MEASURING HR:
WHAT CFOS NEED TO KNOW

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ACKNOWLEDGEMENTS

We gratefully acknowledge the efforts of our survey respondents and our forum participants who took valuable time away from their day jobs to participate in this work. We are particularly grateful to our research partner, Ceridian, without whom this study would not have been possible.

Christian Bellavance
Vice President, Research and Communications
FEI Canada

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EXECUTIVE SUMMARY

Traditionally, human resources and finance executives operated in separate spheres within most corporations. 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.

“We’re seeing a trend where HR is becoming more aligned with the finance areas within an organization,” says Susan Gartner, Ceridian’s senior product manager for business intelligence. “There’s a huge amount of reporting for Finance and HR as employees are the largest expense. As well, revenue, expense and budget planning are points of convergence. In certain organizations, HR reports directly under finance. In other organizations, it’s more of a dotted line or some type of a parallel relationship. But that’s becoming a much stronger relationship than what we’ve seen in the past.”

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

The Canadian Financial Executives Research Foundation (CFERF), the research arm of FEI Canada, canvassed senior financial executives for their views, combining the results of an online survey with insights gathered at round tables. 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:

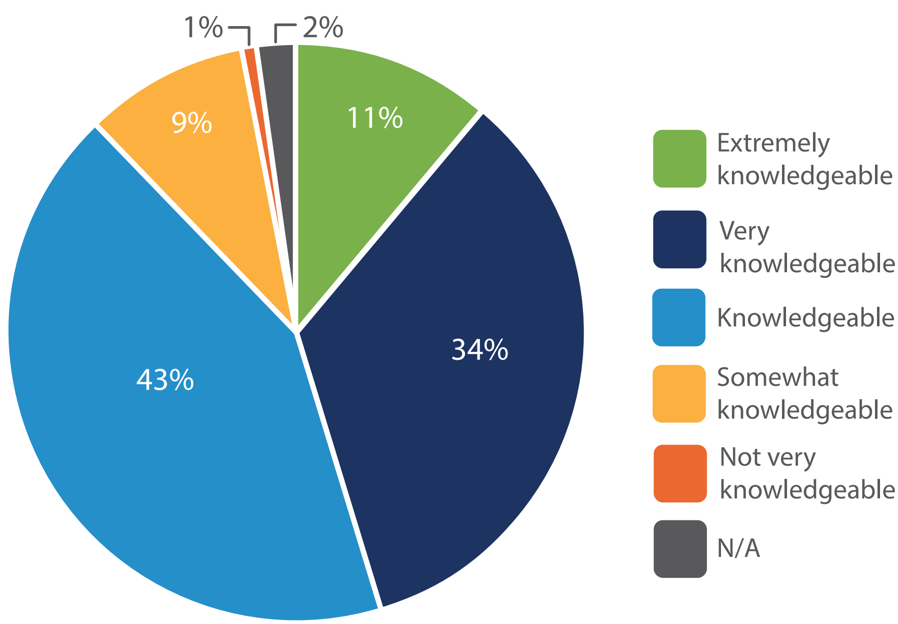
- Respondents said they paid most attention to the average cost of employer-paid sick days, personal leaves and other such outlays, with 73% ranking these HR expenses as moderately to very important in their analysis;
- Almost four in five reported that they rely heavily on a per capita-based formula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

Yet our survey also found that many finance executives assign relatively less importance to more granular HR/payroll related metrics that focus on areas such as absenteeism, turnover, recruitment and talent management costs and human capital:

- While some participants indicated that the return on investment in human capital metric needs more development, many were seeking a comprehensive measure such as this, with 53% indicating it was moderately to very important.
- 18% said they did not pay any attention to data on voluntary separation of high performers, while only 10% thought such information was crucial.

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

CHART 1: WHAT IS YOUR KNOWLEDGE OF THE HR FUNCTION? (OVERSIGHT AND RESPONSIBILITY)



METHODOLOGY AND SURVEY

An online survey was distributed to senior financial executives from February 6 to March 10, 2014. Ninety-six (96) individuals responded with a completed survey, all of whom hold senior financial management positions with some responsibility and oversight for HR. Of these, CFOs represented the largest single professional category (39%), followed by vice-president, finance (22%) and director of finance (13%). The sample also included CEOs, controllers and owner-founders.

In terms of the organizations represented, almost two-thirds of the respondents worked for private companies, while 13% had senior positions in both publicly-traded companies and public sector/not-for-profit organizations.

More than six in ten worked for firms reporting less than $100 million in revenues, while 29% were with companies with revenues in the $100 million to $1 billion range. Nine percent had positions in companies with sales of $1 billion or more.

The financial executives participating in the study were drawn from a wide range of sectors, including construction, finance, insurance, manufacturing, professional/technical/scientific services, retail and real estate. For more information, see Appendix B.

Besides the survey results, the report draws on insights and discussion from a three-city executive round table sessions that took place on March 5, 2014 in Toronto, Calgary and Montreal, with participants linked by digital video-conference technology. See Appendix A.

FINANCE EXECUTIVES PLAYING A LARGER ROLE IN HR

There's clear evidence that senior financial executives are becoming more involved in the management and oversight of human resource-related functions, including payroll, recruitment, talent management, training, benefits and bonus management. The survey found that 61% of respondents reported that they had taken on more accountability for such functions in the past five years, and more than a third expect to see their oversight of HR and payroll will expand in the next five years (see Chart 2 and 3).

CHART 2: HAVE YOU TAKEN ON MORE HR AND PAYROLL OVERSIGHT AND RESPONSIBILITY OVER THE PAST 5 YEARS?

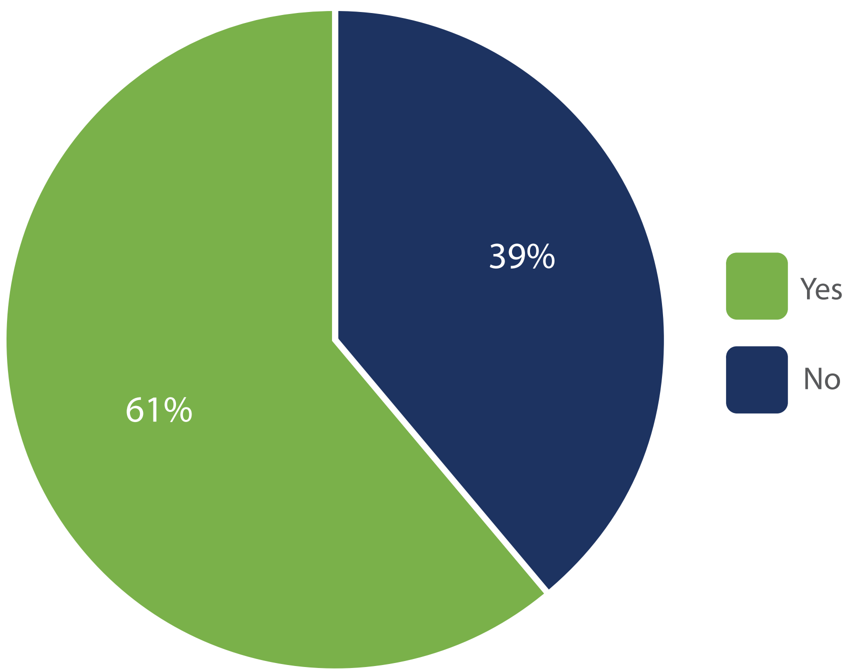
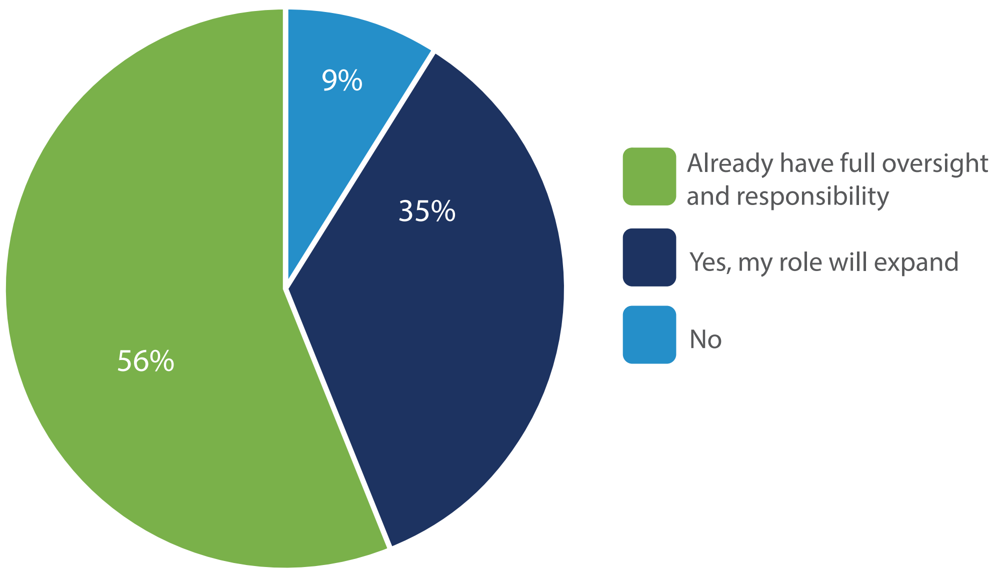


