Tackling the Talent Crisis
Together, CFOs and CHROs can drive future organisational performance
EXEC SUMMARY

Changing workforce demographics, a less than robust global economic recovery, fast paced market change and ever-evolving customer behaviours.

These are just some of the challenges facing today's Chief Executive Officer (CEO).

But despite the pressure to pursue short-term quarter-to-quarter gains, CEOs say that their primary focus is the achievement of high-quality and sustainable growth.

This explains their emphasis on building an innovative, people-driven enterprise. Indeed, CEOs around the world say the strength of their human capital base represents a primary driver for growth within their organisations.¹

So much so, that the effective use of human capital resources has become a CEO priority. Research shows that best-in-class organisations are those that typically engage in strategies to improve leadership effectiveness, build a performance culture, upskill the workforce, and raise employee engagement.

No wonder then that CEOs are challenging their Chief Financial Officers (CFOs) and Chief Human Resource Officers (CHROs) to work closer together to build an operationally agile and high performing organisation.

In today's challenging business environment, cross-functional collaboration is more important than ever. No partnership can have a more immediate impact on corporate performance as when CHROs and CFOs work together.

¹ The Conference Board, CEO Challenge 2015 Research Report
1. Better Together - The Need to Change

Traditionally, the CFO, CHRO and their respective organisations haven't really worked together. Indeed, in many companies the functions are considered institutionally divided and lack any strategic collaboration. Say hello to the ‘working silos’ that frequently get in the way of the joint pursuit of common organisational goals.

But if you step back from the technical aspects of each role, it's obvious that the CHRO and CFO have a lot in common.

Firstly, they control the two most important resource streams in the organisation – money and people - and the interdependencies that exist between these.

Both have an important role to play in developing and implementing strategy. The CFO allocates the resources required to deliver the company strategy, while the CHRO ensures the right people are in the right job, at the right time, and with the right support and incentives.

So, when CFOs and CHROs work together, they have a significant impact on the business.

According to a recent Ernst & Young survey, companies with high collaboration between HR and finance experience an increase in top line revenue, an increase of 10% or more in operational cash flow (EBITDA), and an increase in employee productivity and engagement.

Agile companies understand they must move capital to where the opportunities are. That includes their human capital. So it's no surprise that leading business innovators are looking to unleash agility by breaking out from yesterday's functional models.

It's an approach that's resulted in some organisations assigning traditional HR processes and routines to the finance function. This frees up HR to act as a talent scout and coach, make predictions and diagnose human capital problems, and define solutions and beneficial actions.

Others look to turn HR into a ‘value creator’, with outputs that are linked to revenue, profit margin, brand recognition, or market share.

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2 Ernst & Young, Partnering for Performance, 2014
To overcome the organisational silo challenge, these forward thinking enterprises are building a CEO, CFO and CHRO 'G3' triumvirate that regularly gets together to conduct deep dives into the organisation's financial performance and human capital – understanding employee's capabilities, what help they might need, and future talent requirements.

By synthesising all these disparate data points, the triumvirate is able to ensure that the financial and people impacts of decisions are addressed.

But that requires both institutionalised and informal dialogue – especially between the CHRO and the CFO.

2. BREAKING THE MOULD: THE COLLABORATION IMPERATIVE

In recent years the gap between HR and Finance has narrowed. But what's impelling this desire to work better together?

Let's take a look at the top challenges driving the new found 'joint collaboration' mindset between CFOs and CHROs:

- **The high cost, and scarcity of talent has become a primary concern for self-sustaining enterprises looking to outperform competitors and innovate.**
- **Exploiting the link between business performance and a human capital strategy depends on informed and incisive insights.**
- **Fast paced changes to strategy, operating model, products and services means organisations need to be nimble when it comes to leadership and skills.**
- **A desire to track the health of the organisation in a holistic forward-thinking manner, and not simply assessing success by measuring what the finance figures say in isolation.**

According to Ernst & Young’s research, on average the CFOs and CHROs in high performing organisations spend 50% more time collaborating. Furthermore, 80% said their relationship has become more collaborative in the past three years.
What’s more, this collaboration is delivering superior organisational performance on a number of fronts. Higher EBITDA growth and improvements across a range of human capital metrics – like employee engagement and productivity.

So what’s the secret of their success?

According to Ernst & Young, together these CFOs and CHROs are:

- Thinking strategically about opportunities and threats
- Working closely with colleagues across the business to consider wider implications for the company
- Identifying and proposing solutions that achieve strategic objectives within appropriate financial and people parameters
- Becoming more rigorous and agile in making decisions that deliver competitive advantage.

They’re achieving this by taking a data-driven approach to help the business achieve its goals. That means leveraging both big data and analytics to make decisions from a more informed standpoint.

3. DRIVING ORGANISATIONAL PERFORMANCE – THE NUTS AND BOLTS

CEOs around the globe understand that a company’s workforce is a key driver of growth and performance. That success is intrinsically linked to the workforce’s skills, talent, knowledge and ability.

