

Appreciating Assets: Proving Workforce Value in Your Company



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Rob Parsons:

Welcome to PULSE, a Paychex HR podcast, where HR professionals find insights on today's top issues and inspiration to build and lead effective teams in a healthier workplace. I'm your host, Rob Parsons.

Rob Parsons:

Hello everyone, Rob Parsons here. Our guest today is Jeff Higgins, founder and CEO of the Human Capital Management Institute or HCMI. Jeff is a global thought leader with 25 years combined workforce planning, analytics, and finance experience supporting Fortune 500 companies, a former senior HR executive and former CFO. Today, we'll be talking about bridging the gap between finance and HR. Jeff, welcome to the podcast.

Jeff Higgins:

It's great to be here, especially with another opportunity to talk about something I'm passionate about. People, talent, human capital, and how to measure them.

Rob Parsons:

Love it. We had the pleasure of working together on the Paychex Thrive business conference. You were one of the featured speakers, it was really a great event. One thing that was really eye-opening to me there, was how you set the stage by discussing this idea of value creation, the value of human capital. It's really not just some catchphrase technology people are making up, is it?

Jeff Higgins:

Yeah. I mean human capital and value creation, so there's a few dimensions to that. One, which we were chatting about before, which is really fun, it's catchy to remember, is that the joke I always tell is where are people on the balance sheet? Because the CEO and the board always says people are the most valuable asset. Well, really most valuable asset. There must be a big number on the balance sheet, under the list of assets. Actually, there's nothing. Except people are on the balance sheet in a negative way. They're in the liability section, only accrued bonus, accrued retirement funds, accrued payroll, anything that's accrued and owed to of them and the conservatism principle of accounting says you got to recognize that. Positive? Not so much. That's the hole and it's a big donut hole in accounting, for how do we measure the positive value out of people.

Jeff Higgins:

The CEO in many companies, and of course the stock markets, all recognize that. That's why 95%, 90 — 95% of the value in companies, it's intangibles. It's mostly around the talent, the market, the brand, things that are either directly or indirectly related to people. So, what that really says is people are — and this is what you and I were chatting about — people are an asset, yes. Not well measured in the balance sheet of accounting rules and further, they're an *appreciating* asset, whereas a computer is a depreciating asset. But I also joke that computers are more valuable than people to the typical company that's basically uninitiated in this. Why? Because the computer gets an asset tag, and it gets actually recorded on the positive side of the balance sheet. People? Nope.

Jeff Higgins:

People get more valuable over time. How do you know? Well, because their compensation goes up, they get a higher level job, their skills, capabilities, level of expertise go up. Otherwise, why would anyone ever hire somebody with gray hair? Because, "Oh, you're old and expensive." "Well, how do I get expensive ... " "Oh, a lot of expertise."

Jeff Higgins:

So the fact is, the markets, compensation markets actually, in a way, recognize this increasing value of people. Accounting only recognizes increasing cost. So, it's a crazy, I guess, donut hole that we have that, again, when I was in accounting and finance as a CFO, I kind of didn't know what I didn't know. I didn't see the donut hole. Now that I've seen it. I can't see almost anything *but* the donut hole.

Rob Parsons:

Yeah, they joke that you can't unsee it, now that it's there.

Jeff Higgins:

Yeah, you can't ignore it anymore.

Rob Parsons:

So tell me, how does, how does HR data come into play? I know CFOs have traditionally relied on HR to protect profits, minimize risk, ensure compliance, make sure nothing bad happens. How can HR turn that around? How can HR data come into play there?

Jeff Higgins:

Yeah. Great, great thing. I would add a point of clarification. So, I think the most progressive HRs feel like protecting company, company success or profits, is part of their role. Historically that wasn't. HR would say their job is to protect the people. Sometimes in conflict with the company, which is not what HR is there for. So for the most part, I think that's addressed. And by the way, most companies have lined it up to say, "Look, we're not against the employees or the people either," but this whole pandemic with big huge focus on wellbeing, diversity, and actually greater levels of transparency around that has helped show some of that for a lot of companies. But the challenge still remains that you bring up, which is, how can HR show their contribution?