CHART 3: WILL YOU HAVE MORE OVERSIGHT AND RESPONSIBILITY FOR HR AND PAYROLL IN THE NEXT 5 YEARS?



Despite their increasing sphere of responsibility, a relatively large proportion of those surveyed described their knowledge of HR functions as moderate or average; three in four ranked their own skills in this field as 2 or 3 on a scale of 1 to 5, while only 11% described themselves as extremely knowledgeable (see Chart 1). Some executives want more information about how to manage personnel costs. "We currently don't have any true measurements for productivity," observes an assistant vice-president of a fast-growing financial services firm. "Our resources are growing but do we have the right number of people to do the work, or do we have too many people doing the work?"

These results suggest a widening skills gap among senior finance executives who are taking on more oversight for HR and payroll functions.

TRACKING PAYROLL AND COMPENSATION COSTS

Among the various drivers for payroll expenses, the survey respondents said they paid most attention to the average cost of employer-paid sick days, personal leaves and other such outlays, with 73% ranking these HR expenses as moderately to very important (see Chart 4). On the other hand, respondents tended to focus less on costs associated with payroll error audits or even overtime pay. Nineteen percent ranked overtime costs as unimportant, and 17 percent assigned payroll error audits the same degree of significance.

High level, aggregated HR cost data garners more attention. Indeed, there was a broad consensus among the respondents about the significance of two particular compensation metrics: employee total compensation expense as a proportion of revenues and/or total company costs. With both measures, 72% of those surveyed ranked these measures as important or very important (see Chart 5).

Drilling further down, companies in our sample assigned more importance to measuring compensation as a proportion of revenue or total company costs as opposed to median-based benchmarks, such as average compensation per full-time equivalent or the average compensation ratio (see Chart 6).

The executives surveyed also reported that when managing benefit costs, they are somewhat more interested in tracking overall benefit costs as a percentage of total compensation than a median-base metric – average benefit cost per employee. Fifty-one percent felt the latter was important or very important, whereas 58% gave those rankings to overall benefit costs/total compensation.

These choices suggest that financial executives with HR oversight responsibilities assign more significance to metrics that rely on aggregated compensation values as opposed to average-based ratios, which doesn’t necessarily provide insights into the impact on the bottom line.

CHART 4: HOW IMPORTANT ARE THESE SPECIFIC PAYROLL COSTS METRICS TO YOUR ORGANIZATION?

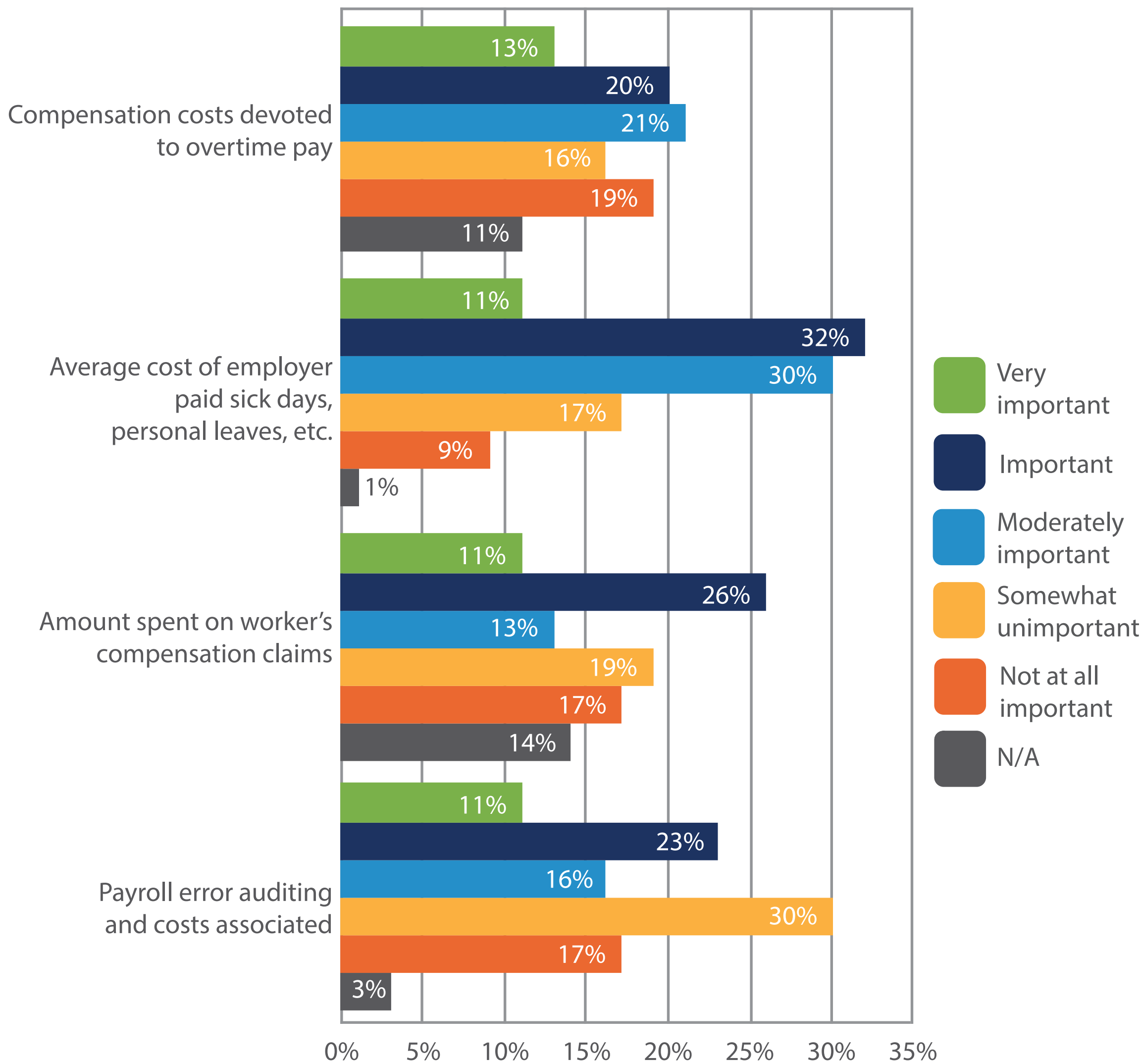
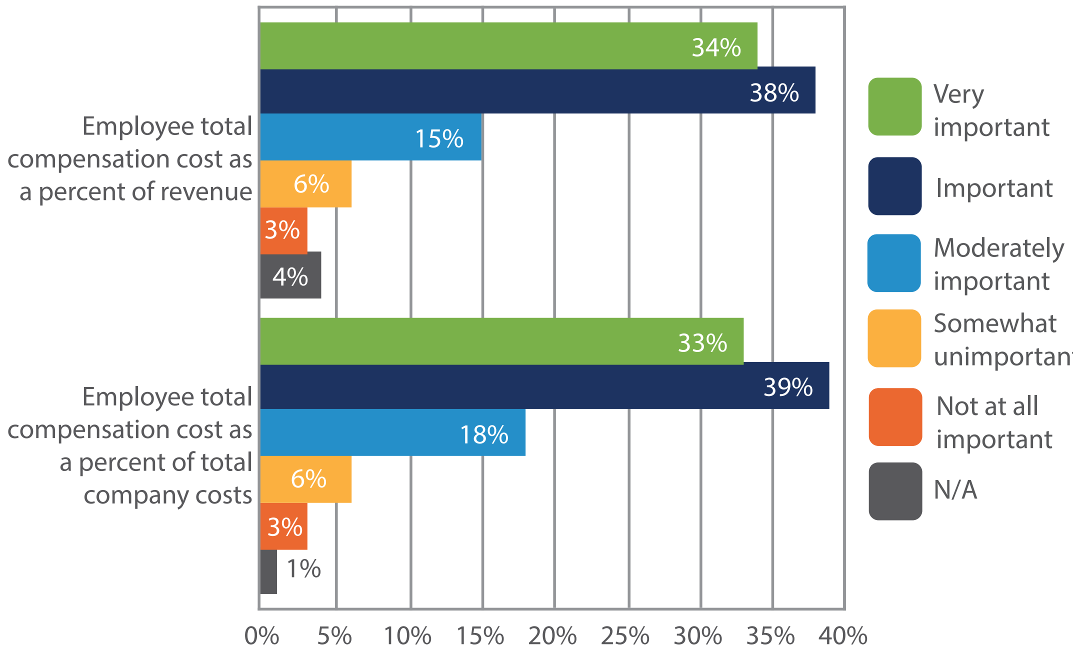
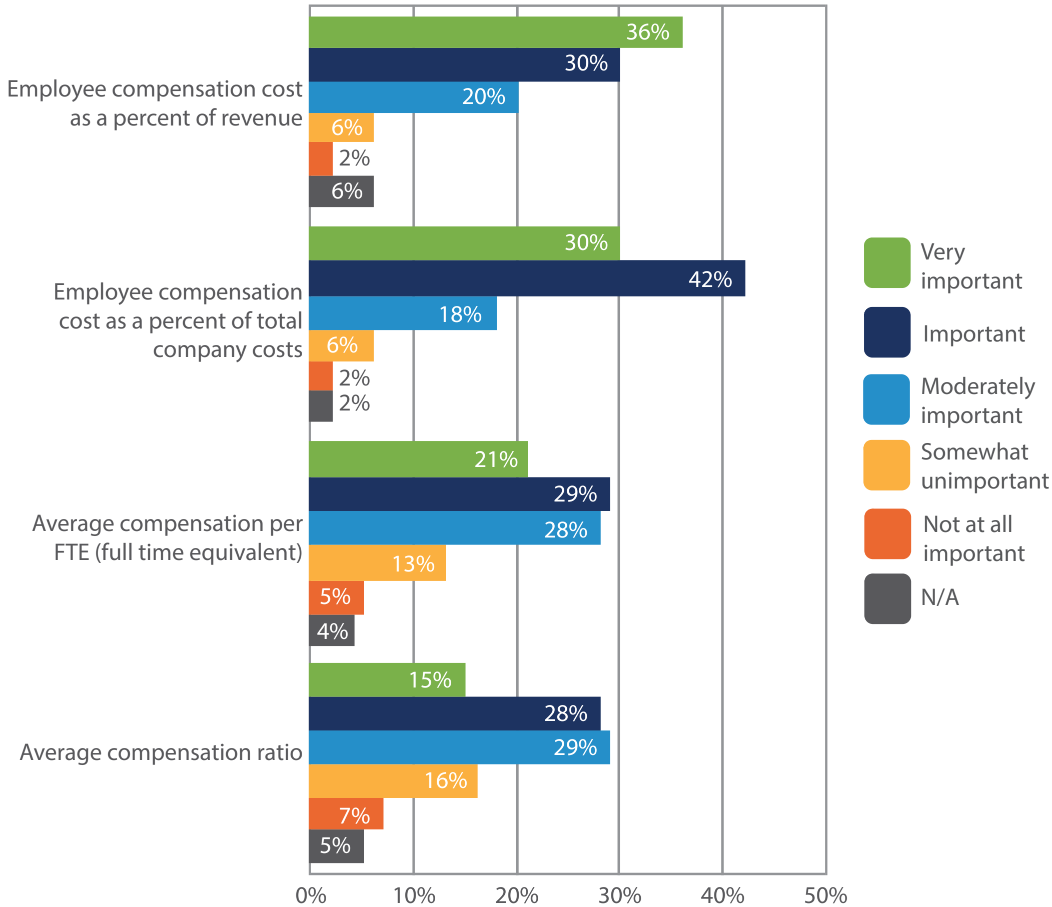


