

CFO perspectives

How HR can take on a bigger role in driving growth

An Economist Intelligence Unit research programme



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About this report

CFO perspectives: How HR can take on a bigger role in driving growth is an Economist Intelligence Unit report, sponsored by IBM and Oracle. It investigates whether the HR function is forging a close and robust relationship with the CFO. It also explores the nature of these working relationships, how they have been affected by the economic downturn and how they vary across industries and regions.

The Economist Intelligence Unit bears sole responsibility for the content of this report. The findings do not necessarily reflect those of the sponsors.

The paper draws on two main sources for its research and findings:

- A global survey, conducted in May 2012, of 235 C-level executives, 43% of whom are CFOs. The respondents are based in North America (47%), Western Europe (40%), Eastern Europe (8%) and the Middle East (4%); a total of 38 countries are represented. A wide range of industries is also represented, including financial services (15%), healthcare, pharmaceuticals and biotechnology (12%), professional services (12%), manufacturing (10%), and IT and technology (8%). Half of the companies are large, with over US\$500m in annual revenue; the other half are small and mid-sized.
- A series of in-depth interviews with senior executives from major companies and other experts, listed below.

Simon Henry
CFO, Royal Dutch Shell

Matthew Lester
CFO, Royal Mail

Carlo Ferro
former CFO, STMicroelectronics

Chris Nielsen
CFO, Zappos

Richard Beatty
*Professor, Human Resource Management,
Rutgers University*

Paul Sparrow
*Professor, Director of the Centre for Performance-led
HR, Lancaster University*

We would like to thank all interviewees and survey respondents for their time and insight. The report was edited by Gilda Stahl.

Introduction

People represent the most expensive outlay for organisations. According to a US Bureau of Labor Statistics study,¹ average spending on salaries as a percentage of operating expense in the US ranges from 18% in retail and wholesale trade to 52% in healthcare services. Moreover, these figures do not take into account spending on training, induction and all other employee expenditure.

The size of this financial commitment, and the particular importance of people in a knowledge economy, makes the relationship between HR and finance pivotal to an organisation's success. HR should ideally work with the finance function to devise and implement policies that effectively recruit, deploy, engage, train, promote and retain people to fulfil the strategic objectives of the organisation, all within the constraints of the allowable budget.

However, the findings of an Economist Intelligence Unit survey, sponsored by Oracle and IBM, suggest that this ideal relationship has not been attained at a significant number of companies. Indeed, many CFOs—the leading representatives of the finance function and highly influential in the corporate hierarchy—historically have judged their HR counterparts harshly.

This report will present the evidence that friction exists between finance and HR, and suggest possible causes. It will also examine the costs of this discord for individual companies, and provide examples of the potential benefits of a more productive relationship. Finally, it will suggest ways in which HR can work to improve this relationship, to the benefit of the company concerned. ■

1. Bureau of Labor Statistics, 2008.

1

The Finance-HR relationship

“ Finance people deal with the actual, things more specific, measurable and tangible. HR is more art than science, more ‘right brain’ than ‘left brain’.

”

Lucy Dimes, CEO for the UK and Ireland, Alcatel-Lucent

Our survey asked CFO respondents to rate the HR function in both strategic (eg, succession planning, global sourcing decisions) and more tactical areas (eg, evaluating employee performance, managing benefit and compensation costs). The survey results reveal that CFOs are more critical of HR, particularly compared with the responses of the CEOs polled. For example, just 25% of CFO respondents say that their head of HR does a good job in succession planning (compared with 43% of CEOs) and merely 14% say the same of global sourcing decisions (compared with 34% of CEOs).

While CFOs across all companies surveyed were

restrained in their praise of HR, those from the largest companies polled (with annual revenue in excess of US\$10bn) were the most critical. More than one-half (58%) believe their head of HR is not of the same calibre as other C-level executives. And two-thirds (67%) say that they “don’t understand the business well enough”.

