

The Master CFO Collection

Volume 6

Partnering for performance

Part 2: the CFO and HR

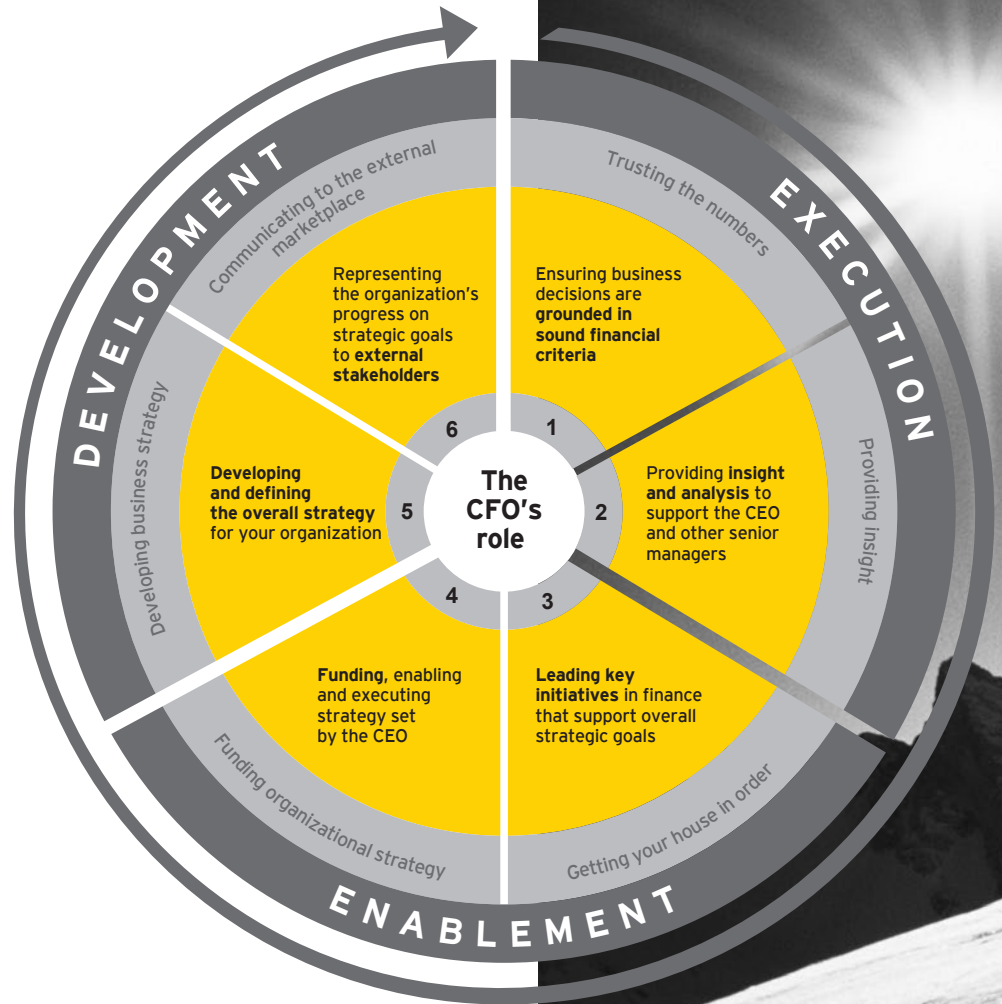


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The CFO's role

The CFO's role has undergone a transformation. We believe that the six segments on the right represent the breadth of the CFO's remit today. The leading CFOs we work with typically have some involvement in each of them – either directly or through their team. While the weighting of that involvement will depend on the maturity and ambition of the individual, on the sector and scale of the finance function and economic stability, each segment is critical to effective leadership.



The Master CFO Collection

Through the Master CFO Collection studies, we explore different aspects of the CFO's role, and the events that they will encounter during their careers.

