Financial Alphabet Soup
for the HR Executive

Presented by:
Robert Bartolacci
EVP/CFO, Modern Group
Adjunct Asst. Professor, Carnegie Mellon
Instructor: Duquesne University
Instructor: St. Vincent College
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As executives we all basically want the same things (not necessarily in this order!)

- Forward the success of the organization
- Forward the success of our department
- Forward our personal & professional successes
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Each executive however (HR & finance) has particular objectives as well…

- Forward the success of the organization
  - For finance, the success of the shareholders may be targeted
  - For HR, the success of the employees may be targeted
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Each executive however (HR & finance) has particular objectives as well...

- While the targets often overlap (particularly since finance folks are employees who appreciate HR’s help! And since HR understands the importance of the shareholder, and may also be stockholders).

Sometimes, these objectives can seem at odds
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Good news! There is common ground… a common language.
Objectives:

- Understanding the goals and focus of the CFO (it might not be what you expect)
- Relating HR goals and initiatives to the CFO’s goals and focus
- Understanding some basic financial terminology necessary for senior discussions
What we say to dogs

Okay, Ginger! I've had it! You stay out of the garbage! Understand, Ginger? Stay out of the garbage, or else!

What they hear

blah blah GINGER blah blah blah blah blah GINGER blah blah blah blah blah GINGER blah blah blah blah...
The employees want …

We can't afford …

No middle ground

HR

The employees want …

need …

Finance

We can't afford …

Incorrect Managerial Paradigm

Organization and performance hang in the balance

How does it benefit the mission or shareholder

What is the reward

What is the risk

What is best for the organization

Correct Managerial Paradigm

Organization moves dynamically and with more agreement

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Objectives:

- Understanding the goals and focus of the CFO
  - *Increase shareholder value* (for profit)
  - *Achieve the mission* (non-profit)
  - *Book & record keeping* (most started as accountants)
  - *Most reward for least risk*
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Objectives:

- Understanding the goals and focus of the CFO

  - *Increase shareholder value* *(for profit)*

- Despite a sincere desire to provide great products or excellent customer service, the for-profit organization exists for one purpose – *make the shareholders rich.*
  - 401k, pension plans, etc.
  - Widows & orphans
Objectives:

- Understanding the goals and focus of the CFO

- Achieve the mission *(non-profit)*

  - Altruistic and or artistic philosophies of a non-profit may be contrary to traditional “cost control” CFO-thinking. Help the CFO understand the intended-metric improvements relative to the mission.
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Objectives:

- Understanding the goals and focus of the CFO

- **Achieve the mission** *(non-profit)*
  - e.g. Hiring an individual that may require certain environmental adaptations, such as stair ramps, or auditory aids, may be accordingly more costly than hiring a person that does not require such adaptations. However, the organization’s mission is to promote diversity & equal opportunities regardless of such personal challenges, etc.
Objectives:

- Understanding the goals and focus of the CFO

- Accounting background…

- CFO’s typically begin as an accountant, then serve as a “controller.” The paradigm or inclination is to therefore “control” or keep costs low.

Understanding this inclination can help to refocus the CFO toward mission achievement or shareholder benefit as presented through your HR initiative.
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Objectives:

- **Understanding the goals and focus of the CFO**
  - Most reward for least risk

  - Personnel and related costs are typically the largest organizational cost. Therefore HR plays a huge role in risk mitigation and reward achievement.

  - e.g. Recommendation to outsource the organization’s daycare workforce – definitely more costly, but diverts some of the liability away from the organization.
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Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus
  - How will the HR item directly or indirectly lead to shareholder benefit or mission achievement?
  - Before and after metrics, or financial impact (efficiency, effectiveness, or compliance)
  - What reward does the HR item bring, or how does it mitigate risk
  - QUANTIFY, QUANTIFY, QUANTIFY!!!
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Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus

  How will the HR item directly or indirectly lead to shareholder benefit or mission achievement?

  A large client has the requirement of having their employees be satisfied 90% (or more) of the time when interacting with your firm’s customer service center. The rating is currently 80%. Failure to achieve 90% yields a $40,000 annual penalty. Therefore, training to improve should directly benefit the shareholders.
Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus

- **Before and after metrics, or financial impact**
  (efficiency, effectiveness, or compliance)

Assume for the moment that the CFO is indifferent between staffing the organization with an appropriately diverse workforce, or a colony of mold spores (if the salaries were equal). How does the HR executive convince the CFO that EEOC or other imperatives have to be met and may come with a cost (e.g. use of consultants, legal advisors, etc.)?
Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus

  - Before and after metrics, or financial impact
    - (efficiency, effectiveness, or compliance)

  Consider relating the HR objective to managerial measures of Efficiency, Effectiveness, or Compliance.

