



WORKFORCE ANALYTICS: A CRITICAL EVALUATION

Does Having HR Report to Finance Influence Investments in HR?

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Introduction

Should finance, with its analytical expertise, focus on capital resources and access to financial results, be the department in which HR resides? If so, does reporting to finance influence investments in HR?

As the importance grows for HR professionals to develop proficiency in business acumen and critical evaluation competencies, there is renewed debate as to where the HR function should reside. Several recent articles suggest HR needs to reinvent itself to deliver results required by top organizations.¹ One recommendation posits that HR should be split into two functions, with compensation and benefits reporting to the chief financial officer (CFO)² and the second function reporting into the chief executive officer (CEO). This other function would focus on improving the people capabilities of the organization and would be led by someone with line/operational experience that is typically not gained in most HR careers. There is some precedent for this functional split as CFOs are increasingly expanding their responsibilities into HR's domain. In fact, 21% of CFOs took on increased HR responsibilities during the last three years.³

From another perspective, having HR professionals report to the CFO may cause organizations to make short-term decisions that yield long-term negative consequences. A recent study indicates that friction between the CFO and the head of HR may exist because they often clash professionally, hindering each other in the course of their work.⁴ For example, a CFO may believe cutting bonuses is the best way to solve a budget shortfall, whereas an HR leader might contend that eliminating or decreasing bonuses would cause top talent to leave, leading to high replacement costs. With HR reporting to the president or CEO, the argument goes, HR can directly communicate long-term people strategies to someone who has a broader

business perspective and is less strictly focused on the financial perspective. In this way, the top leader in the organization equally hears both the financial and the human resource points of view.

In 2014, the heads of HR reported to various different leaders in the organization, including the CEO (38%), president/owner (24%), CFO (10%), and other⁵ (28%) positions.⁶ This report investigates whether investments in HR differ based on whom the head of HR reports to—the CFO, the CEO, the president/owner or another position in the organization.

Unless otherwise noted, the results presented in this report are from the 2015 SHRM Human Capital Benchmarking Database of over 2,000 organizations. The following key HR metrics that reflect investments in HR programs, staffing levels and companywide salary allocations were analyzed based on the head of HR reporting directly to the CFO, CEO, president/owner or other position levels:

- HR-expense-to-FTE (full-time equivalent) ratio.
- HR-to-employee ratio.
- Salaries as a percentage of operating expenses.
- Cost-per-hire (CPH).

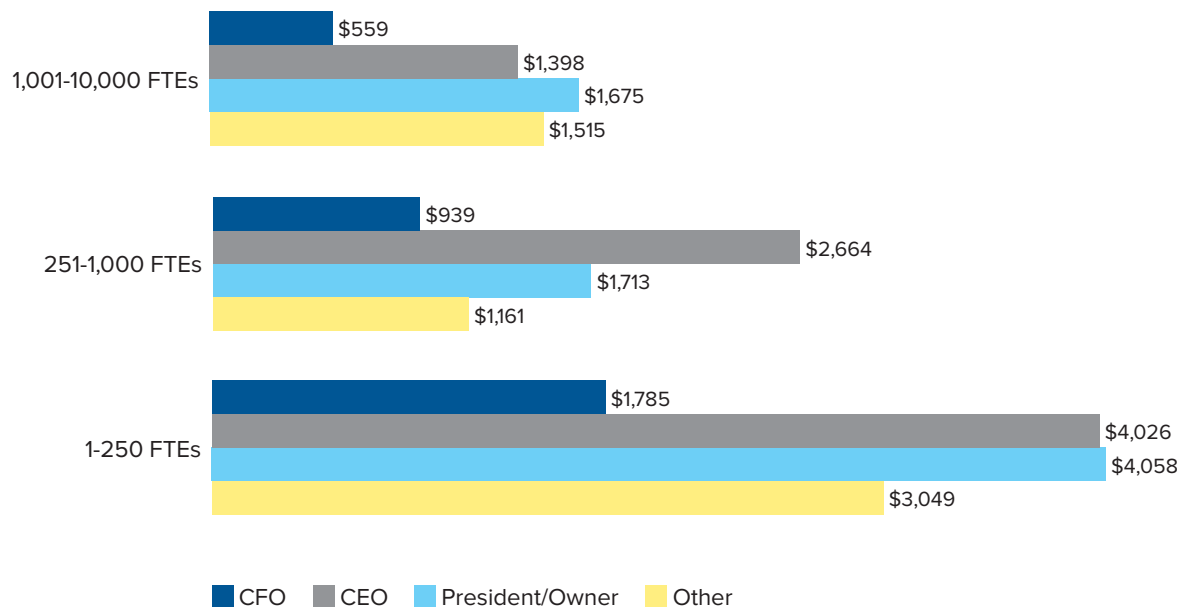
Because organizational staff size alone may influence human capital metrics, HR's reporting structure was compared against organizations of small (1-250 employees), medium (251-1,000 employees) and large (1,001-10,000 employees) staff sizes.

