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HR metrics not regularly used by finance departments: Survey

What's behind the disconnect – and what numbers would CFOs like to see?

BY SARAH DOBSON

THERE has been plenty of discussion and focus around HR metrics in recent years, but are CFOs actually interested in the numbers?

Maybe not — nearly two-thirds (64 per cent) of senior financial executives do not regularly use HR analytics to better understand the costs associated with their workforce, according to a survey by the Canadian Financial Executives Research Foundation (CFERF), the research institute of Financial Executives International Canada (FEI Canada).

Why? Trust could be an issue — just one-third said they fully trust the data received from their HR team in making business decisions while another third "somewhat" trust the data.

It really highlights that more training might be required to better understand what it is finance people are looking for in terms of information from HR, said Laura Pacheco, vice-president of research at FEI Canada in Toronto.

"Finance people need to better understand the underlying data that's being provided from HR and if its not quite what they're looking for, then it's a learning opportunity for them to reach out to them and collaborate and work better together because, ultimately, it does represent a significant amount of the expense so you want to have a really good understanding."

The lack of faith in HR metrics suggests the right things are maybe not being measured, and how things are measured hasn't been validated or vetted, said Lois Martin, executive vice-president and CFO of Ceridian, which sponsored the report *Measuring HR: Moving Beyond Number Crunching*, based on the survey and a roundtable discussion.

"The partnership with finance is so critical because finance can bring that objectivity but also the discipline of the analytics discipline — how you ensure data integrity, how you make sure the data's clean and you're measuring it accurately and consistently."

There is clearly a great deal that can't quantitatively be measured about HR, which is the same for every function, she said.

"At times, it can be difficult to quantify something. On the other hand, I think there's a lot of tools out there, including things like engagement surveys, which actually have been able now to quantitatively calculate for you an engagement score."

It's about understanding the purpose of the measurement, said Greg Trok, vice-president of consulting services at Ceridian in Minneapolis.

"If it's not a business-driven type of activity and you're just measuring for the sake of measuring it and you can't really bring it back to 'How does this increase the value of the business or the organization, how does it make people happier at your company so you can be more productive?' or what have you, you're missing the point of what you're trying to do with these particular measurements."

If finance had just one finance-type metric to measure the health of its workforce, the top metrics preferred are revenue per full-time employee (FTE) or labour costs as a percentage of revenue, both at 26 per cent. These were followed by human capital return on investment (23 per cent) and profit margin per FTE (15 per cent), found the survey of 107 respondents.

"Some measurements are so basic — they're informative but you can't really do anything with them, they don't tell you a story," said Martin, citing as an example revenue per FTE.

"I certainly still measure it myself and it's one that shows you some level of productivity but it also is hard because it doesn't reflect what are you paying for all those levels because your salary range can be so significantly different between positions. It's interesting but it's not hugely actionable."

The challenge is getting hard data from human capital, said Catherine Fels-Smith, CFO and COO at the Toronto Region Board of Trade.

"It's really easy to do revenue per full-time employee, and that's something I do every year as part of my planning, but that's more giving me more of a continuity base — you know, if I start seeing blips, then I now have to start peeling down to get more details — but in the area of my employee engagement and my x number of dollars, I can't tie back and say, 'I'm getting this in additional return,' it's just too murky."

Part of the challenge in looking at profit margin for FTE is there are areas in the organization that are cost centres and expense-driven while there are other areas that drive revenue as well as expense.

"So then how do you start weighting your profit margin per FTE where you've got a blend of cost centres to revenue-producing centres?" said Fels-Smith.

It really is a training and development opportunity both for finance and HR, said Pacheco.

"If you think of the underlying escalation of revenue per FTE, how do you define 'employee' when, more and more, there are contractors being brought onboard? So do you factor that into the equation or not? Are you looking at just full-time regular employees or are you factoring in the contractors and the part-time employees, etcetera, etcetera? And, depending on what you're using as denominator, it's going to affect what your number is."

Relationships

When it comes to the relationship with finance, almost 70 per cent of respondents had at least one HR-related function reporting into the finance department, most often payroll (68 per cent), benefits (46 per cent) and HR (41 per cent).

And in the last five years, in looking at HR functional areas, the finance department's level of oversight and responsibility has increased, according to 42 per cent of respondents, while 46 per cent said it has stayed the same and nine per cent said it has decreased.

Looking ahead, 25 per cent expect finance's role to increase, directly or indirectly.

"In today's economy, as companies increasingly are looking at the bottom line, the finance person is primarily responsible for that, and given that a significant portion of company expenses are people-related expenses, it only stands to reason that it would make sense to have that role report in," said Pacheco.

There's always an opportunity to collaborate further, she said.

"HR is there to support the organization and finance is there to support the organization as well, in a different manner, and the more they understand each other, the better."

Martin said she has experienced either all of HR or part of HR reporting into finance.

"You don't need to have someone technically or officially report to you to be able to influence, to drive the change and to really move forward on the initiative… it's that relationship you have with the HR leader," she said.

"If you build the right relationships and team appropriately, show that you're in there as a partner — not to do a power game, you're there to partner and help, that's what allows you to really help drive everybody forward."

Tying the measurement back is sometimes difficult and that's where it makes sense to work with the financial experts or analysts and have them look at how HR impacts that, said Trok.

"Bring those people into the fold so that they can partner with you to share that data or to get better information around that so that you can grow that credibility internally," he said.

"Don't measure just because you want to measure but measure what they're trying to get at, all the problems. If it's an implementation turnover problem, solve that problem; if it's a sales-related activity problem, figure out what to solve there.

"And… if you can't measure it, then that's where you can bring in some of that expertise and eventually hire… somebody with that kind of statistical frame of mind or the background or skill set."

A small operation with about 40 employees, the Toronto Region Board of Trade has the HR function reporting to the CFO and they work together on programs such as employee engagement, pension plans and workforce planning, said Fels-Smith.

"Working with HR in finance workforce planning allows you to tie out your long-term forecast on what your operating expenses are going to be, and also relating your employee costs to what long-term deliverables will be," she said.

"If you've got a finance leader that is more controllership-focused, then having HR report to that individual may not be the best decision because the HR has some of that softer side that you can't necessarily quantify the benefits or returns."

For HR to improve its analytics, it's about working with finance to understand what finance might be looking for, said Fels-Smith.

"(It's) also getting that grounding and understanding on how the business operates because once you know how the business operates, that helps provide clarity on what you need for metrics and measures."