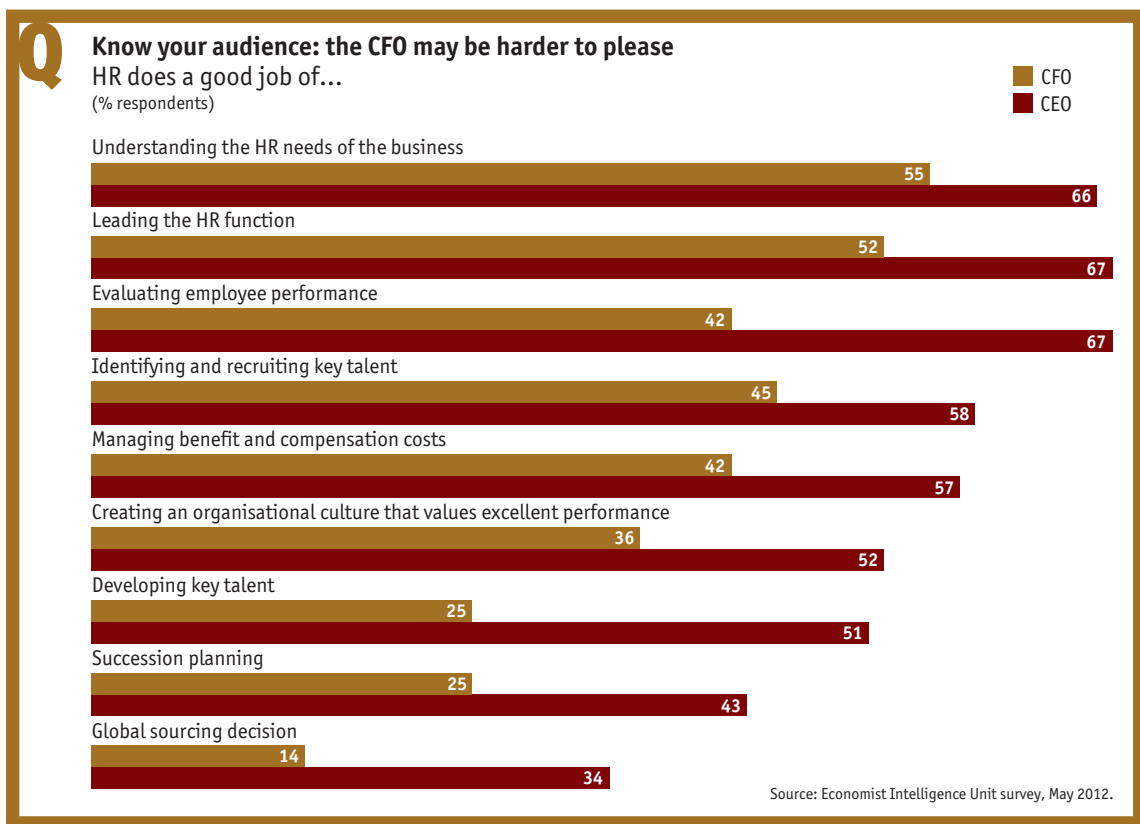
The disparity between the views of CEOs and CFOs in these largest companies is significant. Twenty-two percent of CEOs say their head of HR is not of the same calibre as other C-level executives (as opposed to 58% of CFOs), the same percentage that says they don’t understand the business well enough (compared with 67% of CFOs). ■

2 The CEO-CFO discrepancy

Why are CFOs harsher critics of their head of HR? The first reason may be that finance and HR people often have contrasting personality types, leading to some degree of personal friction. Lucy Dimes, CEO for the UK and Ireland of Alcatel-Lucent, a global telecommunications equipment company, says they “come from different worlds”. “Finance people deal with the actual, things more specific,

measurable and tangible,” she says. “HR is more art than science, more ‘right brain’ than ‘left brain’.”

Second, CFOs may feel ill disposed towards their head of HR because they may clash professionally, appearing to hinder each other in the course of their work. On the one hand, the head of HR might face financial barriers preventing implementation



“Conflicts between finance and HR often arise as finance needs rational or quantifiable elements to measure ROI decisions while HR focuses more on longer-term programmes with few quantifiable short-term benefits, thus creating potential tensions.”

Philippe Gas, CEO, Euro Disney

of his or her preferred policies. On the other hand, HR might hamper the finance function's desire to cut people costs. "The HR department tends to be seen as defenders of the workforce," says Richard Beatty, professor of human resource management at Rutgers University. "They can warn of legal impediments to workforce decisions that would arguably improve the bottom line and shareholder value."

Third, the different time horizons of HR and finance lead to inevitable battles. "Conflicts between finance and HR often arise as one (finance) needs rational or quantifiable elements to measure return on investment [ROI] decisions (which are often short term), while the other (HR) focuses more on longer-term programmes with few quantifiable short-term benefits, thus creating potential tensions," says Philippe Gas, CEO of Euro Disney.

Fourth, CFOs may often simply not be present to see the full range of abilities of their HR counterpart, and are therefore unaware of them. One particular finding from our survey seems to support this theory. Only 30% of CFOs think their head of HR is a key player in strategic planning at their organisation, compared with 55% of CEOs. It is possible, therefore, that the head of HR may

sometimes exert considerable influence over the strategic direction of the company in one-to-one meetings with the CEO, when the CFO is not present.

Indeed, *CEO perspectives: How HR can take on a bigger role in driving growth*, an Economist Intelligence Unit report on the relationship between CEOs and HR, also sponsored by Oracle and IBM, revealed that the head of HR often provides personal support to the CEO in private meetings and conversations, for example, by resolving tensions between members of the executive committee or by acting as a trusted sounding board or confidante. Performing well in these roles may increase the head of HR's general standing in the eyes of the CEO.

"This disparity [in estimating the strategic influence of heads of HR] perhaps reflects the tacit support that an HR director often provides to the CEO around other issues, such as judgements about organisational politics or about talent," says Professor Paul Sparrow, director of the Centre for Performance-led HR at Lancaster University. "CFOs can rely on the power of their position and the centrality of finance to all things, so they might not be so attuned to other sources of power at the board level." ■

3

Towards an ideal partnership

“The CFO and the head of HR are the only people, along with the CEO, who have an overview of the whole organisation and the leadership capability within it.”

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Simon Henry, CFO, Royal Dutch Shell

Although only 30% of CFOs think that the head of HR is a key player in strategic planning, a much greater proportion (75%) wants them to be a key player. In principle, therefore, CFOs seem to believe that HR and finance both need to be at the forefront of strategic planning, working together to move the organisation forward. “HR and finance are in charge of two very different aspects of a company, but they are of complementary importance,” says Carlo Ferro, who served almost a decade as CFO of STMicroelectronics, a global electronics and semiconductor manufacturer, before recently becoming the chief operating officer of its subsidiary, ST-Ericsson.