HR-Expense-to-FTE Ratio

The HR-expense-to-FTE ratio represents the investment of human resource dollars spent per FTE in the organization.⁷ The average HR-expense-to-FTE is \$2,986 for organizations of all staff sizes, regardless of the reporting structure of HR.⁸ This metric generally decreases as staff size increases because organizations are able to disperse total HR costs among more employees.⁹

Figure 1 provides a breakdown of HR-expense-to-FTE ratios by small, medium and large staff sizes and by reporting structure to the CFO, CEO, president/owner and other position levels. Although for each staff size the actual scores for this metric appear lower when HR reports to the CFO as compared to the CEO, president/owner or other position levels, the results are not statistically significant.¹⁰ Therefore, the results are *not different enough* to claim the reporting structure of HR influences HR-expense-to-FTE results.

FIGURE 1.
AVERAGE
HR-EXPENSE-
TO-FTE RATIO,
BY HR
REPORTING
STRUCTURE
AND
STAFF SIZE



Source: Workforce Analytics: A Critical Evaluation: Does Having HR Report to Finance Influence Investments in HR? (SHRM, 2016)

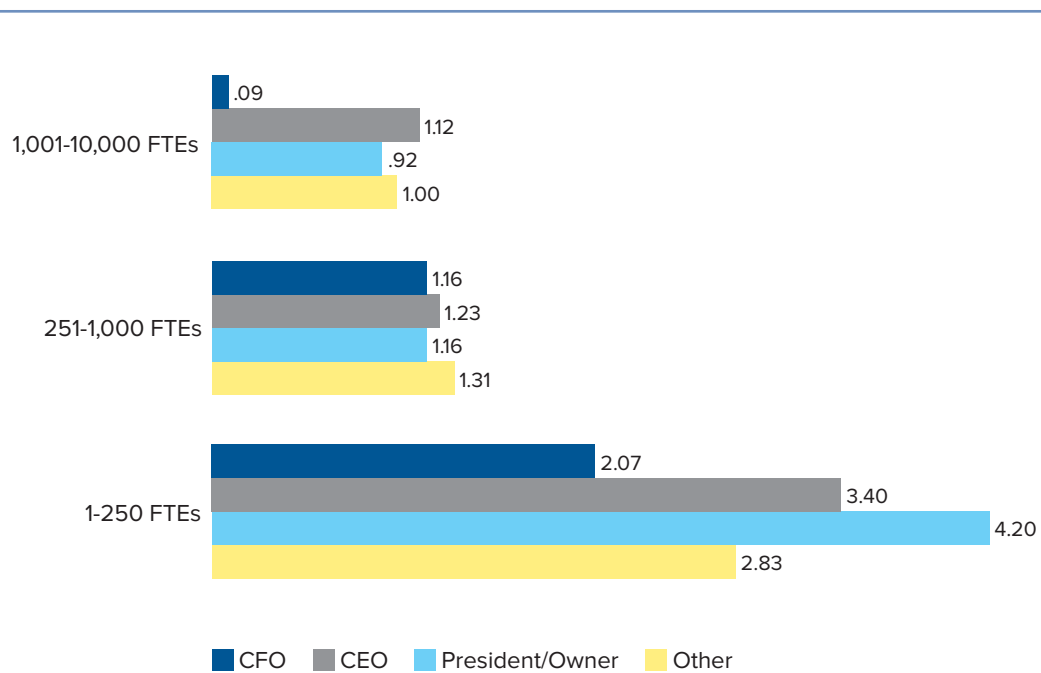
HR-to-Employee Ratio

The HR-to-employee ratio compares HR staff levels between organizations by showing the number of HR FTEs supporting 100 FTEs in an organization.¹¹ High HR-to-employee ratios indicate organizations make strong investments in hiring HR staff. The average HR-to-employee ratio is 3.40 for organizations of all staff sizes, regardless of the reporting structure for HR. This metric typically decreases as staff size increases.¹²

