Deloitte.

Improving the Cost/Benefit of the Workforce and Business Performance

As previously published in CFO Journal from The Wall Street Journal

For many organizations the single largest expense is the workforce. On average, as much as half of companies' operating costs go toward compensation, benefits and other employee-related expenses, according to Jeff Schwartz, a principal with Deloitte Consulting LLP's Human Capital practice and co-leader of the organization’s Talent, Performance and Rewards practice. Yet the CFO, who’s responsible for overseeing company-wide spend and the return on that investment, often has little insight into how these expenses and resources relate to performance.

With controlling costs a priority at many companies, talent, compensation and benefits—once the exclusive domain of human resources (HR)—are receiving greater scrutiny from business strategy and finance. Ken Kunkleman, a director at Deloitte Consulting LLP and regional service line lead, Organization & Talent, and Tina Witney, a director in Deloitte Consulting LLP’s Human Capital practice, discuss how CFOs can work with HR to align the organization’s people strategy with the business strategy and better manage the total cost of employees.

Q: What do you mean by ‘total cost of employees,’ and what can organizations do to quantify it?

Ken Kunkleman: Many understand that the workforce is a big spend item, but too often there’s little linkage between a company’s business strategy and people strategy. By people strategy, I mean hiring and retaining the high-quality talent and having the appropriate people working on the particular areas of the business to resolve problems or yield positive results and doing that in a cost-effective and measurable way. We’re speaking about the real cost of talent to a company, not only compensation and benefits.

Tina Witney: Aligning the talent strategy with the business plan is critical to getting the desired cost efficiencies and performance for the workforce spend and to retaining the people who can bring value. If your company has an experienced workforce with the skills, knowledge and leadership that are crucial to business performance, losing people is more than an HR issue; it’s a P&L issue as well.

Q: Typically, HR owns talent matters. What advantages could be gained by having CFOs get more involved in workforce management?

Ken Kunkleman: I don’t think the CFO needs to take over the HR business. Rather, the CFO should collaborate with the Chief HR Officer. For example, this collaboration should provide each of them a line of sight, as well as an appreciation for each other’s perspective, on key “talent asset" issues, such as the acquisition of top talent or the career path and effective deployment of high-potential employees. These decisions will likely have an impact on the company’s top and bottom lines. It’s more a matter of the finance function exercising its natural accountability across the enterprise. The CFO typically owns the planning and budgeting process, internal cost controls and other finance-related functions that have accountability for overseeing people-related costs.

There’s a net benefit in productivity and performance when your high-quality talent is deployed against more significant opportunities in the context of the business strategy. An effective collaboration can occur between finance and HR when the CFO applies finance’s analytical skills to the talent side of the business, to look at how talent figures into the profit equation through the lens of critical workforce segments and the jobs that create disproportionate value for the business.

Q: What are some challenges companies have in aligning their people strategy with their business strategy?

Ken Kunkleman: One challenge I see is that finance and HR sometimes don't speak each other's language. Take benefits costs, for example. If I'm the CHRO, I speak of benefits costs from an HR perspective in terms such as plan design, employer and employee costs and the vendors I pick. From finance's view, it's a large (and growing) cost of doing business. It's a question of how we account for these costs, allocate them back to the business, the impact of this expense (or savings) to the company's ability to grow or stay competitive, and how this spend impacts what they're telling the Street. These are potentially two very different conversations, and each party should understand and appreciate the other's perspective.

Take for example a project with one of the country's largest retailers, which showed that making certain changes in an HR process could free up eight hours per store per week in administrative time. Initially, HR didn't see the potential bottom-line impact of the time savings. The CFO, on the other hand, realized that the time saved in the back office could be spent on customer-facing activities. The CFO also knew there was an incremental increase in average customer spend per week for each extra minute spent on customer service. The CFO estimated that the additional customer spend could increase earnings per share by one cent (an approximate 7% increase at that time). From finance's perspective, that's an incredibly significant improvement that HR wouldn't necessarily know or consider.

Q: What steps can CFOs take to help manage the total cost of employees and align the organization's workforce strategy with its business strategy?

Tina Witney: Number one, CFOs have to make it a priority agenda item. This is a new way to look at and leverage employee cost and talent. If you don't have C-suite leadership driving this effort, aligning your people strategy with the business strategy can be an uphill battle. Then you want to look for opportunities for improvement on both sides and develop metrics and measures that HR and finance can use together. That helps make a case for what needs to be done from both a people perspective and business performance perspective. It's important to articulate clearly what that is so people understand it and then build metrics around it for purposes of accountability. By holding people accountable, you can help to make sure it's a sustainable process, not just a one-time event.

Ken Kunkleman: Fortunately, the teaming between finance and HR is already in place to some degree. We're talking about making it stronger. Finance has a budget and planning process that it typically owns and executes for the enterprise, and will have some kind of performance management system in place. It's not employee performance management, but rather financial performance management of the organization. You start by leveraging what data you have and harvesting that to get new information out of your current systems. As Tina said, it's a matter of finding where those intersection points are, determining which ones matter and building a plan to drive improvement at those points.

Q: Getting an organization to align the people strategy with the business strategy appears to be a massive undertaking. Where do you start?

Tina Witney: First and foremost it starts with an understanding of the people implications of the business strategy. That's the foundation. From there you can determine the areas of focus for the people strategy—critical workforce identification, talent gaps, etc. The people strategy is one component to enabling the business strategy.

You can start with individual initiatives or certain business problems. The alignment doesn't have to happen across the entire enterprise at once to be effective. Tying the effort to top business challenges makes it real and promotes acceptance and adoption.

Q: What tools and data are needed to align the people strategy with the business strategy?

Ken Kunkleman: What's needed is building qualitative and quantitative metrics that are meaningful to both finance and HR and then holding people accountable to them. Finance's experience with analysis and technology can play a big part in having these metrics captured and analyzed for effectiveness.

Whether a company’s objectives are workforce cost containment or efficiencies, career pathing or employee satisfaction, the ability to put people onto projects whose results are correlated back to what the finance organization is looking at as well as to the quality, speed and results of product development is important. These could be common metrics for HR and finance.

If you live and die by your product growth and innovation, then having metrics that measure product growth, the revenue generated from it, and the contributions and performance of the people who produced that product are crucial to this approach.

Questions? Write to **Deloitte CFO Editor**

Original Publication Date: May 30, 2012