Jeff Higgins:

How can they communicate with finance? How can they make this really impactful stuff stick? I learned it the hard way, when I crossed from finance to HR. I learned a lot of the HR metrics. I presented to management groups about high turnover rates and inability to attract or retain enough talent to support the growth strategy of the company. And I got basically completely misunderstood. So, my bad. I learned, I said I never ... and by the way what happened is, when I crossed HR, I forgot some of my lessons from finance. So in HR, the number one thing you can do is dollarize your metrics. Yes, you've got to measure HR. HR data is totally drillable, forecastable, predictable, optimizable. Finance data is just a score on a scorecard. You can't drill into it. You can only forecast in terms of trending, "Well, revenue's going up." "Why? Oh, I don't know, drill down." "Are people

being more productive?" "Oh, I hope so." Basically, finance can't answer these questions about talented people that the HR data can. And the gap for HR is, how do we take these HR metrics and show them in a way that the CFOs, the COOs, and the CEOs, business owners will care about? You dollarize it. How much is an open position worth?

Jeff Higgins:

By the way, those are cost savings because you're not paying a salary, but you're also not getting work done. Usually that lost productivity more than offsets the gain in open position salary savings. What's the cost of turnover? What about lack of training? When we lose somebody, we have to pay 30%, 40%, 50% more to replace.

Jeff Higgins:

Well, that was huge, and by the way, we probably lost them because we didn't want to give them a promotion for 10% more. From a business owner standpoint, that's a really bad decision. I'm like, "Okay, I saved 10%. Now I pay 30%. Gee, that was not a good transaction for me." But they don't think of it that way, because they don't see the data, and that's where HR can highlight that. What is the replacement cost of people? Put some of the HR metrics in a finance light. I'll jokingly say, "Use some of Finance's principles back at them, and then they'll get it instantly." The great thing about accounting and finance people is, and me being one, they're often paid to be a naysayer, but once they really understand the value, they could turn around and be one of your biggest allies. They'll go from pushback, pushback to pull, pull, pull. Like, "Hey, we should have been doing this a long time ago. Let me help you do it more, better, faster."

Rob Parsons:

That's a huge insight there, Jeff, because this whole idea of partnering with finance to get done what you want to get done, that's got to be monstrous for HR to achieve that. You talked about the five steps of an HR person getting that, bridging that gap, bridging that divide. I loved point number one that you talked about, which was just start correctly, ask the right questions.

Jeff Higgins:

Right.

Rob Parsons:

Could you elaborate a little bit that for our listeners? Just what are the kinds of things an HR person should be thinking about? What are those right questions?

Jeff Higgins:

Right, so I'll give you a couple of examples and then a connection plug, but start with a question. This gets into a little bit of psychology. How, as an HR leader, if historically, you're not used to being considered as a strategic value-add player at the table, you're there from a compliance standpoint, representing human capital, execution of some of the business strategy standpoint, but we really shouldn't be doing that, we should be doing this. A lot of times, HR's just going to get shot down, because no one's used to hearing that message coming from that side of the room. So, how to do that? Well, one way to do it, just start the process simply — and this is sort of like, you want to make it their idea and their idea to quantify this, to solve this problem, to recognize that it's a big talent-slash-business problem, or a business problem, actually, that involves talent or workforce.

Jeff Higgins:

And that is, ask a question nobody in the room has the answer to — probably including yourself, unless you've really done the homework and you're really progressive, maybe you already have the answer, but don't feel like you need to provide the answer — "Well, how do we know our workforce productivity's going up?" Everyone's going to look at you and go, "That's a great question." "How do we know? We need to know the answer to that." All of a sudden, the conversation starts going and you almost have, "Yeah, who can do that? ... Finance, CFO, can you do that?" Like, "Well, revenue and profit for FT." "No, those are good, but not great. We need something better."

Jeff Higgins:

And that's where HR can say, "Okay, well, let us help you. We've got this amazing data, it is drillable. We can connect the dots. We can bring the contingent workforce in. We can do all of these pieces and we can make some forecasts where we could say, 'Are we more productive?' " Then there are benchmarks out there where you can go and say, "How are we versus peers? Now we know how we are, and how we're trending. We're getting better. We're getting worse, but how are we versus peers? Are we first or worst?" So that's the way to do it.