Figure 2 provides a breakdown of HR-to-employee ratios for small, medium and large staff sizes by reporting structure to the CFO, CEO, president/owner and other position levels. For small organizations, HR-to-employee ratios are significantly higher when HR reports to the

president/owner (4.20) and the CEO (3.40) as compared to when HR reports to the CFO (2.07).¹³ The results of this metric, however, are not significant for medium and large organizations. One way to interpret this finding is that increased HR demands within smaller organizations may have necessitated greater investments in HR staff and, as a result, required attention of the most senior-level staff, such as the CEO or president/owner. This suggests that when organizations face critical HR challenges, they may have HR report to the top position. Another possibility is that within smaller organizations, the CEO or president/owner may seek greater control over human resources and talent decision-making that can have a greater positive or negative impact overall on the organization.

FIGURE 2.
AVERAGE
HR-TO-
EMPLOYEE
RATIO, BY HR
REPORTING
STRUCTURE
AND
STAFF SIZE



Source: Workforce Analytics: A Critical Evaluation: Does Having HR report to Finance Influence Investments in HR? (SHRM, 2016)

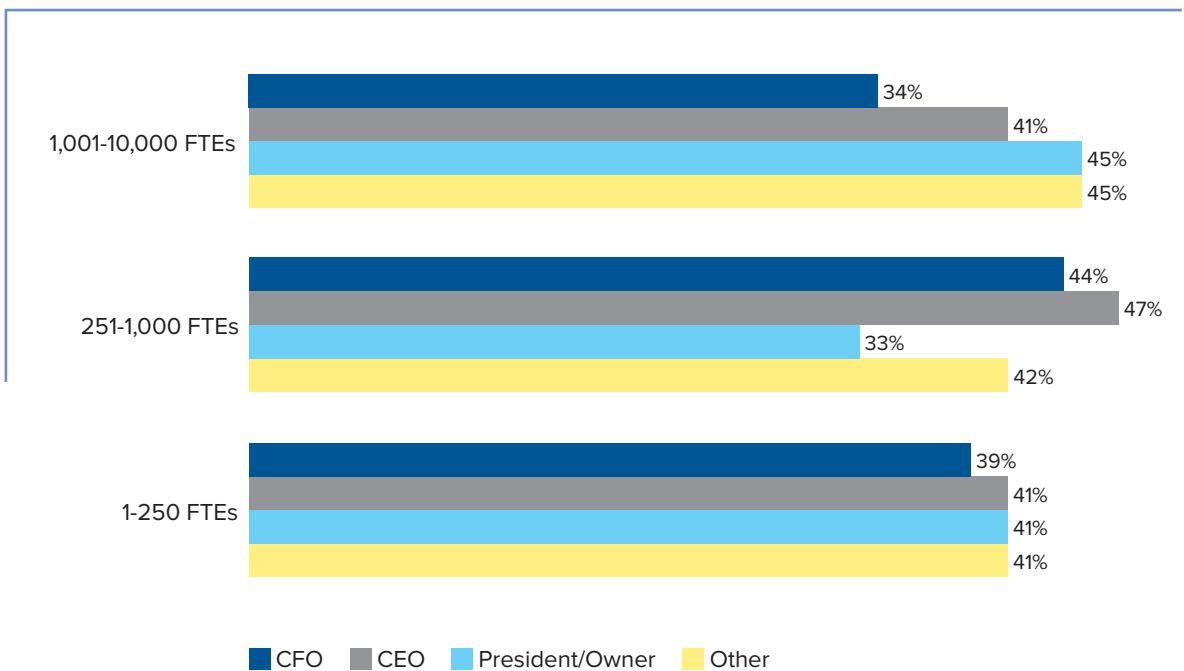
Salaries as a Percentage of Operating Expense