Mr Ferro identifies the challenge of market expansion as one area in which HR and finance can work in tandem for the benefit of the organisation, and explains how this productive alliance manifested itself at his company. “We have made a significant shift to Asia in recent years,” he says. “Sixty percent of our sales are now in this region, and we have entered into mergers and joint ventures there. We therefore had to recruit and retain large numbers of people in China and India, integrating the new operations into our organisation while still perpetuating our company culture, all within agreed financial parameters.”

Given the omnipresence of finance and HR throughout a company, enabling them both to make general judgements about the overall quality and capabilities of staff, learning and development provides another potentially fertile area of professional co-operation. “In reality, the CFO and the head of HR are the only people, along with the CEO, who have an overview of the whole organisation and the leadership capability within it,” says Simon Henry, CFO of Royal Dutch Shell, a multinational oil and gas company. “We work together to ensure that learning and development programmes are providing the right pipelines of talent,” he says.

One final example of productive collaboration is the vital sphere of employee engagement and alignment, ensuring that employees understand and are motivated by the company’s goals and their own personal role in achieving them. “We need to make sure everyone is working to the same overall objective within the company,” says Mr Ferro. “Together with HR, we devise incentive schemes that enhance the cohesiveness of the organisation and see to it that our people are engaged. This is a classical interaction between finance and HR.” ■

4

Improving relations

“If HR is doing their job right, they are challenging us to be a great finance organisation, questioning whether we are attracting the right talent and helping the best people to find the opportunities that will test them and progress them.”

Matthew Lester, CFO,
Royal Mail

The CFO tends to have a negative attitude towards HR while at the same time acknowledging that an effective HR function would be extremely beneficial for the organisation. In the light of this dichotomy, how can HR improve its standing in the eyes of the CFO, who, as a senior member of the executive team, will have considerable influence over the level of HR's involvement in discussions about the company's overall strategy?

One obvious answer would be for the head of HR to impress the CFO with ideas on the people implications of corporate strategy. In order to demonstrate its readiness to participate in the strategy arena, however, HR first needs to convince others of its abilities to execute more mundane projects, warns Matthew Lester, CFO of Royal Mail, the UK's postal service.

“If HR is brilliant at the basics, then people naturally listen to them,” he says. “But there is often a complaint that they are not delivering the basics. They can only play more of a role in strategy if they supply that quality in the basics. This is just human nature. You only listen to someone, even if he is putting forward what you think is a good idea, if you think he can actually implement what he is talking about.”

When CFOs talk of HR excelling at the basics, they may often be referring to the support HR provides to the finance department itself. HR is certainly heavily involved with the recruitment and development of finance people, as it is with all major functions. “If HR is doing their job right, they are challenging us to be a great finance organisation, questioning whether we are attracting the right talent and helping the best people to find the opportunities that will test them and progress them,” says Mr Lester.

Mr Henry of Royal Dutch Shell agrees that building a department of the requisite quality would be impossible without HR. “We work with HR to devise development plans for our top 200 finance people,” he says. “We need to structure this learning and development so that it mirrors the requirements of finance people.”

The definition of “basics” might also encompass working imaginatively within the financial parameters given to them by the CFO. “You come up against control systems in any organisation when you are carrying out a strategy,” says Professor Sparrow of Lancaster University. “It is incumbent on the HR directors to work within constraints and metrics.” ■

Measuring HR: developments and obstacles

According to Carlo Ferro, former CFO of STMicroelectronics, the criteria used to measure the effectiveness of HR have changed fundamentally in recent years. "It is no longer focused just on meeting budgets," he says. "Now we have key performance indicators for areas that drive the bottom line, such as labour costs, productivity and employee engagement."

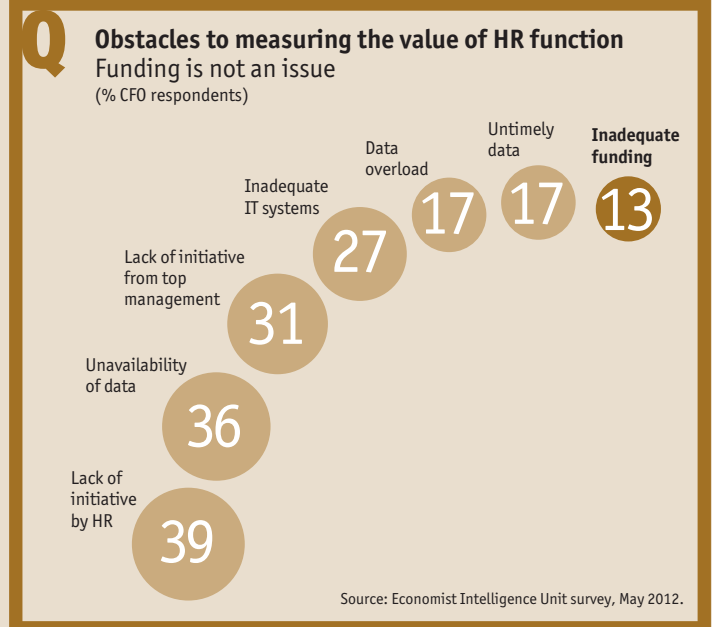
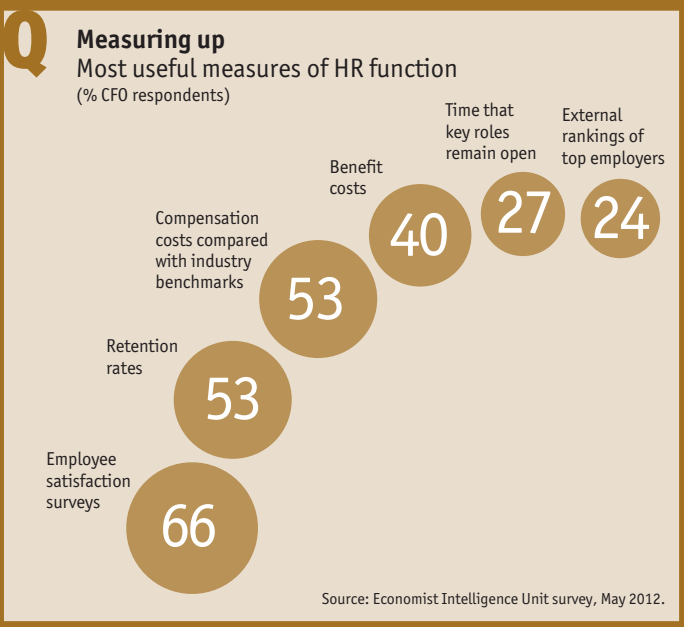
Mr Ferro's comments are confirmed by the Economist Intelligence Unit survey findings. When asked how their organisation measures the HR function, around one-half of CFOs selected employee satisfaction surveys, retention rates and compensation costs. These three were comfortably the most popular categories.