CHART 5: HOW IMPORTANT ARE THESE SPECIFIC LABOUR COST METRICS TO YOUR ORGANIZATION? (REVENUE AND EXPENSE)



> "If someone came up with a human capital ROI, I think it would bring significant benefit not just to the HR team, but for the whole organization. If HR actually had a measure that we could all use, it would drive significant value in decision making. It would be nirvana to have a defined and accepted return on investment on human capital measure."
>
> **Victoria Davies – CFO, Knightsbridge**

CHART 6: HOW IMPORTANT ARE THESE SPECIFIC COMPENSATION METRICS TO YOUR ORGANIZATION?



> "We are always looking for simplified but effective measurement, because there's a lot of stuff out there and you can make this really complicated. For most of our staff, it would be right over their heads. Getting a simplified approach is what we would like to get out of HR measurement."
>
> **John Forester – CFO, DBG Metal Manufacturing**

EMPLOYEE ENGAGEMENT

Many Canadians HR executives are looking to improve employee engagement as a means of improving performance, workplace cohesiveness and retention. But according to a recent survey of almost 400 Canadian HR managers,[1] almost seven in ten reported that the lack of employee engagement is seen as a problem within their firms.

There's no shortage of informed advice about how companies should boost engagement. The Globe and Mail, for example, recently offered a list[2] of high-level principles, such a management accountability, follow-through, and positive interaction. "Accept that engagement is a dynamic process," wrote HR consultant Bill Howatt. "There is no goal line; it's a moving target that requires constant attention, commitment and action. However, the payoff is huge."

According to our survey, financial executives charged with oversight of HR managers and employee engagement programs use a range of metrics to gauge the effectiveness of those efforts. By a wide margin, respondents said the most important engagement effectiveness benchmark focuses on productivity/labour costs. Seventy-one percent ranked this metric as important or very important (see Chart 7).