The metric of salaries as a percentage of operating expense reflects the relative amount of compensation investment organizations make compared with investments in operating expenses.¹⁴ The average salaries as a percentage of operating expense is 39% for organizations of all staff sizes, regardless of the reporting structure for HR. High percentages for this metric indicate organizational costs are weighted toward employment compensation as opposed to costs related to capital equipment. For example, a manufacturing (durable goods) enterprise that requires machinery to assemble and package its product will likely spend more on *nonsalary* expenses such as capital equipment and raw materials than would a health care services firm that requires low capital equipment because it generates revenue through the intellectual capital of its employees. This is why the average

salaries as a percentage of operating expense metric for manufacturing (durable goods) organizations is 29%, compared with 45% for health care services firms.¹⁵

Figure 3 provides a breakdown of salaries as a percentage of operating expense by small, medium and large staff sizes and by reporting structure to the CFO, CEO, president/owner and other positions levels. Although for each staff size category the actual scores for this metric appear lower when HR reports to the CFO as compared to the CEO, president/owner or other position levels, the results are not statistically significant.¹⁶ Therefore, our analysis does not support that salaries as a percentage of operating expense metric is influenced by reporting structure of HR when compared within small, medium or large organizations.

FIGURE 3:
AVERAGE SALARIES AS A PERCENTAGE OF OPERATING EXPENSE, BY HR REPORTING STRUCTURE AND STAFF SIZE



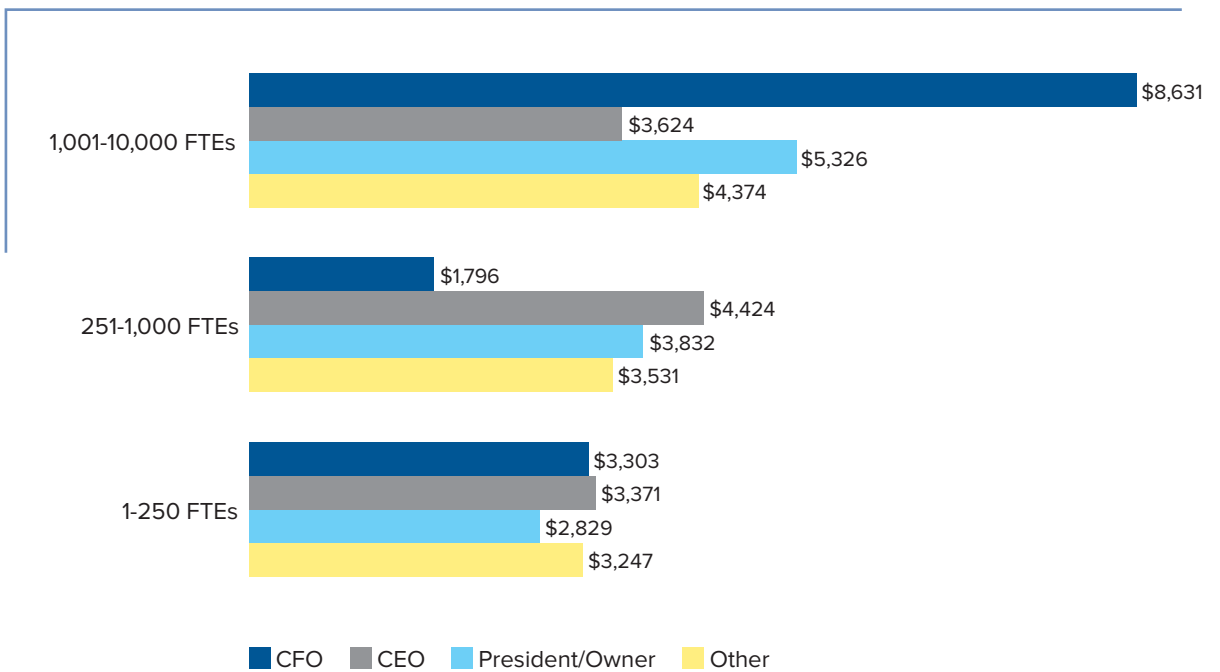
Source: Workforce Analytics: A Critical Evaluation: Does Having HR report to Finance Influence Investments in HR? (SHRM, 2016)

Cost-per-Hire

Cost-per hire (CPH)¹⁷ represents the level of investments organizations make to locate talent and fill open positions. CPH includes costs related to sourcing, applicant travel, relocation, recruiter pay and benefits, etc., divided by the number of hires.¹⁸ Although average CPH for all organizations was \$3,337 in 2014, as organizations become larger in staff size CPH increases because large companies spend proportionately more for employer branding and diversity recruiting than small organizations do. In addition, large organizations may require more interview structure and selection assessments than small organizations in order to ensure their hiring practices are legally defensible and also yield high quality hires.