Employee satisfaction surveys seem to be a particularly favoured measurement criterion in the largest companies in our survey. More than two-thirds (67%) of CFOs in companies with revenue in excess of US\$10bn report that the results of such surveys are used to measure the performance of HR. However, a

substantial proportion of CFO respondents complain of obstacles in establishing accurate metrics, pointing to factors such as unavailability of data (36%) in making the measurement more meaningful.

Zappos, a US online retailer, uses a quarterly "happiness survey" to gauge employee engagement and satisfaction. Says the company's CFO, Chris Nielsen: "We use it to assess and understand, really department by department across the organisation, how satisfied employees are and also, importantly, what some of their concerns might be. And those things then help guide our future investment."

One clear challenge is to distinguish the impact of HR from that exerted by line management. "You can't, for example, produce a succession plan if the operational function is not doing its job properly, so it is unfair only to measure HR for something the business unit is also actively involved in," says Matthew Lester, CFO of Royal Mail. ■



5

Conclusion:
best practices for successful CHROs

“The value of HR lies in understanding and helping us to bring visibility to employee perceptions.”

Chris Nielsen, CFO, Zappos

It is clear from our survey findings that much work needs to be done to improve the HR-finance relationship, which lies at the very heart of an organisation's hierarchy. It is difficult to see how a company can operate to its maximum potential if this relationship is not working effectively.

In this report, and its sister publication on HR's relationship with CEOs, we have set out a route that will allow HR to build its reputation, naturally and gradually leading to more influence within the boardroom. With regard to CFOs, this route will mostly involve offering them practical, day-to-day assistance in the pursuit of consistent excellence within the finance department itself.

Such assistance may involve:

- **Leveraging metrics.** The head of HR needs to devise metrics that help the CFO to measure the contribution of HR to the business. If such metrics already exist, CHROs should aggressively market them. HR needs to draw attention to its successes.
- **Approaching the CFO differently.** The CFO may be the harsher judge of HR, but he or she is just as anxious for HR to take on a bigger role in strategy issues that matter to the CFO—those they are concerned could harm the company financially—and demonstrate proactive and creative problem-solving on these issues.

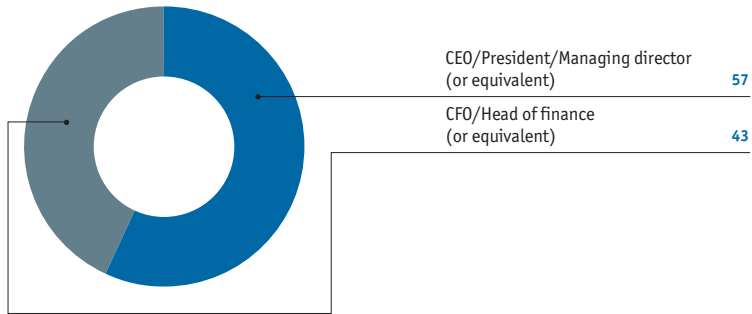
- **Enhancing professional co-operation.** HR can help the CFO to shape and improve the make-up of his or her finance team and can help to create outstanding training programmes to develop finance staff.
- **Showcasing knowledge of the business.** The CHRO must actively work to change the prevailing perception that HR does not understand the business and the needs of clients. Heads of HR should make a point to showcase their strategic thinking in meetings.

Following these best practices will heighten HR's influence over the C-suite—and the entire organisation. As Chris Nielsen, CFO of Zappos, a US online retailer, puts it, “I think actually the value of HR lies in understanding and helping us to bring visibility to employee perceptions. The pulse of our employees that they [HR] provide is really helpful in decision-making.”