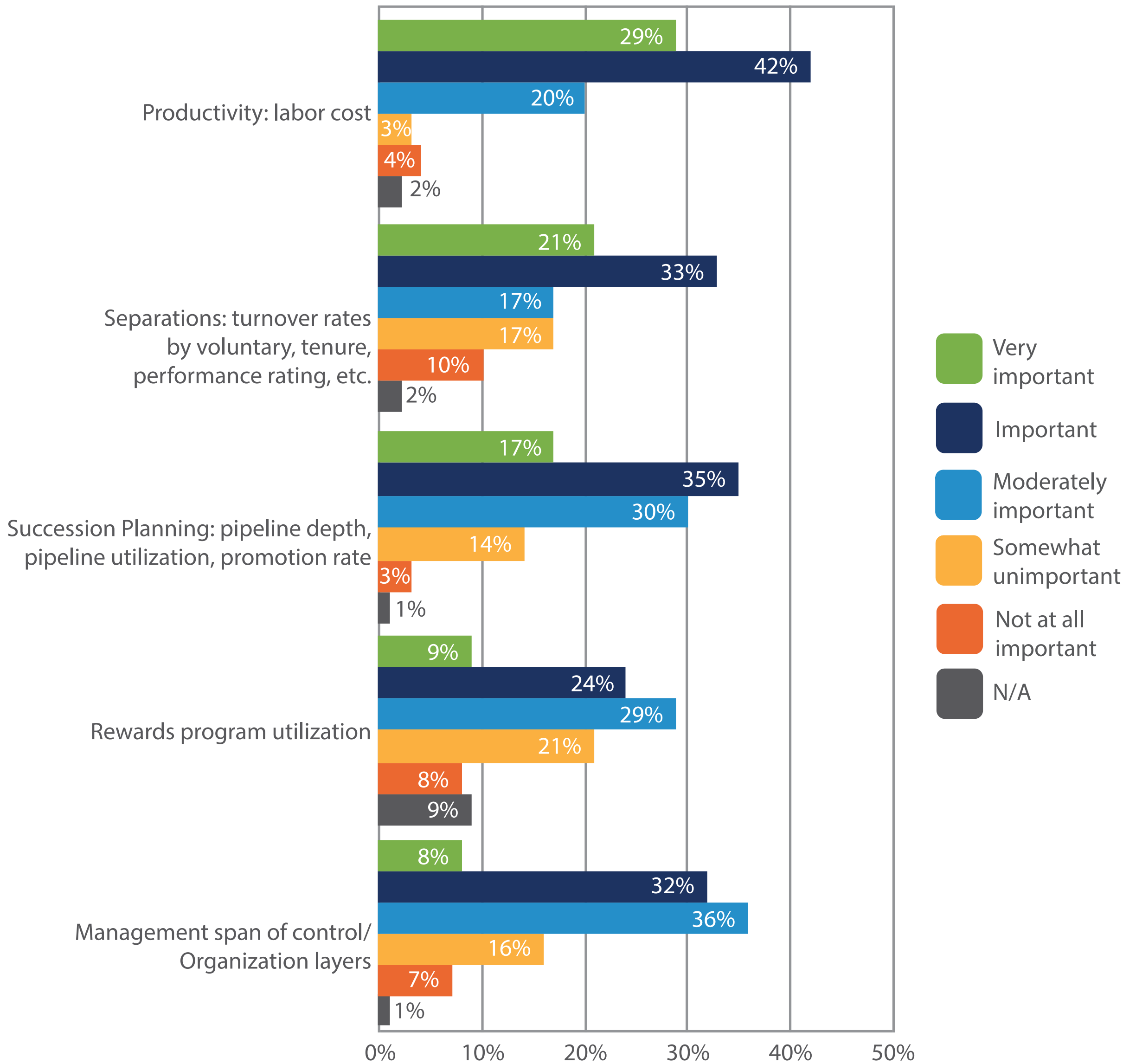
HR managers, of course, gather a range of other data that can shed light on the effectiveness of engagement efforts. These include metrics related to succession planning, such as the depth of the `pipeline,' internal hires and promotion rates. Slightly more than half of those surveyed felt these were important or very important data points (see Chart 7). Similarly, 54% of respondents in the sample reported that data related to turnover – voluntary separations or those based on tenure – held importance (e.g. important or very important) as a proxy of employee engagement.

Other benchmarks held less relevance for finance executives, even if they do shed light on their firms' cost structure. Over six in ten of the respondents said that data on layers and span of control was moderately important or important in assessing the viability of employee engagement efforts. And almost 60% assigned a similar level of relevance for the rewards program utilization rate (see Chart 7).

1. http://www.psychometrics.com/docs/engagement_study.pdf (nd)

2. http://www.theglobeandmail.com/report-on-business/careers/careers-leadership/tips-to-boost-employee-engagement/article13575801/

CHART 7: HOW IMPORTANT ARE THESE SPECIFIC EMPLOYEE ENGAGEMENT METRICS TO YOUR ORGANIZATION?



"I don't agree with the argument that there is not much you can do about employee engagement if the business is not performing well. I think that open, honest communication and leadership in good times and bad have more influence on employee engagement than events such as business performance that are generally out of the control and influence of most individual employees. In my experience, teams and individuals feel more effective and engaged if they focus on those areas within their influence and control. For example, areas such as realistic career planning, skills development, maintaining professionalism and staying consistently accountable for and focused on assigned responsibilities. Tough times in particular can help teams pull together while learning more."

Niall Cotter – Financial Controller, SAP Canada

"We do an annual calibration exercise with every person in the organization. However, it is a little de-motivating to our staff. We've done some benchmarking surveys. We know that our bargaining unit staff are paid above market. We know that our management staff are paid below market. And so how do you keep motivating people when you're not allowed to provide incentive pay?"

Financial Executive

"If you look at the number one thing that people want to understand in order to be engaged, they want to be plugged into the strategy and know they're making a difference. They can borrow the authority of the CEO to make decisions because they use the same decision framework – I think that's one of the major drivers here."

Rob Rose – Vice President, Product Management, Ceridian

PERFORMANCE MANAGEMENT

From small private businesses to large publicly traded companies and government agencies, financial executives charged with HR oversight want accurate techniques to measure the performance of their workforce.

> "We just find that we need more leadership and accountability to what the metrics are providing, rather than just focus 100% on the metrics alone. I'd be happy with the metrics being 80% accurate and more time spent on an implementation plan on how exactly how to execute what the metrics are telling us."
>
> **Derek Petridis – CFO, Shikatani Lacroix Design Inc.**

Overwhelmingly, the survey respondents reported that they rely on a per capita-based formula, tracking one of revenue, cost, profit, EBITDA or return on investment per full time equivalent. 78% ranked this family of metrics as moderately to very important (see Chart 8).

Almost the same proportion of respondents (73%) felt that compensation-based measures – variable compensation, performance bonuses and salary increase differential by performance rating – provided moderately to very important benchmarks for assessing overall performance in the workforce.

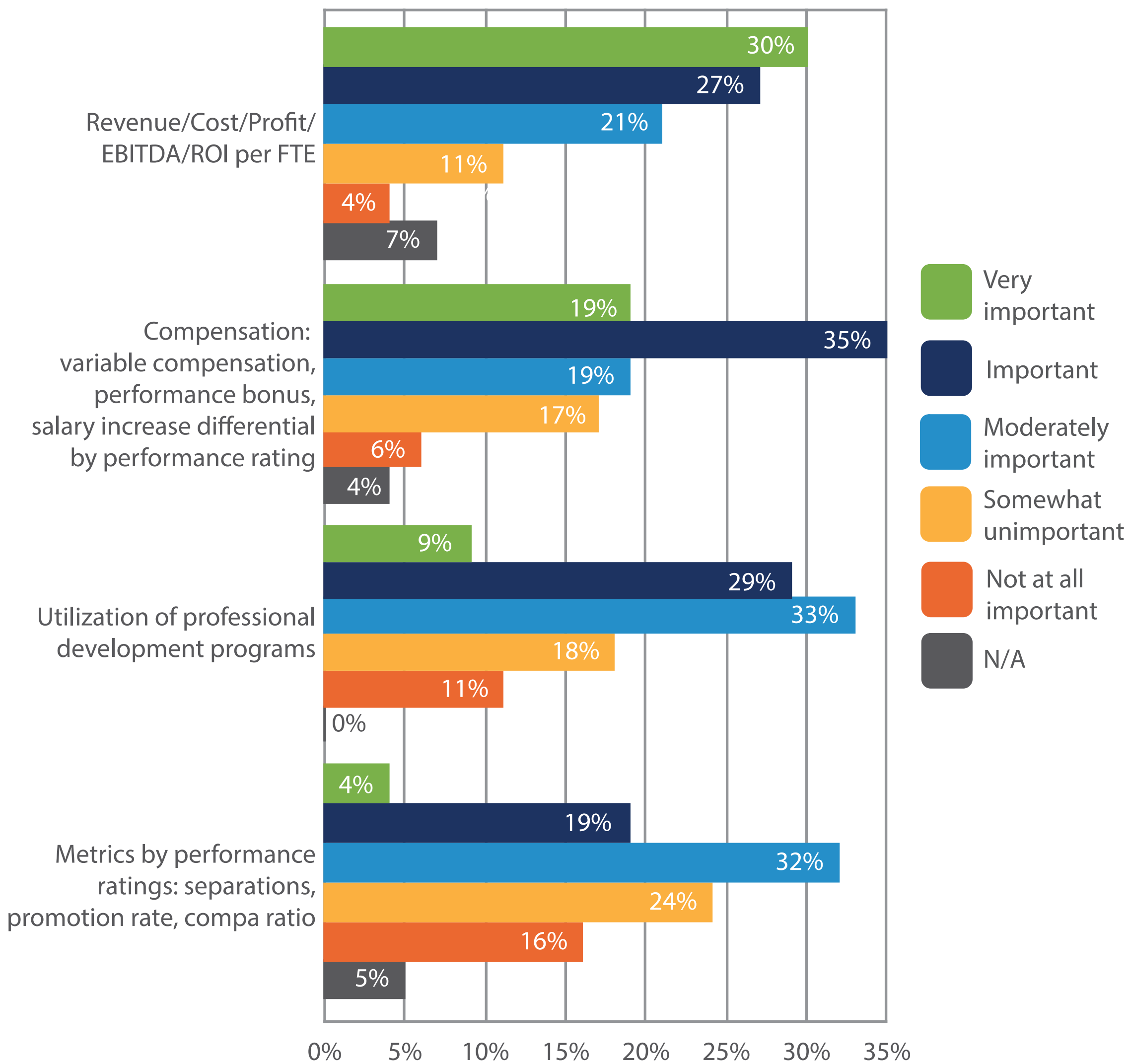
> "We look at various indicators; turnover by employees, staff cost by employee, and added value by staff cost. We look at R&D ratios by staff. So it really depends on the purpose and the focus."
>
> **Markus Weiss – Director Shared Services, North America & Financial Controller, Rheinmetall**