Figure 4 provides a breakdown of CPH by small, medium and large staff sizes and by reporting structure to the CFO, CEO, president/owner and other position levels. Although actual CPH varies as evidenced below, further analysis of these results shows no statistical differences for CPH results when compared by staff size and reporting structure.¹⁹ This suggests that hiring investments, when expressed as the CPH metric, are not influenced by the reporting structure of HR when compared within small, medium or large organizations.

FIGURE 4:
AVERAGE
COST-PER-
HIRE, BY HR
REPORTING
STRUCTURE
AND
STAFF SIZE



Source: Workforce Analytics: A Critical Evaluation: Does Having HR report to Finance Influence Investments in HR? (SHRM, 2016)

Conclusion

This report investigated whether having HR report to finance influences investments in HR by analyzing four metrics related to investments in HR budgets (HR-expense-to-FTE ratio), HR staffing levels (HR-to-employee ratio), talent acquisition (CPH), and overall compensation investments relative to operating expenses (salaries as percentage of operating expenses).

After analyzing the results of these metrics by whether HR reports to the CFO, CEO, president/owner or other categories, and controlling for small, medium and large staff size, the biggest finding was that there were no statistically significant differences for HR-expense-to-FTE ratio, CPH and salaries as a percentage of operating expense. This suggests that even if HR reports to finance, HR budgets, recruiting investments and salaries as a percentage of operating expenses are no different than if HR reports to the CEO, the president/owner and other position levels. This is counter to the argument that having HR report to finance influences investments in HR because of the greater focus on financial metrics.

The HR-to-employee ratio did have a significant finding, but only for small organizations. High HR-to-employee ratios were found when HR reported to the CEO or president/owner than when reporting to the CFO. There were no significant findings, however, for medium or large organizations. This may be due to the relatively greater

impact that HR decision-making and issue resolution have within smaller organizations than larger organizations, or due to closer relationships that might exist in smaller organizations between a CEO or president/owner and HR than between a CFO and HR.

To some HR professionals, these results may seem counterintuitive or even shocking. Many HR professionals who report to finance or have done so in the past may find the HR-finance reporting relationship more difficult, more bottom-line focused or maybe even *more supportive of investments in HR than these results suggest*.

Is it a question of style versus substance? Although the facts do not support the claim that reporting to finance influences investments in HR, there may be justification for HR's negative view about reporting to finance. A recent study indicates that CFOs judge their heads of HR more harshly than their CEO counterparts do, specifically in failing to understand the business well enough.²⁰ Therefore, to build a better relationship with the CFO, heads of HR could showcase their knowledge of the business by demonstrating how their HR strategy can support the bottom line. Furthermore, HR professionals would do well to increase their business acumen as well as their knowledge and facility with HR metrics. Because CFOs are numbers-driven, devising metrics that measure HR's contribution to the business would enhance the HR-finance relationship.

Methodology

Since 2005, SHRM has been collecting human capital benchmarking data on an annual basis. The current 2015 SHRM Human Capital Benchmarking Survey was conducted to create a database of human capital metrics across various industries. In February 2015, an e-mail that included a link to the survey was successfully sent to 27,614 SHRM members, and 3,018 HR professionals responded. The study collected data on human capital metrics such as succession planning, turnover, cost-per-hire, time-to-fill and salary increases. In addition, organizational data, such as employee size and

geographic region, were obtained. Data were collected for 2014, along with expectations for hiring and revenue changes in 2015. The response rate was 10.9%. Given the level of response to the survey, SHRM is 98% confident that responses given by respondents can be generalized to all SHRM members with a margin of error of approximately +/-4%. The survey was created by SHRM's Workforce Analytics Program and was reviewed by the SHRM Human Capital Measurement/HR Metrics Special Expertise Panel.