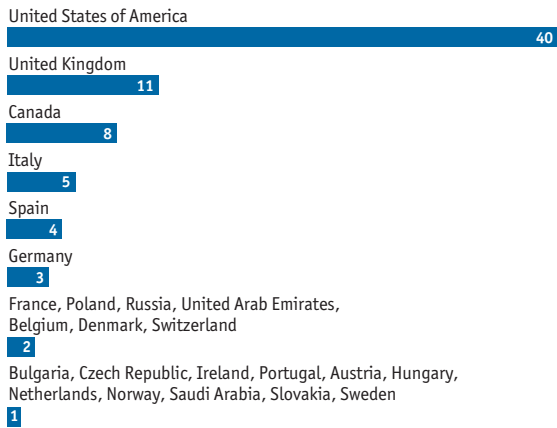
Appendix: survey results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

What is your role in your organisation? (% respondents)



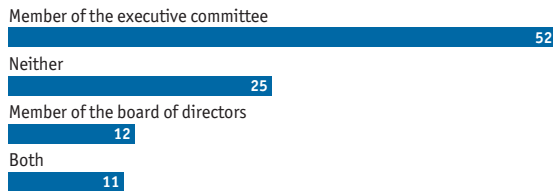
In which country are you personally located? (% respondents)



In which region are you personally located? (% respondents)

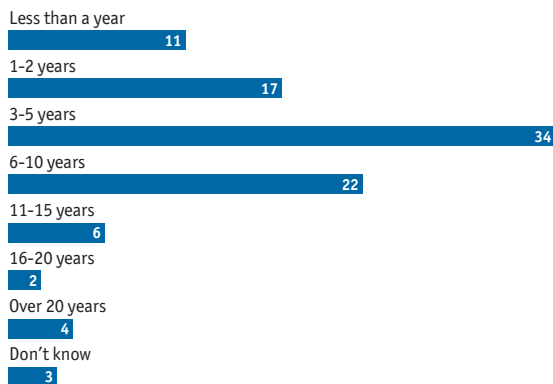


What position does the head of HR (or CHRO) in your organisation occupy? (% respondents)



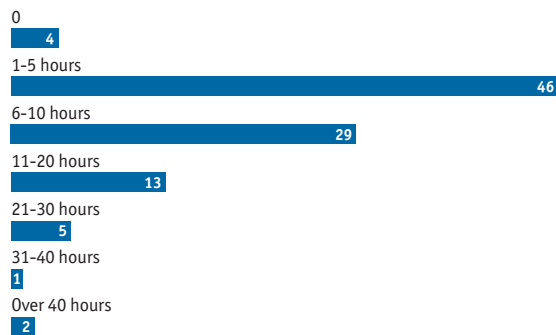
How long has the head of HR been in his or her role?

(% respondents)



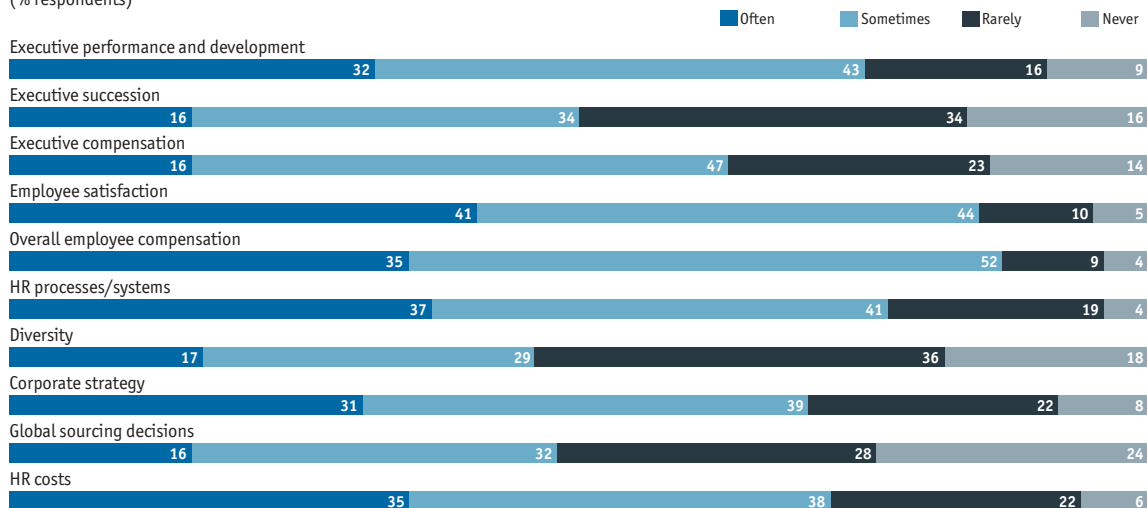
In an average month, how much time do you spend meeting with your organisation's head of HR (either one-on-one or in a group setting)?

(% respondents)



What is discussed during these meetings referred to in the previous question.

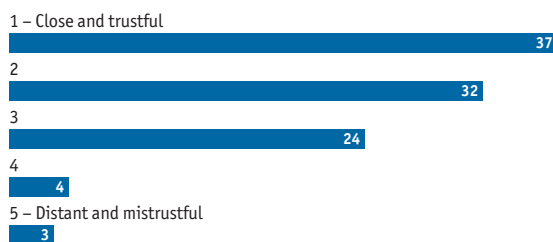
(% respondents)



How would you describe your relationship with the head of HR?

Rate on a scale of 1-5, where 1=Close and trustful and 5=Distant and mistrustful.

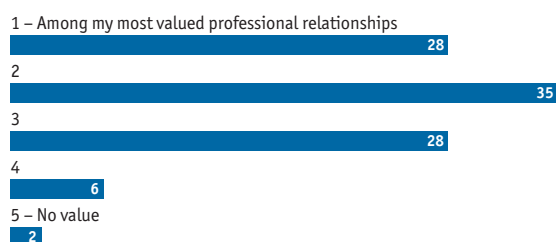
(% respondents)



How highly do you value your relationship with the head of HR?