Seven in ten said ranked metrics on the utilization of professional development programs as moderately to very important, while somewhat fewer firms assigned that kind of weighing to data points such as the separation or promotion rates.

> "You have to be very careful to make sure that the folks who have to deliver that performance have the influence and control over those metrics."
>
> **Niall Cotter – Financial Controller, SAP Canada**

> "Canadian Tire, in my view, has a true performance management system. In their annual information, they disclose their objectives for the company, and it flows all the way through the senior management. Here's a company that spells out what they're going to do and is prepared to be measured against those objectives."
>
> **Victor Wells– Chair, CFERF and Corporate Director**

CHART 8: HOW IMPORTANT ARE THESE SPECIFIC PERFORMANCE MANAGEMENT METRICS TO YOUR ORGANIZATION?



WORKFORCE MANAGEMENT

When financial executives look to assess the effectiveness of workforce management, they can rely on a range of measures, including the Bradford Factor, which is a benchmark based on an individual's absences and the total number of days lost per year.

The companies in our sample tended not to assign less importance to metrics such as the Bradford Factor or separation and hiring rates compared with trend data on productive hours (see Chart 9).

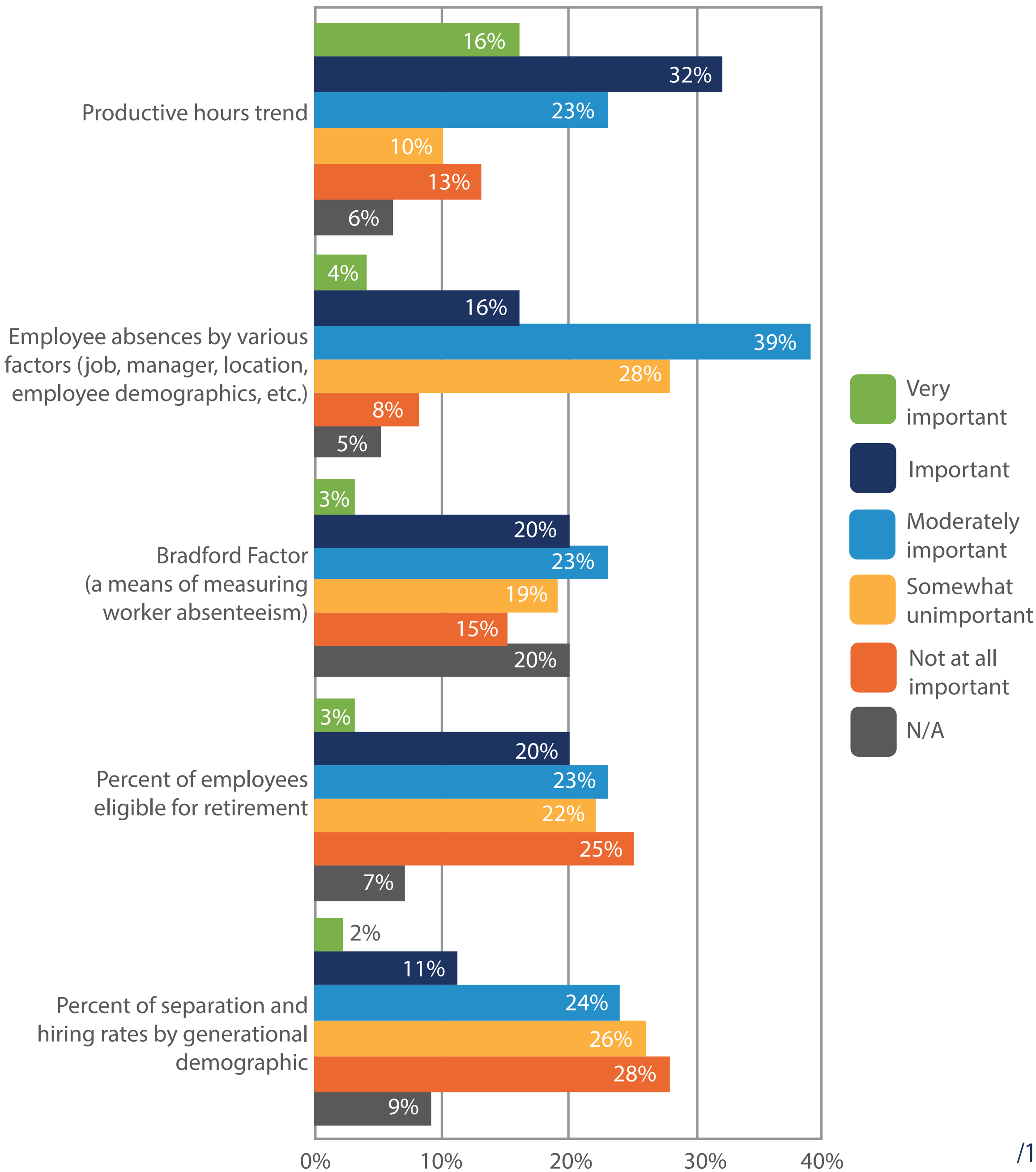
More than 50% of respondents ranked the Bradford factor as not important to moderately important in their workforce management analysis. A similar proportion assigned relatively low importance to measuring the proportion of employees who were eligible for retirement. Almost four in ten said that data measuring employee absences based on various factors (job, location, etc.) was moderately relevant.

However, 71% described the tracking of trends around productive hours as moderate to very important.

"When I think of absenteeism, part of it is the challenge just to collect the data. Everyone wants their employees to be more efficient, so collecting time sheet information from employees can contribute to inefficiency. 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."

Victoria Davies – CFO, Knightsbridge

CHART 9: HOW IMPORTANT ARE THESE SPECIFIC WORKFORCE MANAGEMENT METRICS TO YOUR ORGANIZATION?



RECRUITING AND TALENT MANAGEMENT

Recruiting and retention are high priority concerns for many firms, especially those in the professional services sector as well as industries that rely on certain categories of skill-intensive workers. But survey respondents only make moderate use of a family of measures designed to track the effectiveness of recruitment and talent management efforts.

The survey asked respondents to rate six metrics: the proportion of key positions filled by internal candidates; exits by new recruits; recruitment costs; promotion time-lines; management diversity and the proportion of high- performing employees who leave voluntarily.

"We try to measure but it has always been a challenging area because we have different VPs who are not spending enough time to foresee what's required… Not enough time is spent to say, `is this a short-term requirement because I have an immediate need, or is this someone who's going to stay and grow and become a full-time position?"

Financial Executive

Among the financial executives who participated in the survey, only 4 to 13% ranked these metrics as very important to the management of such programs. In all cases, those who ranked these measures as not important at all outnumbered those who said they were very important. For example, 18% said they didn't pay any attention to data on voluntary separation of high performers, while only 10% thought that information was crucial (see Chart 10).