  - Efficiency: Relates to cost savings or profit enhancement
  - Effectiveness: Relates to achievement of a particular outcome
  - Compliance: Success or failure measure of meeting a particular directive
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Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus

- Before and after metrics, or financial impact (efficiency, effectiveness, or compliance)

Efficiency: Relating to cost savings or profit enhancement

- Buying $2000 of work-boots for employees would reduce worker’s comp. claims (from ankle injuries) by $7,000. More significantly, the reduction in injury-related absenteeism would also reduce down-time, and overtime / temporary labor costs needed to maintain production.
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Objectives:

- Relating HR goals and initiatives to the CFO's goals and focus

- Before and after metrics, or financial impact (efficiency, effectiveness, or compliance)

Effectiveness: Relating to achievement of a particular outcome

- e.g. The proposed training program will improve product quality by equipping workers to identify errors in raw materials. Improving quality accordingly reduces wasted time (1 hour per production item at $35 per hour) and minimizes wasted product costs (at $15 per ton).
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Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus

- **Before and after metrics or financial impact**
  
  *(efficiency, effectiveness, or compliance)*

**Compliance:** Success or Failure measure of meeting a particular directive

- *Does the organization have all of the necessary paperwork to support an employee’s validity to work in the United States? Penalty for failure? Work stoppage?*
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Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus
- Before and after metrics or financial impact (efficiency, effectiveness, or compliance)

BACK TO OUR NARROW-MINDED CFO… Assume for the moment that the CFO is indifferent between staffing the organization with an appropriately diverse workforce, or a colony of mold spores (if the salaries were equal). How does the HR executive convince the CFO that EEOC or other imperatives have to be met and may come with a cost (e.g. use of consultants, legal advisors, etc.)?

If the issue is one of regulatory compliance (e.g. EEOC), relate it to compliance and the penalty for failing to meet the requirement. Etc.
Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus
- What reward does the HR item bring, or how does it mitigate risk

A CEO, who was previously the company’s HR executive, once told me “Bartolacci… I don’t care what the employees would like… how does your request for new carpeting in their workspace benefit the company?”

- Is it a safety issue (e.g. trip & fall, airborne fibers, etc.)
- Is it a productivity issue (e.g. distraction, poor presentation to clients, etc.)
- Is it an efficiency issue (e.g. turnover due to poor work conditions, etc.)
Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus

- QUANTIFY, QUANTIFY, QUANTIFY!!!
  - Virtually everything can be quantified in a business setting. The income or cost may not be immediate, but can usually be estimated, predicted and quantified.
  - For example:
Objectives:

- Relating HR goals and initiatives to the CFO’s goals and focus

- QUANTIFY, QUANTIFY, QUANTIFY!!!

- Example: Provide better, more costly health insurance

  “Annually, 10% of our workforce quits and sites poor health benefits as the reason. Statistics show that turnover costs the organization 30% of that person’s salary in lost productivity & related costs. 10% of our workforce is $1MM, so 30% of that is $300,000. The proposed insurance improvement would cost $200,000. So, we should be able to save the organization $100,000 ($300k - $200k) by this improvement).

  is a lot more “sell-able” than…

  “keep employees happy & reduce complaints”
However, there are times when the CFO should unequivocally and uninterruptedly agree to HR’s direction.

When HR insists:
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Finance should unequivocally agree when HR insists...

That we spend the extra money to get an “experienced” driver
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Finance should unequivocally agree when HR insists...

That our restrooms are not OSHA compliant...
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Finance should unequivocally agree when HR insists...

That our daycare center is dangerously understaffed...
Finance should unequivocally agree when **HR insists**...

That we need a “computer use” policy
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Finance should unequivocally agree when HR insists...

That we tighten-up the dress code
Objectives:

- Understanding some basic financial terminology necessary for senior discussions
  - Return on Investment
  - Payback
  - Expected Outcome
  - Ad hoc metrics: Showing value in other ways
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Objectives:

- Understanding some basic financial terminology necessary for senior discussions

- **Return on Investment**

  ![ROI calculation diagram](https://via.placeholder.com/150)

  - **Investment**: Spend $100,000 to build a company gym
  - **Savings**: Reduce healthcare insurance costs by $25,000

  $$\text{Savings} \div \text{Investment} = \frac{25,000}{100,000} = 0.25 = 25\% \text{ ROI}$$
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Objectives:

- Understanding some basic financial terminology necessary for senior discussions

Payback

\[
\begin{align*}
\text{Investment} & \quad \text{Expenditure} \\
\text{Income or Savings} & \quad \text{Income or Savings}
\end{align*}
\]

- **Investment:** Spend $60,000 for a sales training course
- **Income:** Expected annual sales increase of $20,000

\[
\begin{align*}
\text{Investment} & = $60,000 \\
\text{Income} & = $20,000 \\
\text{Payback} & = 3 \text{ year}
\end{align*}
\]
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Objectives:

- Understanding some basic financial terminology necessary for senior discussions

**Expected Outcome**

<table>
<thead>
<tr>
<th>Event</th>
<th>Probability</th>
<th>x</th>
<th>Penalty or Reward</th>
<th>=</th>
<th>Expected Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit failure</td>
<td>50%</td>
<td>x</td>
<td>$10,000 fine</td>
<td>=</td>
<td>$5,000 expected outcome</td>
</tr>
</tbody>
</table>

Your organization is scheduled to undergo a compliance audit. Failure of having the appropriate documentation in place will result in a $10,000 penalty. You estimate that ½ (or 50%) of the files to be audited are incomplete. So, there is a 50% chance that your firm will fail the audit and incur the penalty.