Rate on a scale of 1-5, where 1=Among my most valued professional relationships and 5=No value.

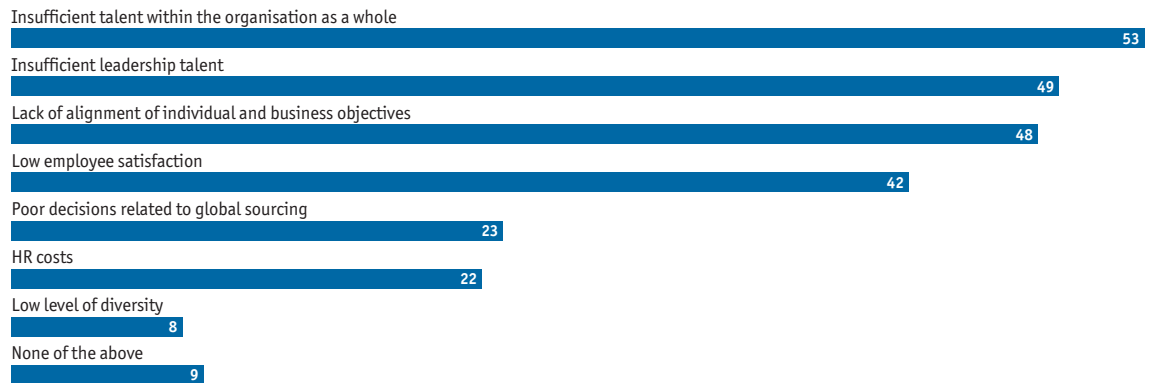
(% respondents)



In your opinion, which of the following might harm your organisation financially over the next 12 months?

Select all that apply.

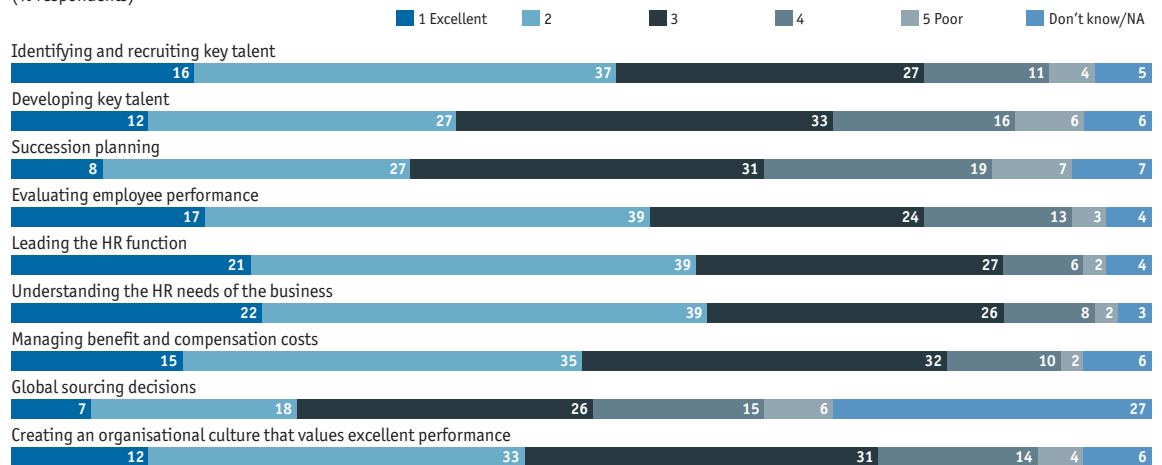
(% respondents)



How would you rate the head of HR at your organisation in the following areas?

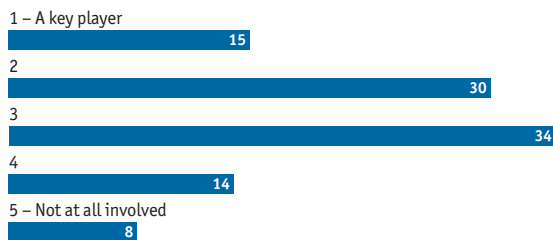
Rate each on a scale of 1-5, where 1=Excellent and 5=Poor.

(% respondents)



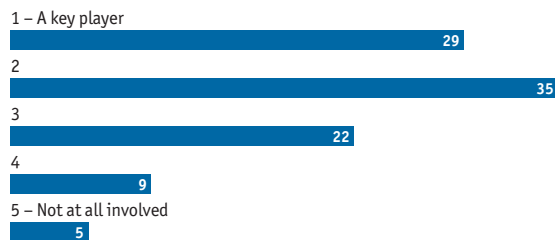
How involved is the head of HR in strategic planning at your organisation?

Rate on a scale of 1-5, where 1=A key player and 5=Not at all involved.
(% respondents)



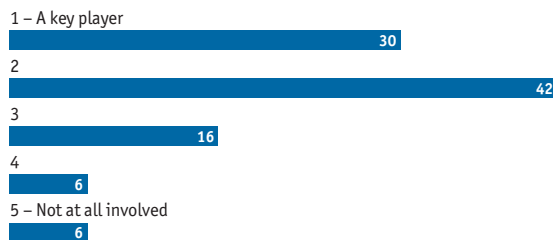
How involved does the head of HR want to be in strategic planning, in your view?