Partnering for performance is a series within this collection, that looks at how CFOs can partner with the leaders of other internal functions to drive organizational performance. In part 2 of this series, we examine the relationship between the CFO and the chief human resources officer (CHRO), and

we explore how finance and HR can collaborate to achieve superior financial performance.

To read some of the interviews we conducted with CFOs and CHROs for this report, and to access other related resources, visit ey.com/cfoandhr.

To see *Partnering for performance Part 1: the CFO and the supply chain*, go to ey.com/cfoandsupplychain.





In this report

Executive summary	4
Two worlds converge	6
Four key drivers of collaboration	8
What do high performers do differently?	10
Greater maturity in organizational structure and operating model	11
Greater CFO and CHRO contribution to strategic planning and decision-making	14
Wider adoption and greater use of analytics	17
More rigorous HR measurement	22
How can companies make collaboration happen?	25
The right governance and operating model	26
The right knowledge and resources	28
The right technology	30
Ten steps for CFOs to build a more collaborative relationship with HR	33
Survey respondent demographics	34
Other publications for CFOs	36
Contacts	37

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CFO, SuperValu, Inc

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Dharma Chandran

Chief HR & Corporate Services Officer, Leighton Group

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CFO, Wal-Mart Canada

Stephan Unger

Member of the Board of Management and CFO, Daimler Financial Services

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The basis of this study¹

This study is based on a global survey of 550 CFOs and CHROs and a series of in-depth interviews with CFOs, CHROs and EY professionals.

Using the results of our survey, we compared the CFOs and CHROs at high-performing companies with those at companies that are not performing as strongly, to understand how the relationship differed.

¹ The study was conducted in collaboration with Longitude Research.

We defined a high-performing company as one that:

- ▶ Achieved earnings before interest, taxes, depreciation and amortization (EBITDA) growth over the past 12 months of 10% or greater
- ▶ Has seen a significant improvement in employee engagement and employee productivity over the past three years

Sixteen percent of our survey respondents are high performers.

See page 34 for further details on survey demographics.

Executive summary

It has so often been said that people are a company's greatest asset that it has become a platitude. A company's workforce is a key driver of growth and performance, and success is intrinsically linked to the workforce's skills, talent, knowledge and ability. This value, held in people's heads, is worth more than any physical asset.

In most companies, people are also the single largest expense. One study has estimated that total human capital costs average nearly 70% of operating expenses.² But unlike the physical assets that CFOs have long measured and managed, people are difficult to control and predict. While the CFO allocates the resources required to deliver the company's strategy, the CHRO ensures the right people are in the right job at the right time, with the right support and incentives.

An organization's people exist at the junction between the CFO's and CHRO's worlds. But the relationship between these two figures has not always been a comfortable one. CFOs have tended to view human capital primarily as a cost, while CHROs have viewed it primarily as an asset that requires investment. In addition, the differences between the traditional finance focus on certainty and hard measurements, and HR's focus on softer, less-tangible metrics, have contributed to a rift that many companies have found difficult to bridge.

Two worlds converge

Things are changing, however. In recent years, the gap between finance and HR has narrowed, as both CFOs and CHROs have broken the traditional molds that defined their roles. Among the CFOs and CHROs we surveyed for this study, 80% say that their relationship has become more collaborative over the past three years. The high cost and scarcity of talent top the list of factors driving the need for a closer relationship. Changes to strategy, operating model, and products and services are also prompting CFOs and CHROs to work more closely.

A strong relationship between the CFO and the CHRO is linked with superior performance

Our survey has found that there is a powerful link between a business' performance and the extent to which its finance and HR leaders collaborate. Companies where the relationship has become much more collaborative over the past three years report average higher EBITDA growth and stronger improvement across a range of human capital metrics, including employee engagement and productivity.

² 2006 SHRM survey of over 700 companies including a significant number of Fortune 500™ companies.