You suggest that for $3,500, you can have an HR consulting firm come in to bring 100% of your files up to standard. Tell the CFO that your suggestion would save the organization at least $1,500 ($3,500 versus the expected outcome of $5,000).
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Objectives:

- Understanding some basic financial terminology necessary for senior discussions
- Ad hoc metrics: Showing value in other ways

HR (like the Accounting department) is a cost-center. They don’t make the organization money, they cost the organization money. Factually, HR brings value to the organization by holding costs down, and avoiding risks. For instance:

- Appropriately addressing employee problems and concerns help to avoid lawsuits, accidents, turnover, etc.
- Thoughtful selection of benefit plans and structures can change employee behavior, and provides oversight to a costly expenditure.
- Training programs may improve productivity, ensure regulatory compliance, reduce turnover and help keep valued employees, etc.
- ...
What we say to dogs

Okay, Ginger! I've had it! You stay out of the garbage! Understand, Ginger? Stay out of the garbage, or else!

What they hear

blah blah GINGER blah blah blah blah GINGER blah blah GINGER blah blah blah
Objectives:

- Understanding some basic financial terminology necessary for senior discussions
- *Ad hoc metrics*: Showing value in other ways

HR (like the Accounting department) is a cost-center. They don’t make the organization money, they cost the organization money.

- Quantify the cost. What is your department’s total personnel cost compared to its revenue? Compare that number to peer organizations, industry averages, etc..
- If your statistics are better, use that information to prove departmental efficiency.
- If your statistics are worse, determine why.
  - If the extra costs add value, praise the purpose for added cost (e.g. link it to added shareholder value).
  - If not, improve. Then, talk about your improvement statistics.
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Objectives:

- Understanding some basic financial terminology necessary for senior discussions
- *Ad hoc metrics: Showing value in other ways*

Factually, HR brings value to the organization by holding costs down, and avoiding risks.

- Compare, compare, compare.
  
  - Against: prior results, internal targets, your peers, and your industry
  
  - e.g. “we are 100% compliant, while our industry is only 85%. With each penalty being $10,000 per occurrence. We’ve passed 3 audits, and accordingly saved $30,000.”
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Objectives:

- Understanding some basic financial terminology necessary for senior discussions
- **Ad hoc metrics**: Showing value in other ways

Appropriately addressing employee problems and concerns help avoid lawsuits, accidents, turnover, etc.

- **Site specific instances of averted problems**
  - Compare to: previous problems, industry or peer problems
  - Show the comparative savings
  - Use those savings to support future HR spending.

“We had 3 harassment lawsuits two years ago costing us $75,000 in legal and settlement costs. Last year we spent $25,000 on training and have not had any lawsuits since. Like that 300% ROI, our new initiative will yield similar results.”
Objectives:

- Understanding some basic financial terminology necessary for senior discussions
- Ad hoc metrics: Showing value in other ways

Thoughtful selection of benefit plans and structures can change employee behavior, and provide oversight to a costly expenditure.

- e.g. “A change in copay structure is generating a $300,000 decrease in our benefits cost. We recommend spending $45,000 of that savings for a Disease-X management program. The program is expected to save $75,000 in costs over the next three years. And, since we lose 70 work days a year (which costs us $20,000) due to Disease-X related absences, the program has historically shown to cut those absences in half. That is another $10,000 in savings attributable to our oversight.”
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Objectives:

- **Understanding some basic financial terminology necessary for senior discussions**
- **Ad hoc metrics: Showing value in other ways**

  Training programs may improve productivity, ensure regulatory compliance, reduce turnover and help keep valued employees, etc.

  Get other departments to sing your praises with their metrics.
  - Seek support from Operations. Gather productivity statistics, survey employees for baseline and follow-up data on suitability for performing their tasks.
  - Seek support from Marketing. Can the marketing department make hay with the statistics you’ve gathered and tout our workforce and “extensive training?”
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Summary:

It’s all about the numbers.

CFO’s aren’t all bad people. But we were all trained to evaluate (virtually everything) by examining numbers.

HR functions, albeit perhaps harder to quantify, are very quantifiable.

That’s it!!! That is the common ground!!!

Why, you say, do I have to make the move to the common ground and learn this new language instead of the CFO learning mine?
Because the CFO is responsible to the shareholders to report the financial results of the organization. Your incentive for learning that new language is therefore two fold.

1. It helps the CFO to justify to the shareholders why spending their precious resources on an HR initiative is necessary.

2. Because you want to forward the success of the organization and the HR department. And, you have most likely already done a lot of hard work in managing and researching issues – it is like running the football for 90 yards. You might not want to run 10 more to score, but the distance is short, and scoring will benefit the organization and your department.
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You win!!!!!