How To Foster CFO-CHRO Collaboration And Improve Your Bottom Line

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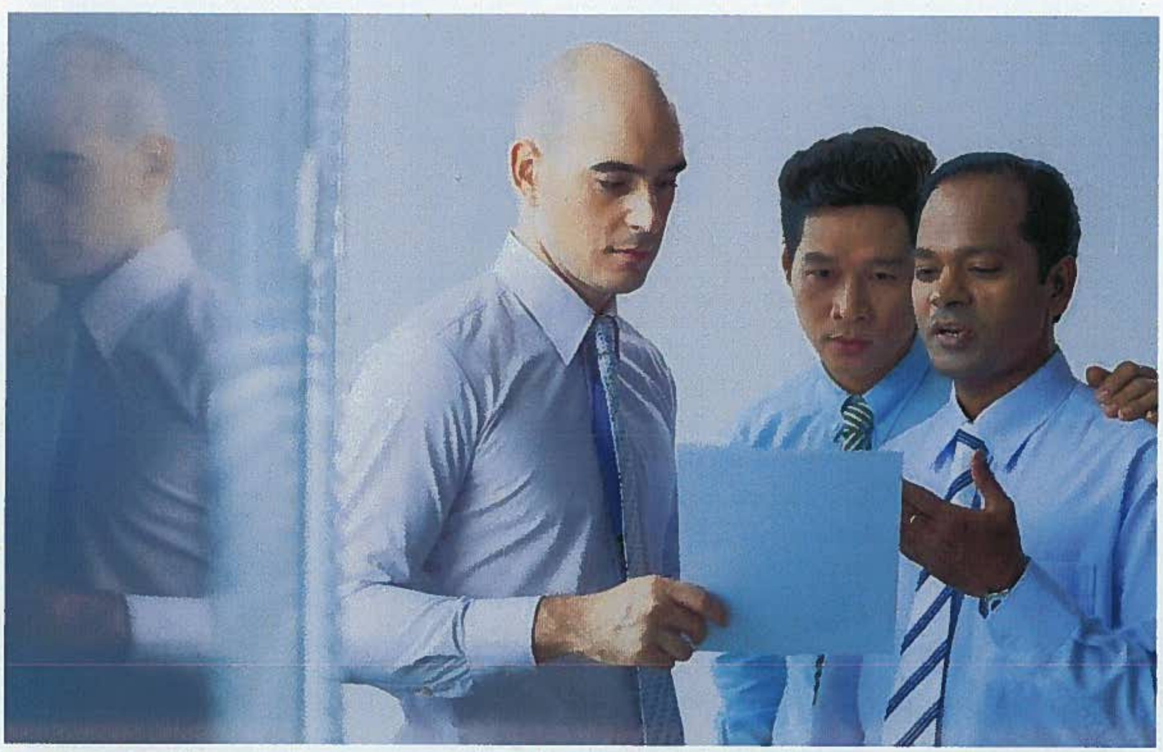
By Michele Lerner

A chief financial officer is generally considered a "math person," while a chief human resources officer is more of a "people person." However, in today's changing workplace, collaboration is increasing between these two seemingly different leaders, helping organizations achieve greater overall success.

A recent EY study found that companies with a high level of collaboration between HR and finance departments experience an increase of 10 percent or more in operational cash flow (EBITDA) and an increase in employee engagement and productivity.



Eighty percent of CFOs and CHROs that EY surveyed said their relationship has become more collaborative over the past three years. Among those companies with a higher level of collaboration:

41 percent had greater than 10 percent EBITDA growth in the last year, compared to only 14 percent of other companies.

43 percent saw a significant improvement in workforce productivity in the last year, compared to only 10 percent of other companies.

44 percent saw a significant improvement in employee engagement, compared to only 9 percent of other companies.

"The link between financial numbers and the people who provide the productivity to reach those numbers should be inseparable," said Dennis Carey, vice chairman and co-leader of the board services practice at Korn Ferry, an executive recruitment firm. "CHROs need to understand finance, and CFOs need to be more people-centric."