Endnotes

¹Cappelli, P. (2015, July-August). Why we love to hate HR...and what HR can do about it. *Harvard Business Review*. Retrieved from <https://hbr.org/2015/07/why-we-love-to-hate-hr-and-what-hr-can-do-about-it>

²Charan, R. (2014, July-August). It's time to split HR. *Harvard Business Review*. Retrieved from <https://hbr.org/2014/07/its-time-to-split-hr>

³Robert Half Management Resources. (2014, November 13). Survey: Most CFOs taking on expanded roles, including human resources and information technology [news release]. Retrieved from <http://rhmr.mediaroom.com/CFO-expanded-role-human-resources-HR-IT-information-technology>

⁴Economist Intelligence Unit. (2012). *CFO perspectives: How HR can take on a bigger role in driving growth*. Retrieved from <http://www.oracle.com/us/c-central/cfo-solutions/eiu-ibm-oracle-cfo-report-1877303.pdf>

⁵Other positions were chief operating officer, head of operating unit, vice president and chief administrative officer. Due to low sample sizes for these positions, they were combined into a single position category.

⁶2015 SHRM Human Capital Benchmarking Database. [Unpublished data].

⁷The HR-to-employee ratio is calculated by dividing the number of HR FTEs by the total number of FTEs in the organization and multiplying by 100.

⁸Society for Human Resource Management. (2015). *Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics*. Alexandria, VA: SHRM.

⁹Ibid.

¹⁰One possible reason for the lack of significance, however, may be because the number of CFOs in the sample is low compared with the number of CEOs, presidents/owners or other position levels.

¹¹The HR-to-employee ratio is calculated by dividing the number of HR FTEs by the total number of FTEs in the organization and multiplying by 100.

¹²Society for Human Resource Management. (2015). *Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics*. Alexandria, VA: SHRM

¹³Mean differences are significant at the .05 level.

¹⁴The salaries as percentage of operating expense metric is calculated by dividing the total amount of employee salaries by the operating expense for a given fiscal year.

¹⁵2015 SHRM Human Capital Benchmarking Database. [Unpublished data].

¹⁶One possible reason for the lack of significance, however, may be because the number of CFOs in the sample is low compared with the number of CEOs, presidents/owners or other position levels.

¹⁷Society for Human Resource Management. (2012). *Cost-per-hire American national standard (ANSI/SHRM 06001.2012)*. Retrieved <http://www.shrm.org/templatestools/hrstandards/pages/ansishrm060012012.cost-per-hire.aspx>

¹⁸CPH is calculated as the sum of recruiting costs divided by the number of hires.

¹⁹One reason for lack of statistical significance, however, may be because the number of CFOs in the sample is low compared with the number of CEOs, presidents/owners and other position levels.

²⁰Economist Intelligence Unit. (2012). *CFO perspectives: How HR can take on a bigger role in driving growth*. Retrieved from <http://www.oracle.com/us/c-central/cfo-solutions/eiu-ibm-oracle-cfo-report-1877303.pdf>

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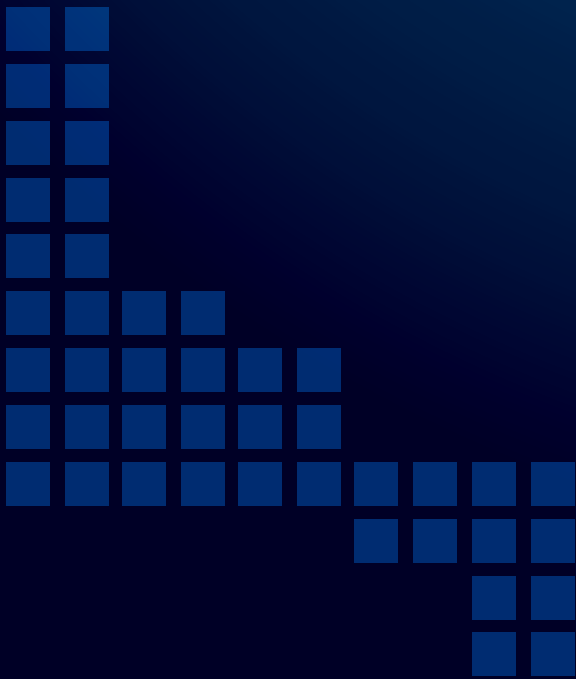
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