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Bang for bucks

Finance increasingly looking for ROI of HR functions

By Laura Bobak

Nirvana, that elusive state of eternal peace of mind or bliss, would mean having a "defined and accepted return on investment on human capital measure" — at least according to Victoria Davies, a Toronto-based CFO.

While that might not be everyone's cup of chai, for Canadian CFOs, it's becoming increasingly important to be able to measure whether they are getting a good bang for their labour bucks.

Senior financial executives are becoming more involved in the oversight of HR functions. However, a large proportion of them rate their knowledge of HR functions as moderate or average. This admission suggests a widening skills gap among finance executives who are starting to oversee HR managers and payroll functions.

Study results

These are the results of a study released by the Canadian Financial Executives Research Foundation (CFERF), the research arm of FEI Canada, and sponsored by Ceridian. An online survey of financial executives found 61 per cent reported they had taken on more accountability for HR functions — including payroll, recruitment, talent management, training, benefits and bonus management — in the past five years.

In addition, more than one-third expect to see their involvement in HR and payroll expand in the next five years.

Despite the increasing sphere of responsibility, a relatively large proportion of those surveyed did not rate their knowledge of HR functions highly: Three in four ranked their own skills in this field as two or three on a scale of one to five, while only 11 per cent described themselves as extremely knowledgeable.

That's why a streamlined but effective approach is ideal, says John Forester, CFO of DBG Metal Manufacturing in Toronto. "Getting a simplified approach is what we would like to get out of HR measurement."

Traditionally, finance and HR executives operated in separate spheres within most organizations. But rapid globalization has caused a growing number of companies to focus much more intensively on labour costs and human capital, as well as their role in delivering value to shareholders.

"Financial executives manage many moving pieces on the modern business landscape. They need to think strategically about all levels of their business, while managing risk, staying ahead of technology, fostering innovation and working with fellow executive team members to build enterprise value," says Michael Conway, president and CEO of FEI Canada in Toronto.

"Human resources is another area where CFOs are being held accountable and we continue to seek insights into helping our executives improve their skills in this area."

HR is frequently becoming more aligned with finance, according to Rob Rose, senior vice-president of product management at Ceridian in Ottawa.

"Reporting for finance and HR can be extensive since employees are typically a large expense for many organizations. In some cases, HR reports directly under finance or some type of a parallel relationship exists. Moreover, the relationship between finance and HR is becoming much stronger than what we've seen in the past."

Many senior financial executives are taking an increasingly active role in the oversight of payroll and HR divisions. As the organizational overlap between these two corporate functions expands, finance executives are looking for better ways to measure and benchmark HR/payroll outlays, which means relying on, and learning to interpret, a wide range of HR metrics.

CFERF canvassed senior financial executives for their views, combining the results of an online survey with insights gathered at roundtables. The executives were asked for their views on the relative importance of a range of key HR benchmarks and ratios. The goal was to determine what sorts of measures financial executives rely on most heavily, and whether there are opportunities for companies to develop other useful metrics.

Some key findings:

- Respondents said they paid the most attention to the average cost of employer-paid sick days and personal leaves, with 73 per cent ranking these HR expenses as moderately to most important in their analysis.
- Almost four in five reported that they rely heavily on a per capita-based formula for evaluating performance management, tracking revenue, cost, profit, EBITDA or return on investment per full time equivalent (FTE).

When it comes to absenteeism, part of it is the challenge just to collect the data, says Davies.

"Everyone wants their employees to be more efficient, so collecting time sheet information from employees can contribute to inefficiency," she says. "In addition, absenteeism may not be a fair measure if someone is checking emails from home. There are a lot of traditional measures that don't reflect technology and business challenges today, and we haven't come up with new ones for a workers in a non-production environment."

Many finance executives assign less importance to more granular HR- or payroll-related metrics that focus on areas such as absenteeism, turnover, recruitment and talent management costs and human capital, found the survey:

- While some participants indicated the return on investment in human capital metric needs more development, many were seeking a comprehensive measure such as this, with 53 per cent indicating it was moderately to very important.
- Eighteen per cent said they did not pay any attention to data on voluntary separation of high performers, while 10 per cent thought such data was crucial.

Several roundtable participants expressed the view that finance executives should track HR metrics, but felt the measurement function itself was secondary to the importance of setting legible and clear targets for improvement.

"Executives are all about getting things done as opposed to measuring things," says Forester. "The measurements are expected. If you can't measure it, you cannot manage it. The question becomes 'How do these things help you identify the opportunities and actions that need to be taken?' And then, more importantly, 'Have you taken the action, have you made a difference?'"

As Rose says: "Metrics themselves are easy. Setting targets is hard."

Laura Bobak is research and communications manager at Financial Executives International Canada (FEI Canada) and the Canadian Financial Executives Research Foundation (CFERF) in Toronto. She can be reached at lbobak@feicanada.org.