Jeff Higgins:

Another one, how expensive is our turnover? Are we losing the right or the wrong people? If we're losing low performers, hey, that's great. Probably it was a mis-hire on our part. They're going someplace where they're going to do better. If we're losing our best and all the mediocre are staying, that's a horrible issue we need to find ... productivity is going to go down. How do we fix that? How do we solve that?

Jeff Higgins:

So one of the things on our website, actually has 25 key human capital questions, and I think Paychex has a version of that as well, that you can start with and you almost use it as a survey tool, or at the appropriate point in the conversation, bring up one or two or three of those. That's the way to start that journey because then, they're pulling, because they want the answer to it. It was now their idea. You just, you just were the prompter to get the question out there on the table.

Rob Parsons:

That a great point. It really plays into your step three, which is you've got to understand what drives the business. They're going to be interested if it's a question that lines up with the things that they need to drive the business, to drive profit.

Jeff Higgins:

Right and a lot of times it's just taking ... and again, the mistake I made when I crossed from finance to HR, I thought I'd learned all the HR language. I came in speaking HR and nobody ... everyone nods politely, no one really understands. So, part of it is the language business is dollars. So, put it into a money ... "Well, if we don't do this, we're going to lose all these open positions." Like today, the Great Resignation, most open positions in recorded history ... "If we don't fill these positions, we can't grow." Everybody's like, "Oh, well how much does it risk?" "Well, most of our growth."

Jeff Higgins:

Then it turns around to, we need to solve this problem. What do we need to solve it? "Oh, okay. Well, we need to be able to better measure our workforce. We need to figure out our quality of hire. What is it that is most predictive of a successful worker in our organization for these kinds of jobs? Who's going to stay longer, perform better?" That sort of thing.

Rob Parsons:

It sounds like a lot of this depends on analytics. I know our product teams here have been working really hard on Paychex Flex and delivering this kind of data. If I'm in a position where I don't have ready access to this data, where do I get started today as an HR person? What's the first thing I should be doing if I want to start speaking this language, and bridging that gap?

Jeff Higgins:

Well, you can get some training, but I think what you're asking is really more multifaceted than that, which is yep, you get some training, get educated, what are some of the best metrics I should be measuring? How do I start measuring them? But the one thing we as consultants can't overcome, is an organization with no data.

You've got to have data. One of the best ways to get data is to try to have it all integrated into a system. Now, many companies might have it in multiple systems. Might have an applicant tracking system here, learning management system there, or core HR system here and their payroll data's there. Well, ideally you would have them all integrated into an HCM platform like a Paychex Flex, and then it's easier to pull that data in an integrated chunk or even in four chunks, because it's already kind of all in one place for you.

Jeff Higgins:

That is the starting point, having the data and then knowing what to do with it, which is part of the training and what are the metrics and measures that I should be using. Then of course, ideally in the future, the tools are actually going to start to calculate more of that for you and almost say, would you like to know this and that? Who knows, maybe with the march of AI and machine learning, it might even start making recommendations for you. The joke we have here is, when we have the predictive machine learning or AI models and it says, "You should do this," will people believe it?

Rob Parsons:

Haha, right.

Jeff Higgins:

Yeah, will they be willing to act on it or will the business executives be: "I've been doing it this years, 30 years, that's bunk." Well, might be worth a pilot or an experiment? That's what I would say.

Rob Parsons:

Exactly, test that hypothesis. So, you talked earlier about benchmarking, which I found really interesting. It's something our developers have introduced here on the platform. How do you go about benchmarking if you don't have ready access to that data? How does one go about even finding how good or how you should be performing?

Jeff Higgins:

Okay. Well, some of the bigger players, like a Paychex, have a lot of data from a lot of peer companies. So you can always, I would say, start with your payroll, your core HR provider, or if it's recruiting data, go to whoever your applicant tracking provider is. Many of them will not have it, but some might, and it'll depend on really how progressive they are and how clearly you can kind of state what you need. Again, that's where your education ... if you know what to ask for, they might be able to give it to you right away. If not, if you go asking any of your customers for, "I need benchmark quality of hire data," no one's going to have that, because it's not well enough measured yet.

