The CFO's Guide to High-Impact HR Metrics

HR Metrics You Need to Analyze to Master Future Workforce Planning

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INTRODUCTION

Lack of alignment between human resources, finance, and leadership is a chronic issue across business, and no CFO can make an accurate growth plan or headcount projection if they're not on the same page with their HR function.

41%
of CEOs believe labor spend is the most important metric for a business to track

66%
of CFOs believe their HR departments have a "just average or worse than average" impact on business

<10%
of HR professionals' time is spent building alignment with executive leadership

WHY TODAY'S CFOS MUST SPEAK THE LANGUAGE OF HR

Finance and human resources seem like very different disciplines, but for a business to grow and maximize its potential, the two departments need to be joined at the hip. Historically, that hasn't always been the case, but in today's environment of streamlining and efficient team building, short- and long-term success are both directly tied to HR and finance's abilities to plan together and work in sync.

As a finance leader, creating a budget, growth plan, and reliable headcount projection that balances the humanistic expertise of HR professionals against directives from leadership and a realistic understanding of what the bottom line demands has always been a challenge. By leaning into a philosophical understanding of HR and embracing the incredible wealth of data stored within the human resources department's records, however, CFOs can develop a much deeper, more granular understanding of how their organization truly functions on a team-to-team and person-to-person basis.

> A CFO who truly understands the language and philosophy of human resources can more effectively be a voice for growth and positive change within an organization.

The finance-first CFO might recognize that hiring processes seem to be inefficient or retention plans don't seem to be working, for example, but the HR-minded CFO can understand those problems much more fully and specifically in ways that makes them better, more effective advisors to the CEO or board of directors.

In short, growth-minded finance leaders need to be well-versed in human resources and the powerful insights contained in internal HR data. Moving forward, we'll look at five key human resources metrics that CFOs need to understand, foster dialogue around, and plan for in order to maximize their leadership.

KEY HR METRIC #1: LABOR COSTS

Understanding the problem:

- **41% of CEOs believe labor spend is the most important metric**
- **HR leaders only report spending about 15% of their time managing labor cost**

Labor costs, from hourly wages to executive salaries, are an organization's most important investment. A skilled, well-scaled workforce is key to profitability, but early stage companies often grow and take on new team members so quickly that the real cost of labor rapidly spirals away from on-paper financial projections. That lack of alignment to the business plan often goes unnoticed until someone finally asks, "Why aren't we as profitable as we projected?"

That's why the first and most important thing any CFO should do when they start reviewing HR data is to create a deep, detailed understanding of the organization's labor costs.

Benchmarking

Benchmark your current spend at the organizational, departmental, team, and individual level, and think about what those numbers really say about your organization's potential for growth and success.

- **Are your most costly teams your most impactful ones?**
- **Are certain departments or positions disproportionately compensated, and how is the work of the best-compensated employees or departments driving business?**

Those kinds of reflections on HR data provide CFOs with a much more granular and powerful understanding of how labor cost translates to the bottom line.

With that benchmarking research in place, you can also begin powerful discussions with your CEO and HR director about creating a vision of what a "dream team" looks like in terms of head count, cost, efficiency, and responsibilities. Once that planning is complete, you will have created a document that can serve as an anchor for both financial and HR planning that's built on a shared understanding of the value of each role and individual within the organization.

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KEY HR METRIC #2: DEPARTMENTAL OBJECTIVES AND KPIS

Understanding the problem:

- **66% of senior managers can't name their company's top priorities**
- **Only 30% of workers reporting directly to senior executives clearly understand the connections between corporate priorities**

As a finance leader, you have a strong vision of what business success looks like on the whole. What you might not have a clear, specific understanding of is department-to-department or team-to-team performance management.

In order to effectively lead your organization toward profit and growth, you need to gain an understanding of who the true leaders and business drivers are.

Departmental, team-level, and manager-based objective and KPI tracking are part of the backbone of HR accountability. Through a slightly different lens, however, finance can use that information to guide both long- and short-term planning.

Goals and Objectives

Stated goals and objectives help you understand what maximized performance from each department or team could look like. Measuring performance toward those goals using KPIs helps you understanding which divisions are scaled and performing well, and which need additional support in the form of skilled team members or a reimagined structure.

Of course, KPI and goal analysis also provide you with a much more specific narrative to understand current and historic operations. For example, if there's a department that seems to operate productively from day to day but whose work lacks alignment with divisional or enterprise-wide goals, that kind of inefficiency can sneak past the "eye test" for years. With a CFO who has a strong understanding of enterprise goals and a specific understanding of how individual teams and departments are working toward those goals, however, that kind of misalignment can be recognized and corrected quickly.

Remember, when it's time to think about headcount, accountability must guide the process.

You're not just budgeting for a workforce; you're planning for a dream team,

and that work must be informed by an understanding of what's already working and what needs to get better.

KEY HR METRIC #3: EMPLOYEE ENGAGEMENT

Understanding the problem:

- **28% of CEOs believe their organization is effective at employee engagement**
- **Only 15% of HR leaders believe their organization is effective at employee engagement**

In order to make accurate headcount predictions and create a reliable model for company growth, you need to be able to trust that employees are engaged and bought-in in a way that maximizes their potential for the company. When engagement is strong and consistent, you can accomplish a great deal with a tight, efficient team.