In an article in the Harvard Business Review, Carey advocates what he calls a "G3" approach to collaboration: a steering committee consisting of the CEO, CFO and CHRO, which elevates HR to a higher level within the organization.

"The CFO role has been elevated from an administrative 'bean-counter' function to an architect of the financial plan," said Carey. "HR directors need to be elevated from the person who looks at benefits packages to the architect of the human capital strategy and someone who can diagnose issues before they impact the bottom line."

Tech Helps Departments Work Together

The EY report on CHRO and CFO collaboration shows that 49 percent of those surveyed who work at high-performing companies consider their company to be excellent at using data analytics to improve HR performance. That's compared to 16 percent at other companies. What's more, 51 percent of high-performers say that the CFO at their organization is heavily involved in identifying and tracking HR metrics, versus 10 percent at other companies.

The report recommends that companies invest in technology to provide new methods of continuous measurement to ensure that metrics, such as those measuring employee engagement, reflect real-time corporate performance rather than relying on outdated information. The study says workforce analytics are "coming of age," and notes, "Greater maturity of HR data, and the ability to apply this information to areas such as strategic workforce planning, and operational and workforce performance modeling, provides a powerful platform for understanding how people investments will affect certain key performance indicators."

Performance indicators can include things like sales volume, absenteeism and staff morale, but it's important to note that KPIs should be chosen with a company's greater business goals in mind. "Companies need to work hard to identify and monitor the workforce KPIs that will support the organization's differentiated strategy," stated the report.

Baskaran Ambalavanan, senior human resources information system manager at Sheppard, Mullin, Richter & Hampton LLP, a law firm in Irvine, Calif., said investments in technology can also help streamline the process of finding and onboarding employees and tracking their performance.

"A big challenge for companies right now is to find the right talent, so companies are investing money in recruiting candidates and preparing everything before new employees arrive," said Ambalavanan, who also serves on the Technology & HR Management Panel for the Society for Human Resource Management. "An important piece of recruiting is to use performance metrics to check the skill sets of existing employees so you know whether to invest in additional training or recruit from the outside."

Ambalavanan said software exists today that can predict whether an employee is a flight risk or likely to stay with a company, based on information such as the employee's stated goals, skill set and job history.

"HR departments need to invest in the technology and then leverage the insight provided by data to make more meaningful decisions," said Ambalavanan.

Breaking Down Those Silos

CFOs and CHROs looking to increase their collaboration should start by investing the time to meet and strategize together and to address challenges from multiple viewpoints, suggests the EY report. It recommends that both finance and HR employees "gain broad experience across the business to combine specialist knowledge with commercial awareness."

Human resources people also have to make the effort to understand the financial side of their companies: its accounting methods, which of its product lines drive the most revenue, its investment and risk strategies and more. As an article in HR

Magazine puts it, HR people need to "speak the language of finance in terms of costs, benefits and return on investments."

On the other hand, the CFO needs to know certain things about HR and recognize the importance of the human capital management functions that CHROs provide: "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," the article stated.

The developmental training budget is definitely an area where CHROs and CFOs should collaborate, added Carey.

"The strategy should be for the CHRO and CFO to decide together about capital allocation for training, including how much to invest and where to spend it," said Carey.

Many executives say an annual performance review has very little impact on behavioral change, especially since it's only an annual event, Carey said.

"Millennials in particular prefer frequent informal feedback correlated with a plan to make you a better employee," he said.

Carey also believes that CHROs and CFOs should collaborate on performance review decisions, since the CFO is the one to determine the budget for bonuses and raises.

According to Ambalavanan: "Many companies are using data analytics to redefine roles and gain insights into employee performance that go beyond an annual review."

The EY report recommends that HR departments collect data on identified key performance indicators that help the company overall, rather than simply whatever data is easiest to collect. Finance departments can work with HR departments to determine what data would be useful for making decisions; at the same time, HR departments can learn more about the finance and budget processes so that they can contribute their expertise.

"While there's still progress to be made, more people understand today that you can't work in silos, that everyone needs to collaborate," said Ambalavanan.

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Washington, D.C.-based Michele Lerner has been covering personal finance and real estate for more than 25 years. Her work has appeared in The Washington