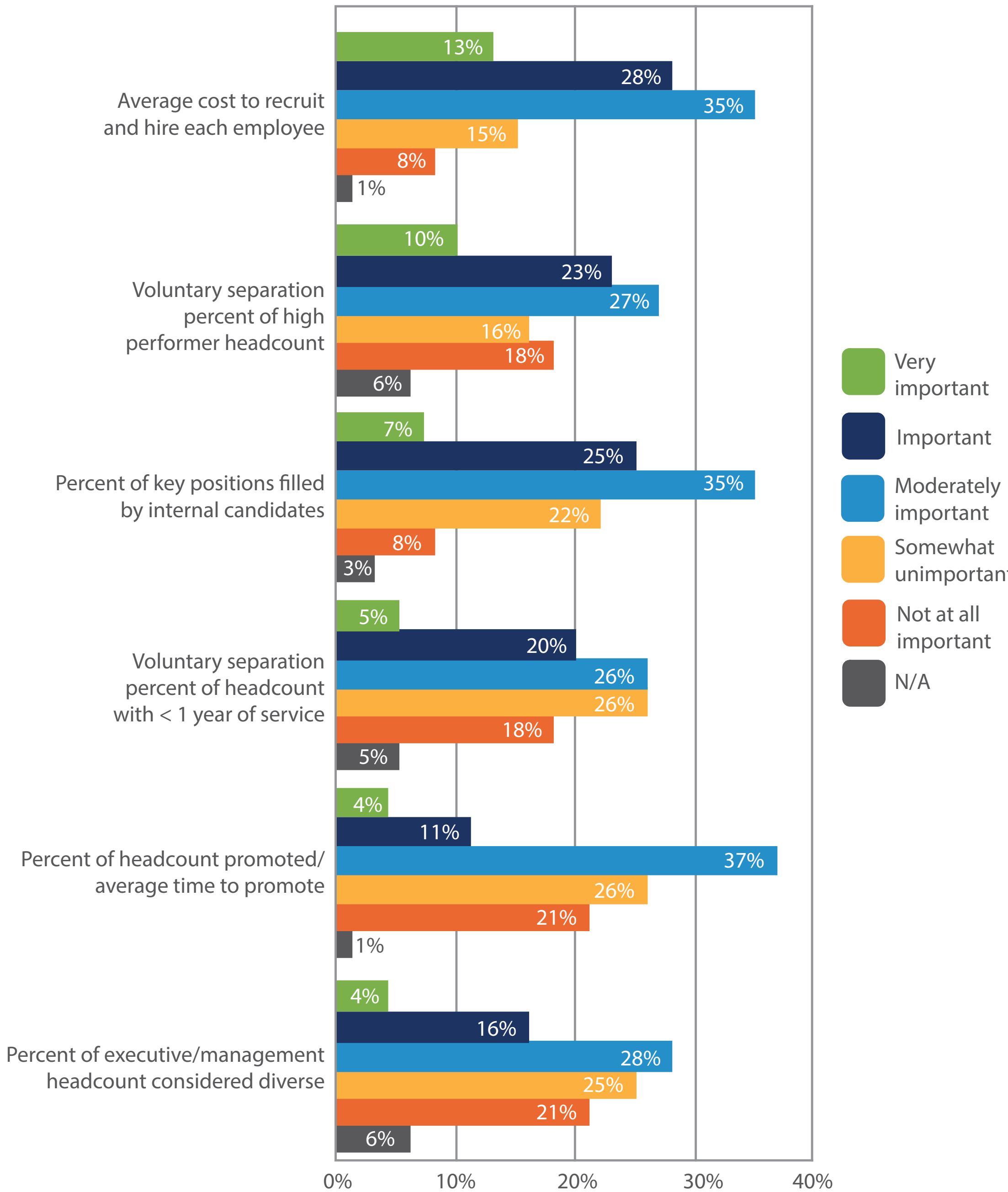
Overall, respondents were most likely to rank these benchmarks as moderately relevant. For example, 37% said that measures tracking the average time to promotion were of moderate importance, and 35% reported the same degree of reliance on metrics showing the average cost of recruiting new employees.

The results suggest that financial executives dedicate relatively less analytical attention to the budgetary impacts of recruitment and talent management outlays, either because they are focusing attention and resources elsewhere or due to a lack of confidence.

"Executives are all about getting things done as opposed to measuring things. The measurements are expected. If you can't measure it you can not 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?"

John Forester – CFO, DBG Metal Manufacturing

CHART 10: HOW IMPORTANT ARE THESE SPECIFIC RECRUITING AND TALENT MANAGEMENT METRICS TO YOUR ORGANIZATION?



FINANCIALLY-ORIENTED METRICS

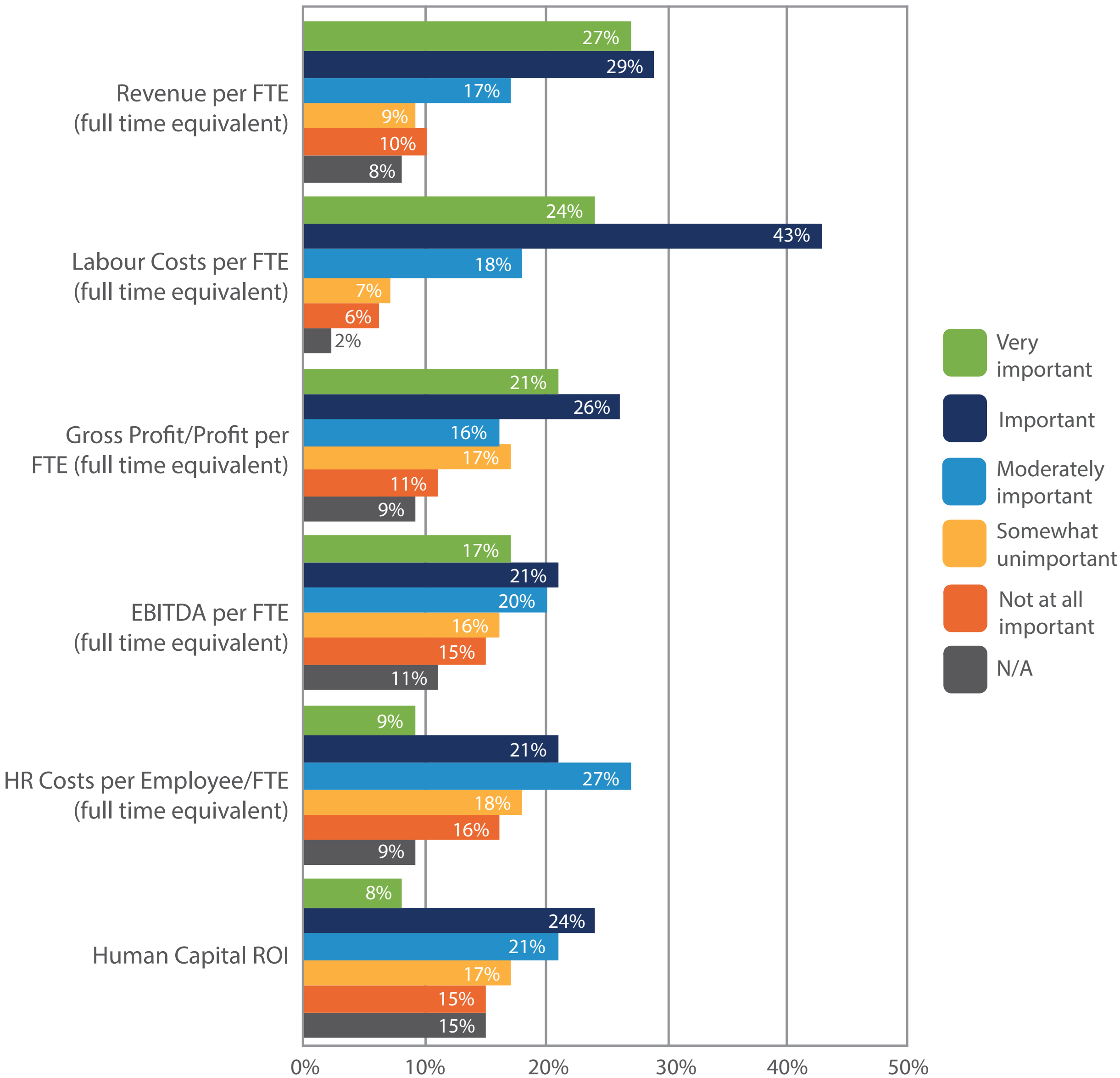
Of all the formulas for tracking the budgetary impact of payroll and other HR costs, the respondents to the survey were very clear about the one they felt revealed the most significant benefit. 85% said that monitoring labour costs per full-time equivalent – i.e., the average labour cost to the company for each FTE – was very important or moderately important in the way they managed payroll outlays (see Chart 11).