When engagement is low, either across the company or in certain divisions, it reduces productivity and increases turnover, both of which require expensive corrections.

As CFO, it's not in your job description to establish or measure office culture and employee satisfaction – that work typically falls to HR. With that said, more and more CFOs in early-stage organizations are being asked to take on CHRO-type responsibilities, and (as we've illustrated thus far) no finance leader can plan well or make fully-informed projections if they don't have a firm grasp on the HR side of the business.

That means that, even if you don't need to work on defining the office culture, you certainly need to dedicate yourself to understanding it and determining how it affects both the current bottom line and the organization's future.

The good news is that your HR colleagues are well-versed in culture and engagement, and they can be powerful allies in your quest to demystify employee engagement. By tapping into your HR leaders' expertise, you can create employee surveys, review benefit usage data, and tap into other measures of engagement and culture that HR has already identified.

Once you have a strong understanding of employee engagement at both the organizational and departmental level, you can make much more accurate predictions about which divisions will require new staff to improve the culture, additional support to drive the work more effectively, or added incentive to increase engagement. All those factors will directly impact your headcount and budgeting work.

KEY HR METRIC #4: TIME & COST PER HIRE

Understanding the problem:

- **43% of organizations don't know their average cost per hire**
- **Filling a key position takes an average of 40 days**

Each metric we've discussed so far has had something to do with understanding your current team, depth chart, and potential.

Time and cost per hire are two closely connected metrics that speak to your organization's ability to bring in new talent in an efficient and cost-effective way.

Cost to Hire

People who lack a strong background in HR or finance often assume that the cost of a hire is equivalent to that new employee's salary and the value of their benefits package. That assumption completely ignores the training, orientation, and onboarding time it takes to get a new team member plugged into operations, all of which result in temporarily lost productivity, both in the new hire's position and for all the other professionals who must dedicate time to bring them into the fold.

Again, the shape and procedure of the hiring process are generally established by HR, but as a CFO with a deep understanding of the power and potential of human resources data, you should be taking a long, hard look at hiring data to better project the long- and short-term impacts of bringing on new team members.

Time-to-Hire

Once you've determined that actual cost per hire, you should also seek to establish your average time-to-hire. Just like onboarding and training, the recruitment and hiring process requires workhours from a wide variety of HR and department-based supervisors and leaders, creating windows of potentially decreased productivity and reduced oversight of ground-level workers.

In order to fully understand the real cost and impact of hiring, you must be able to create a profile of how bringing on a new team member truly affects the organization – both in terms of obvious financial costs and the subtle disruptions to daily operations. With that insight, you can plan for personnel growth and increased headcount in a way that supports business needs without generating unexpected costs.

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KEY HR METRIC #5: TURNOVER RATE

Understanding the problem:

- **The wrong manager can triple turnover within a team or department**
- **U.S. Companies average 12-15% turnover annually**

When it comes to business planning – especially with HR in mind – turnover is one of the elephants in the room. As we explored when we discussed cost and time per hire, turnover can have a massive impact on an organization's ability to succeed and grow because there are so many costs and lost workhours associated with bringing on new hires and getting them fully integrated into operations.

Asking the Right Questions

In the case of turnover, however, there are many questions a CFO should be asking beyond, "Do we have higher than average turnover?"

For example:

- **How many employees are you turning over on average each quarter or year?**
- **What percentage of those separations were voluntary versus involuntary?**
- **How many were planned retirements or anticipated moves, and how many were disruptive and unexpected?**

Understanding the Numbers

Those numbers will help you understand whether your organization actually has a turnover problem or not. If turnover seems high across the organization or in a given department, that provides a great opportunity for you to co-plan and strategize with your HR colleagues or leadership to get to the root of the problem and make corrections while there's still time.

With a strong understanding of turnover within your organization, you can make much more accurate headcount predictions and budget in a way that minimizes the potentially damaging blow of turnover.

By arming yourself, HR, and leadership with realistic expectations of what turnover will look like, you can proactively plan for the business to grow in a way that recognizes and accounts for turnover.

KEY TAKEAWAYS

To become a truly impactful CFO in this era of corporate streamlining and maximized efficiency, you need to think and work beyond the traditional limits of finance. Human resources data provides finance professionals with a new, more precise lens through which to understand workforce expenses in a granular way and plan accordingly.

While there's an incredible variety of powerful HR data that CFOs can leverage to increase their understanding of the organization and create better, more accurate growth plans, here are five jumping off points you can use to benchmark HR processes and better understand the flow of human capital:

1. Labor Cost

to benchmark costs at an organization-wide and departmental level and gain a better understanding of what your dream team costs and looks like.

2. Departmental Objectives & KPIs

to understand how individual divisions and managers are affecting the bottom line in a more granular, specific way than is possible with simple finance numbers.

3. Employee Engagement

to gain insight into what you can actually expect in terms of productivity and brainstorm ways to maximize the value of the work being done.

4. Time & Cost per Hire

to recognize the real costs (in terms of cash, time, and productivity) of adding new team members and growing your headcount

5. Turnover Rate

to identify whether or not you have a retention problem and make the most accurate possible predictions about the influx and outflux of talent in upcoming planning periods.