

About the Author

Jeff Higgins is CEO of the Human Capital Management Institute in Marina Del Rey, Calif., which helps companies transform data into intelligence via workforce planning and predictive analytics. He is a founding member of the Workforce Intelligence Consortium and a member of the International Organization for Standardization Technical Committee 260 on Human Resource Management. He can be reached at jeff.higgins@hcminst.com.