Interestingly, the participants felt this compensation-oriented measure yielded more granular information than higher-level metrics that provide per-capita ratios based on revenues, gross profits or EDITDA (these were ranked very important to moderately important by 73%, 63% and 58% of respondents, respectively).

While some participants indicated that the return on investment in human capital metric needs more development, many were seeking a comprehensive measure such as this, with 53% indicating it was moderately to very important.

FINANCIALLY-ORIENTED METRICS

CHART 11: HOW IMPORTANT ARE THESE FINANCIALLY-ORIENTED METRICS TO YOUR ORGANIZATION?



TRACKING HOURLY STAFF HR EXPENSES

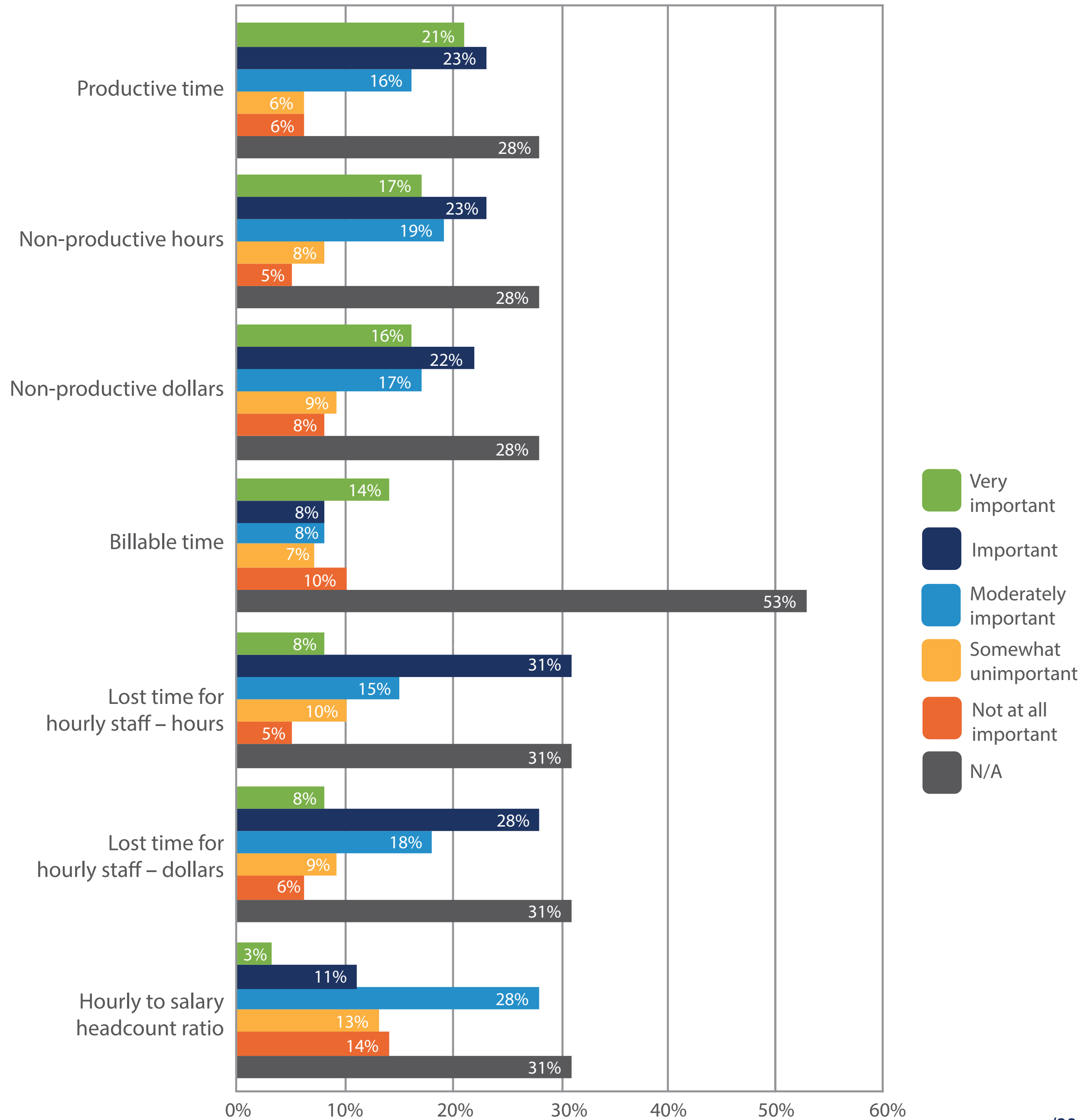
When respondents were asked about the metrics they use to monitor hourly staff performance, it was clear that there's no broad consensus about the most effective form of measurement. What's more, many of the organizations canvassed said that tracking hourly employees wasn't relevant to their HR model. For example, 53% reported that it was not applicable to measure billable time, while almost a third said they didn't calculate hourly to salary headcount ratios.

> "Metrics themselves are easy. Setting targets is hard."
>
> **Rob Rose – Vice President, Product Management, Ceridian**

Among those that do analyze hourly staff, the survey showed that 36% to 43% of respondents ranked as important/very important several metrics, including non-productive dollars, non-productive hours, productive time and lost time for hourly staff as measured in time or money (see Chart 12).

> "We're essentially a project company, so two-thirds of the employees are hourly paid and one third are salaried. So the things we look at, for example – what were the hourly rates, how much money are we paying and how much over-time are we incurring? Given that most of these employees are not high paid, earning]less than $20 per hour, invariably they were trying to get more overtime so we have to make sure that the supervisors are always pre-approving overtime."
>
> **Ross Corcoran – VP Finance, Administration and CFO, Bantam Restaurant Group**

CHART 12: IF YOU HAVE HOURLY STAFF (VS. SALARY ONLY), HOW IMPORTANT ARE THE FOLLOWING METRICS TO YOUR ORGANIZATION?



CONCLUSION

Experienced HR executives know that they can select from a lengthy menu of metrics – dozens, by some estimates – to help them assess the effectiveness of their workforce, their benefits programs and employee engagement tools. With finance executives increasingly involved in HR oversight and decision-making, CFERF's survey indicates that many top-level managers lack familiarity or experience with many HR measurement techniques, and thus tend to rely more heavily on corporate-wide ratios that compare overall payroll-related expenditures to aggregated figures, such as revenues, total cost and EBITDA.

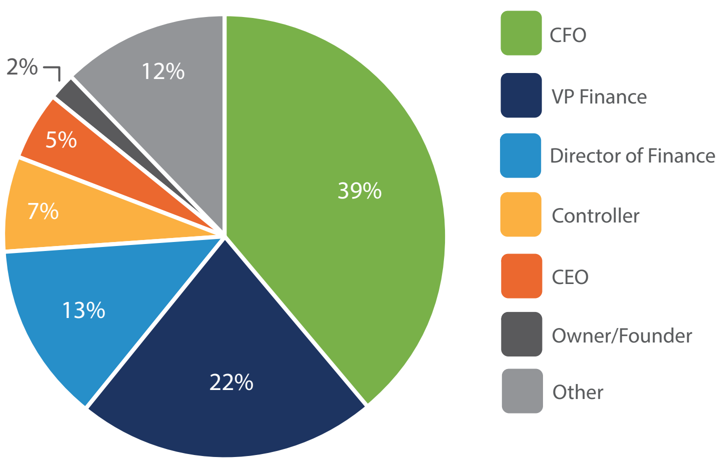
If companies and their boards want to realize the productivity gains flowing from increased collaboration between finance and HR, they should take steps to help financial executives gain a more comprehensive understanding of the importance of a range of HR metrics. At the same time, some round table participants on the HR side said it was equally important for HR executives to develop a strong financial benchmark that reflects the dividends associated with investing in the workforce.

