

### HR EDUCATION

# Finance know-how vital to HR success

By Duff McCutcheon

**F**or too many HR professionals, the prospect of looking over a financial statement leaves them in a cold sweat. Traditionally, numbers have not been HR's forte. But if they want to move up the ladder into a senior management role, an understanding of finance and accounting is essential.

"All business professionals need to understand how their business generates revenue and the anatomy behind it all — and HR is no different," says Norm Sabapathy, executive vice-president of people at Cadillac Fairview in Toronto.

"A good HR professional's job is to maximize the effectiveness of people to deliver results and to do that you need to be fully integrated with the business you support — and that requires finance acumen."

As an HR professional, understanding the financial side of the business is a key enabler to success, according to Sandra Smith, CHRO at North York General Hospital in Toronto.

"On a daily basis, HR works in partnership with finance to understand resource utilization issues and design potential business solutions and opportunities."

While Canadian CEOs agree that senior HR executives are valued contributors and trusted advisors on an equal footing with executives from other business areas, they also believe some HR executives fall short of really understanding the business challenges, according to a 2010 report released by the Human Resources Professionals Association (HRPA) and Knightsbridge Human Capital.

Most CEOs expressed how important it is for senior HR execu-

tives to have a thorough understanding of the business profit and loss (P&L), found *The Role and Future of HR: The CEO's Perspective*.

"The senior HR executive (needs to be) a business person first and an HR leader second. They need to decipher and deliver," said one CEO.

That means understanding the numbers — such as budgets, financial statements, P&L and productivity metrics — that define the health of an organization.

### Learning the language

The first thing HR professionals must learn is the basic language and terminology, according to Swaran Singh Vohra, a certified public accountant who teaches one of HRPA's finance and accounting seminars.

"My course starts with the basic accounting terminology — accruals, income statements, deferred expenses, productivity measures, etcetera — and an understanding of the financial statements used to provide information about the organization's financial position and performance: income statements, cash financial statements, P&L statement, balance sheet, cash flow and productivity metrics."

Learning and understanding the language, says Vohra, will help HR professionals speak to accounting and planning departments. For example, if HR must make a decision around hiring a headhunter versus using in-house recruiters, it must take into account the costs associated with both options, he says.

"Since recruiting, like every other aspect of HR, is closely tied to finance, HR must speak to accounting in such a way that articulates the best decision because

finance is going to be driven largely by the numbers. But as the people specialists, it's the HR professionals who, with the help of some accounting know-how, need to make the case for the best option — even if it's more expensive."

Sabapathy agrees. "If I'm going to the board with a new long-term incentive program or training program, you absolutely need to have the ROI for it. It's impossible to design programming if you don't get the finance behind it."

### Building business acumen

While learning the language is essential to any accounting primer, there are other areas HR professionals should be comfortable with, according to Violette Henein, an instructor of one of HRPA's accounting and financial management courses.

"Budget is number one because it's the cornerstone for every plan. You need to know how to budget and understand its implications for the organization."

HR deals with compensation, benefits, training — all of which have budget implications — so it's vital to understand how everything flows.

"For example, if I ask HR to do some training, you need to know how to price that training a) to help your own HR department b) if you're going to charge it back to the other department or c) if you're doing it for free. If you're doing it for free, you need to plan the resources within your own department — do you have the capability and resources?" says Henein.

Another area HR needs to know is cost-volume-profit analysis, which shows the point at which an HR initiative is going to be profit-

able — What is the revenue needed to break even and cover costs for this?

"This also ties back to employee performance evaluations — that has a cost implication because you're compensating people with dollars for what they do. HR needs to know the ROI on that person's salary," she says.

### Singing the same song

Ultimately, it's important for HR professionals to learn some basic finance to help close the gap between what the finance department sees and what HR sees. HR deals with people — individuals with emotions, work-life balance needs and ambitions.

"Accounting looks at that same resource as a unit — a full-time equivalent (FTE)," says Vohra. "It's different aspects of the same thing. It's totally different viewed from an accounting perspective versus an HR perspective."

If these two opposing personalities — finance and HR — don't come to a common understanding that is aligned with the organization's goals, they will never work together in the same direction, he says.

"Before, HR was seen as tactical but they're now seen as strategic partners. How is that possible? Because the CHRO is closely aligned with the CFO and other C-suite professionals — they have the same vision. They're able to drive the organization using the same language."

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