Rate on a scale of 1-5, where 1=A key player and 5=Not at all involved.
(% respondents)



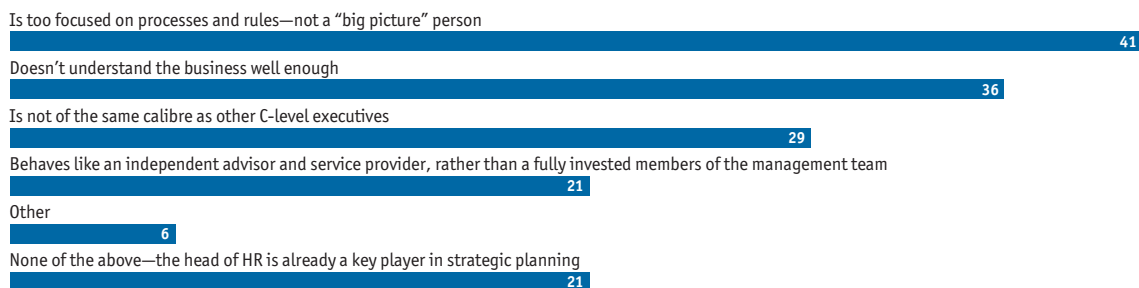
How involved do you want the head of HR to be in strategic planning?

Rate on a scale of 1-5, where 1=A key player and 5=Not at all involved.
(% respondents)



What are the obstacles, if any, to the head of HR taking a greater role in strategic planning?

Select all that apply.
(% respondents)



Do you and the head of HR agree on the organisation’s people strategy (eg, what to prioritise, how to implement the strategy, how to manage costs)?

(% respondents)



In which area do you work in greatest harmony with the head of HR?

(% respondents)



In which area do you work in greatest discord with the head of HR?

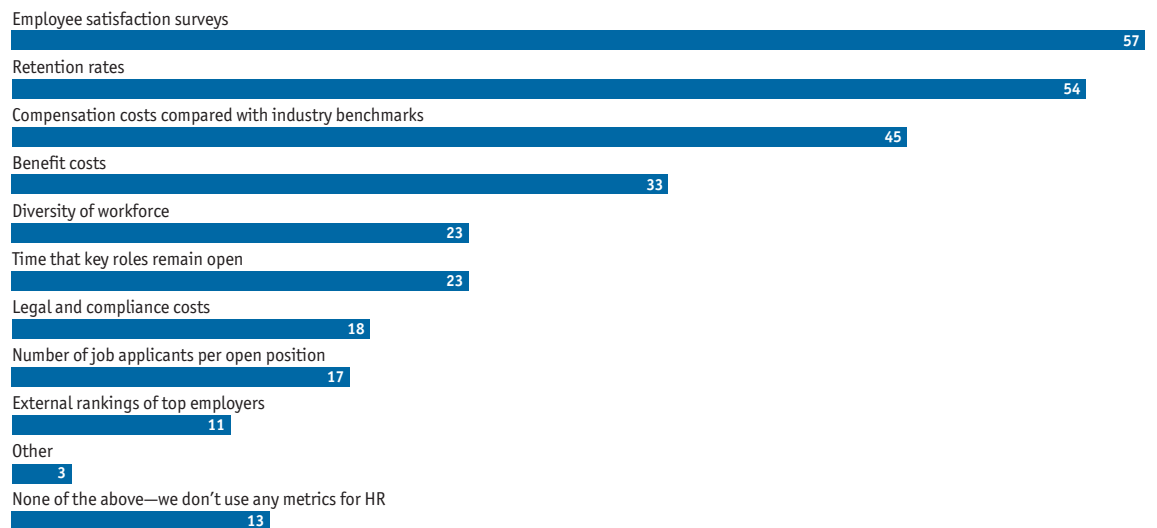
(% respondents)



Which of the following metrics, if any, does your organisation use to measure the value of the HR function?

Select all that apply.

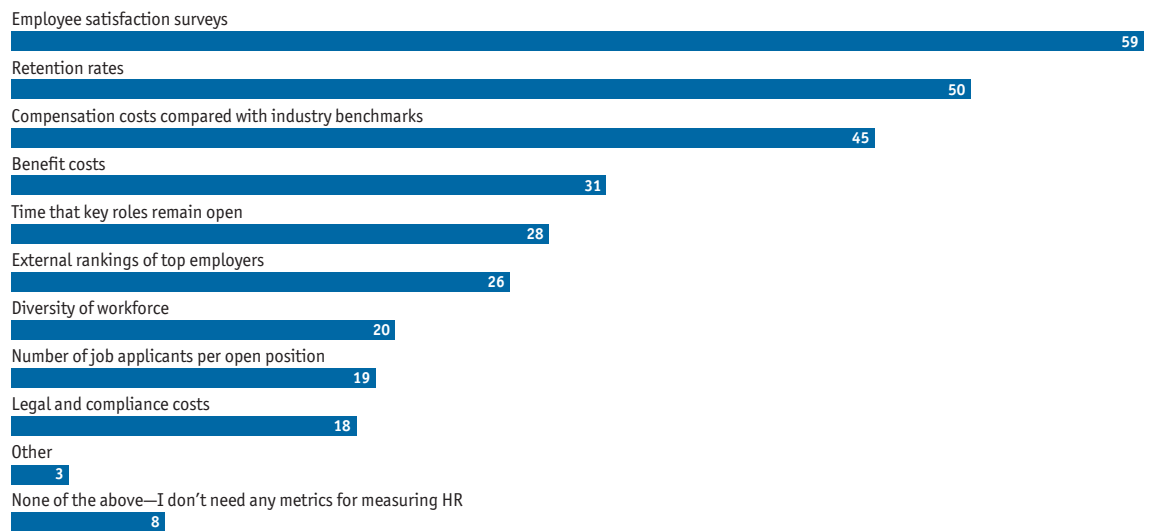
(% respondents)



Which of the following measures of the value of the HR function would be most useful to you?