In high performing organisations, CEOs are involving both the CFO and CHRO in the strategic decision-making process. They’re working towards an enterprise where HR data is integrated with operations data from operations to deliver a core 360 degree view of organisational health.

According to Ernst & Young, more than 70% of high performance organisations were using analytics in all aspects of their human capital management. A similar number say they apply analytics tools to gain a better understanding of employee performance and engagement.

Data is, therefore, providing a powerful platform for greater collaboration between the CFO and CHRO.
Let's take a look at how the wider adoption, and greater use, of data-led decision-making makes the better alignment between corporate and the human-capital strategy possible.

**TALENT ANALYTICS**

Talent analytics delivers benefits on a number of fronts – reducing time to fill for new hires, improved compensation models, improved productivity, reduction in incidents, and elimination of overstaffing.

The gains don't just end there either. Reducing turnover through predictive analytics means HR needs to understand the factors that influence turnover and develop solutions to improve retention. Greater workforce stability adds up to greater team productivity and an enhanced people pipeline.

**FUTURE TALENT ACQUISITION**

Working with the CFO and business leaders across the business, the CHRO can look ahead to assess how changes to the business will impact new skills requirements. Assessing the availability of those skills in the market enables the G3 triumvirate to evaluate the viability of key investment decisions – and any potential human capital bottlenecks that need to be overcome.

**TALENT PAYBACK**

Together the CFO and CHRO can develop L&D/talent investment costing calculation methodologies that enable them to make important decisions. Like whether it's better to grow, rent or buy future talent. Also, what the cost, risk or benefit outcomes of each option are.

**WORKFORCE ANALYTICS**

Together, the CFO and CHRO can utilise workforce analytics to make better strategic and tactical decisions. Tackling issues like positioning the enterprise as a market leader or addressing operational efficiencies, risk and compliance challenges.

Today's CHRO can support the CFO to go beyond finance-based metrics such as revenue and profit targets, to assess operational indicators like key performance indicators (KPIs) and customer satisfaction. Ensuring that workforce planning is matched to organisational and market needs. That includes facilitating talent succession and leadership development.
HUMAN CAPITAL MANAGEMENT AND CORPORATE PERFORMANCE

Workforce analytics deliver much needed visibility into the effectiveness of recruitment, performance management, talent progression, and employee engagement processes. Here, the CHRO can contribute significantly to organisational performance and health by providing analysis – and predictions – of emerging workforce risks. And the CHRO plays a key role in detecting a drop in employee engagement, burn out or low productivity.

4 CFOS AND CHROS – A FORCE FOR CHANGE

CFOs and CHROs at leading companies are collaborating to evaluate business risks over the next five years and beyond. They are demonstrating the power of this partnership by reporting their findings to shareholders.

Together, they are demonstrating how by working together they are able to predict the return and expense on initiatives ranging from innovation, new products and new markets to evaluating workforce challenges – including ‘what if’ scenarios such as what is the impact on the business if we can’t acquire the necessary talent, and, what happens if we can’t keep them engaged?

Utilising data from these analyses, CHROs and CFOs are able to build strategies, budgets and plans around recruitment, development and reward.

They can also design the employee experience the next workforce generation will expect.

Clearly, organisational success depends on both HR and Finance jointly leading the business process by engaging with the business to estimate resource risks and uncover potential road blocks. Of course, workforce planning and operational planning can’t happen in a vacuum.

Five critical areas where CHROs and CFOs can effectively partner to drive performance:

1. Engage early in strategic planning to encourage a disciplined corporate focus on strategic goals that are clearly defined, and supported by company resources

2. Integrate operational and workforce planning to create a connected process for resource allocation

3. Align financial and human capital metrics with operational metrics, and review and update each quarter

4. Work together on compensation and benefits decisions to drive behaviours that are aligned to strategic priorities

5. Evolve a review process that enables realistic and timely reallocation of resources
CONCLUDING THOUGHTS

In today’s challenging business environment, CEOs need to position the enterprise to handle greater cost pressures and ensure workforce productivity is maintained.

That means upskilling the workforce and improving leadership through more effective development programmes.

That means CFOs are being asked to invest in, and value, intangibles like workforce productivity, workforce training and talent.

They are increasingly looking to the CHRO to deliver accurate measurement and reporting on a range of human capital issues that includes demonstrating the business impact of engagement.

CEOs believe in the power of engaged employees to drive growth and boost productivity; which is why employee engagement is now viewed as a top-five enabler of improved profitability.3

For them, strong employee engagement is the starting point for enabling an operationally high-performing and customer-centric organisation. Don’t forget, it is the CHRO that’s tasked with delivering formal programmes and policies that drive the engagement agenda.

With CEOs concerned about the quality of their leadership pipeline and succession plans, together the CFO and CHRO partnership will be critical to ensuring the enterprise is able to surmount the predicted increased competition for both management talent and skilled labour.

Enabling positive outcomes for the business, for shareholders, and the workforce.

3 The Conference Board, CEO Challenge 2015 Research Report
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