APPENDIX A: FORUM PARTICIPANTS

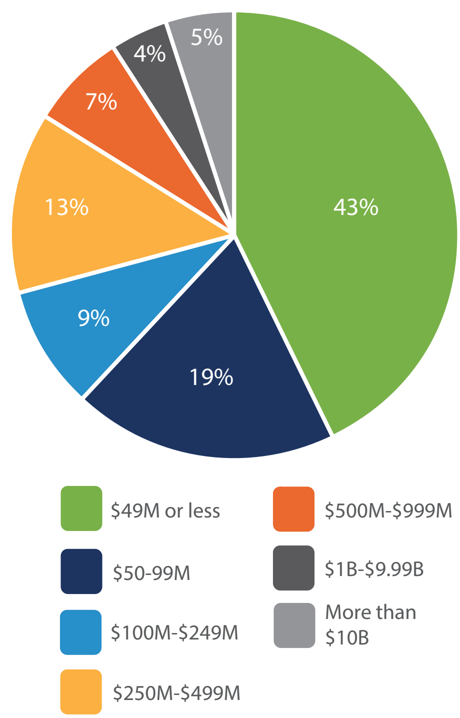
Forum Chair:	Victor Wells – Chair, CFERF and Corporate Director
Moderators:	Christian Bellavance – VP, Research & Communications, FEI Canada Rob Rose – VP, Product Management, Ceridian Susan Gartner – Senior Product Manager, Business Intelligence
Toronto Participants:	Niall Cotter – Financial Controller, SAP Canada Victoria Davies – CFO, Knightsbridge Human Capital Solutions John Forester – CFO, DBG Canada Ltd. Mireille Khayat – AVP, Finance, Interac Association/Acxsys Corp. Chad McCleave – CFO, Waterfront Toronto David McIsaac – CFO, Northern Trust Company, Canada Sandra Montague – Former VP Finance, KCI Medical Derek Petridis – CFO, Principal, Shikatani Lacroix Design Pamela Steer – VP Finance, WSIB
Montreal Participants:	Jacques Barrette – Former CFO, Fujitsu Consulting (Canada) Inc. Ross Corcoran – VP Finance, Administration and CFO, Bantam Restaurant Group Kevork Kokmanian – VP of Finance, Samcon
Calgary Participants:	Marietje Bower – Controller, Commerx Corporation Grant McNeil – Senior Affiliate, Ian Murray & Company Debbie Stein – Senior VP Finance & CFO, AltaGas Ltd.
Phone Participants:	Carl Bruner – CFO, CaseWare Mark Donaghy – Sr. Director, Strategic Initiatives, RBC Wholesale Finance Laura Pacheco – Director of Finance, St. Christopher House Rod Poultney – VP Finance and CFO, Masterfeeds Helene Vukovich – Acting Dean, George Brown College Markus Weiss – Director, Shared Services North America and Financial Controller, Rheinmetall Group
Observers:	Laura Bobak – Research and Communications Manager, FEI Canada Andrea Cooney – Events Manager, FEI Canada Asha Girdhar – Senior Market Segment Manager, Ceridian John Lorinc – Writer, FEI Canada Eric Poirier – Sales Director, Eastern Region, Montreal, Ceridian Rosa Silvestri – Corporate Sales Executive, Calgary, Ceridian

APPENDIX B – DEMOGRAPHICS

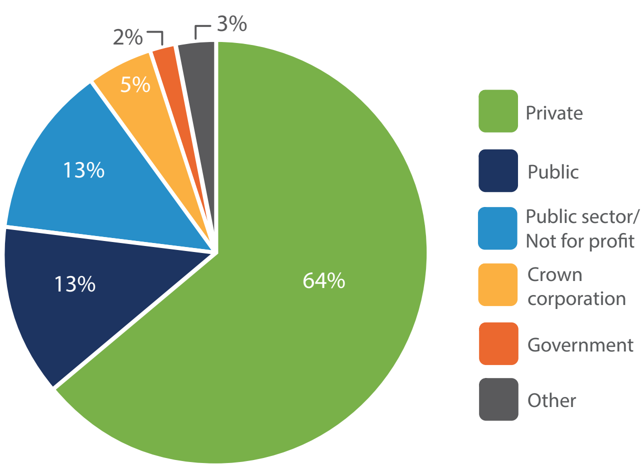
POSITION TITLE



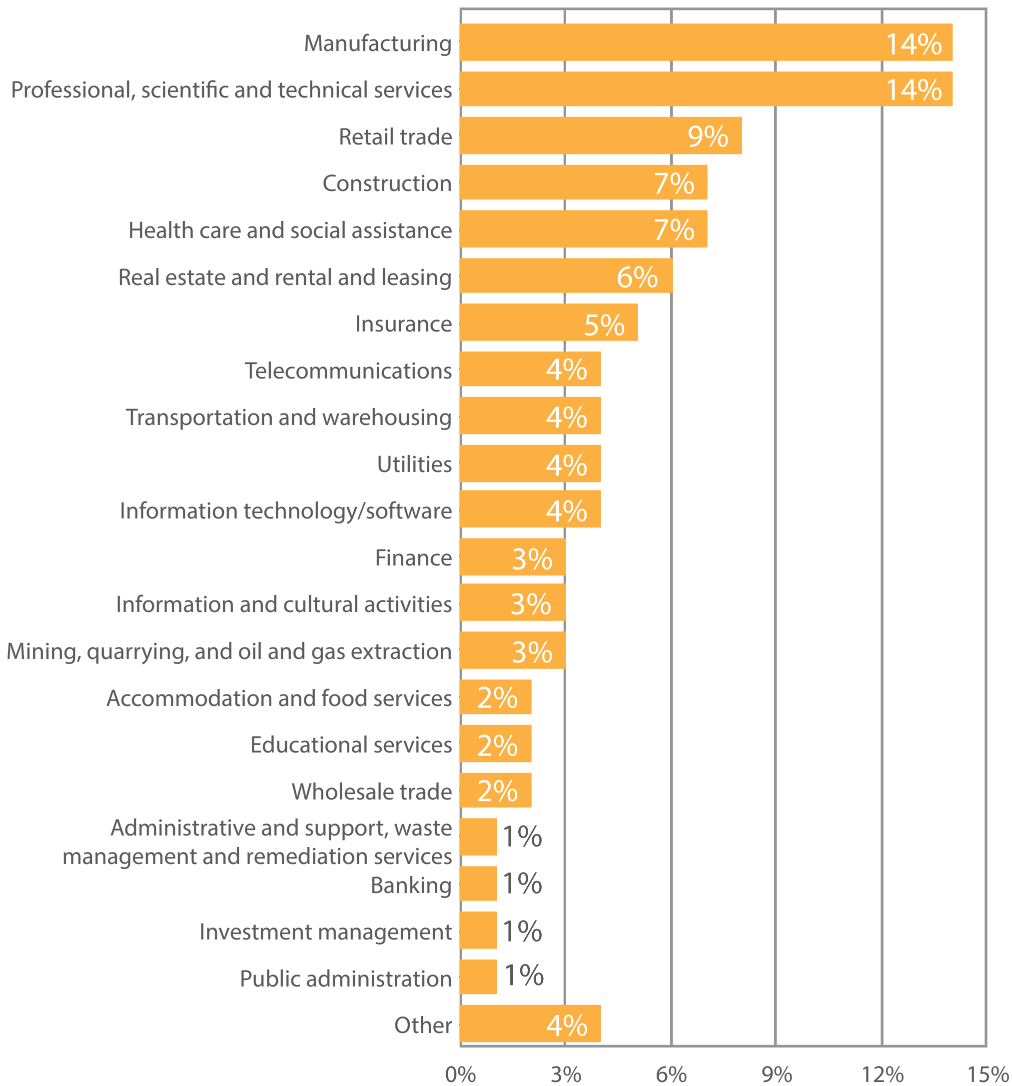
ANNUAL REVENUE



COMPANY TYPE



INDUSTRIAL CLASSIFICATION



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FEI CANADA is the all industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,700 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations. Further information can be found at www.feicanada.org. Follow us on Twitter @feicanada

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