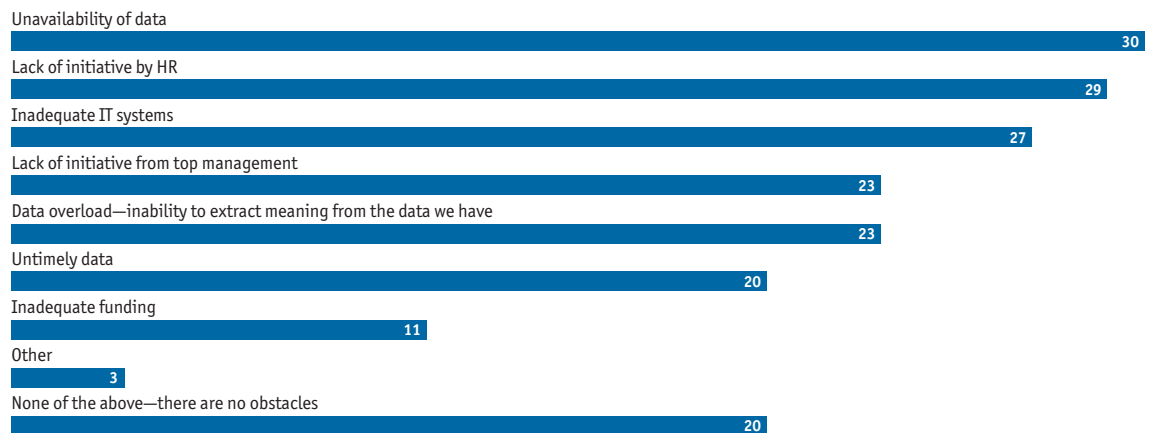
Select all that apply.

(% respondents)

**What are the obstacles, if any, to measuring the value of the HR function at your organisation?**

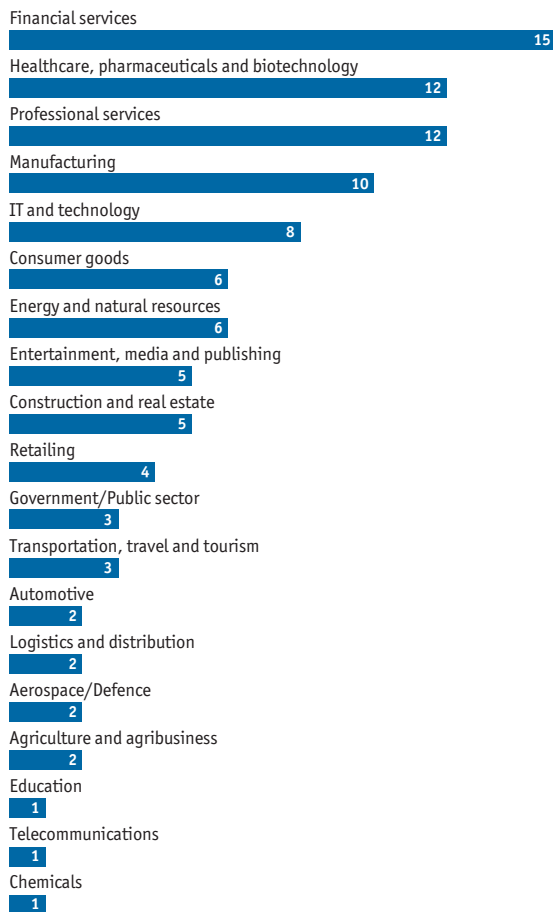
Select all that apply.

(% respondents)



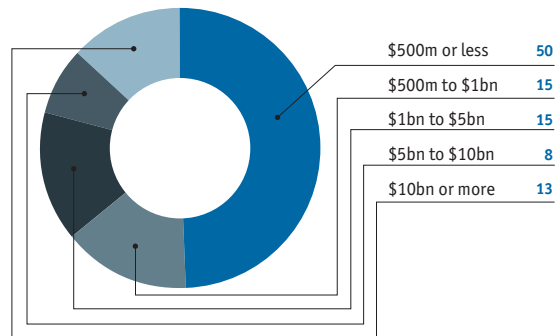
What is your primary industry?

(% respondents)



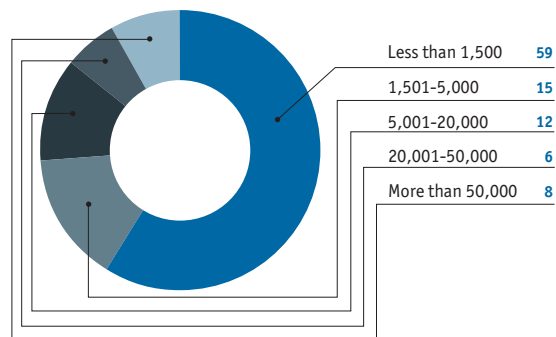
What are your company's annual global revenues in US dollars?

(% respondents)



What is the number of people employed at your organisation?

(% respondents)



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

London

26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8476
E-mail: london@eiu.com

New York

750 Third Avenue
5th Floor
New York, NY 10017
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong

6001, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Geneva

Boulevard des
Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
E-mail: geneva@eiu.com