Jeff Higgins:

Does that mean it can't be measured? No, which is an interesting dichotomy. You can actually measure that. The thing is companies are doing it on a little bit customized basis. They're using a combination — we call it an index metric, you measure a few things together, but there are benchmarks out there. HCM I provides benchmarks, particularly around workforce productivity, but other organizations have a lot of data around average labor cost, overtime utilization, all kinds of things that you would care about, that are good, low-hanging fruit for quick wins, like some of the Paychex Flex system.

Rob Parsons:

That's fantastic. There's so much ground to cover here and we only have a short time in this podcast. Are there any last thoughts or words of advice you could give our listeners around bridging this gap and speaking this language of finance and really making more of an impact in their companies?

Jeff Higgins:

Yes. I mean, start with the questions and use that as a way to get your mandate or get approval before you dig deep. Everyone thinks, "Oh, our data's not clean. It's not ready." There's literally 20 good reasons not to do this, but all of them are inadequate because you have to do it. It's sort of like, you can't finish the journey until you start. So just get started, pull the data you can. Start asking for additional data that you don't have, whether it's benchmarks or additional modules to add to your system, so you can deepen and broaden what you have. Get some education around some of the best metrics to start to measure, and then focus on the questions. "What are our ...? And have we ..."

Jeff Higgins:

I could tell you one of the best, a big insurance company, was struggling to get analytics started. Why? Because it's a company full of math majors. I forget the term of the insurers, what do the insurers become?

Rob Parsons:

The adjusters?

Jeff Higgins:

Yeah, adjusters and underwriters. Anyway, they're all math experts. So, it's a lot of people that are brilliant at math and you have HR coming in trying to tell people—

Rob Parsons:

Is it paralysis by analysis?

Jeff Higgins:

Yeah. Trying to tell them how to measure and they're like, "No, no, no, no, no." They turned it around. They came in and they had someone from the analytics team who was there in the meeting with the HR business partners. And they said, "Look, what business issues do you have that involve the workforce?" Then the business unit leaders are like, "Oh well, I'm struggling with this. I can't fill that. Career pathing is challenge ... " And they're like, "Oh." They took good notes and they said, "So you mean this? You mean this, you mean this?" And they just translated it a little bit because the business leaders know how to state the business problem. HR can tie that to the workforce and say, "Yeah, turnover's an issue, yes. Internal career pathing is an issue, yes. Talent attraction is an issue."

Jeff Higgins:

They went back, did a lot of work, came back with some solutions and that business unit leader, which was a large multi-thousand employee line of business, became their biggest champion. That's really all they had to do. But of course they had to have the data, and they had to know enough to know what to do with it. Then have that connection point, the conversation. What challenges are you facing? Which is what those key questions are intended to do. Get them talking about the business issues. You then translate that into the HR and workforce issues.

Rob Parsons:

That's a great place to start. Like you said, start where you can, and know where the gaps are and then you can start digging into that.

Jeff Higgins:

Yeah, don't try to solve everything all ... That's the other thing. Don't go for perfection, go for significant improvement. And the great thing is — I hate to say this — it's like pots of gold buried under your feet. The ROI is everywhere. You just have to have a shovel, and maybe the right lens on your glasses and you can pretty much see where to start digging.

Rob Parsons:

Fantastic. Jeff, thank you so much for joining the podcast today.

Jeff Higgins:

Thank you. It's been an absolute pleasure to be here.

Rob Parsons:

And thank you to our listeners. I encourage you all to visit hcmi.co. There, you can learn more about workforce planning, productivity, analytics, all the things we talked about today. It's a layer of business acumen, I think all of us can benefit from. We'd also love you to tell us what you want from this podcast. Please visit payx.me/pulsetopics to submit guest and topic ideas. That's P-A-Y-X.M-E/pulsetopics. Thank you all, and please stay happy and healthy.

Announcer:

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