CFOs and CHROs at high-performing companies collaborate better and differently

The relationship between the CFO and the CHRO at high-performing companies has certain characteristics that sets it apart from their lower-performing peers.

1. Greater maturity in organizational structure and operating model

- ▶ On average, CFOs and CHROs at high performing organizations spend 50% more time collaborating.
- ▶ High performers are more likely to have a peer relationship between the CFO and CHRO.
- ▶ They view the implementation of shared services as a critical enabler of collaboration, because it frees up time for a more strategic conversation.
- ▶ They report better integration between finance and HR – across processes, teams, technologies and systems.

2. Greater CFO and CHRO involvement in strategic planning and decision-making

- ▶ At high-performing companies, the CFO makes a bigger contribution to strategic workforce planning, and there is greater collaboration between finance and HR on this activity.
- ▶ Both CFOs and CHROs have more upstream involvement in shaping strategy, rather than just reacting to it.
- ▶ They adopt a more forward-looking approach based on identifying opportunities and solutions to get the most out of people and capital.

3. Wider adoption and greater use of analytics

- ▶ High performers use analytics to understand the workforce better.
- ▶ There is greater evidence of data-led decision-making in HR.

4. More rigorous HR measurement

- ▶ High performers have a more rigorous approach to identifying and tracking key HR metrics.
- ▶ The measurement of key HR metrics is a continuous process.
- ▶ They focus on broader metrics to track the health of the organization, not just the finances.

Resources, governance and technology must combine to make effective collaboration possible

Collaboration is not just a question of good will and understanding. When asked what it is that can make the relationship effective, respondents point to the need for:

- ▶ The right knowledge and resources
- ▶ The right governance and operating model
- ▶ The right technology

In particular, in order for them to contribute effectively to corporate, strategic and investment decision-making, CFOs and CHROs both need a prominent seat at the table.

As the dynamics of the global labor force constantly change, the way a company understands, measures and manages its people will be closely linked to the organization's performance. CFOs and CHROs that partner well will gain a competitive advantage over their peers.

In this report, we share our analysis of the findings of a survey of more than 550 CFOs and CHROs around the world, as well as the insights from interviews with industry leaders. We hope it will help you to meet the challenges your organization faces today, and to prepare for those that await it tomorrow.



Two worlds converge

As companies around the world seek to grow, the two most likely obstacles they will face are a scarcity of funding and a shortage of human capital. To overcome these finance and talent bottlenecks, CEOs will increasingly come to rely on both the CFO and the CHRO.

Both of these roles have risen within the corporate hierarchy. It has become increasingly common for them to report directly to the CEO and to be peers on the management team. This has coincided with a broadening of both CFOs' and CHROs' responsibilities and outlook, to become more strategic and commercial, and less siloed and specialist.

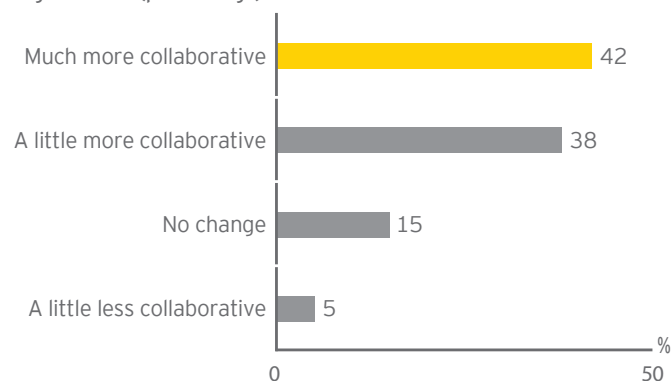
The transformation of the HR and finance operating models, through the establishment of shared service centers and centers of excellence, has accelerated this shift. In many businesses, finance and HR are at different stages of this journey. But in organizations where this transformation has been completed successfully, it has taken the administrative burden away from the retained function, freeing up time for a more strategic focus.

"The most important thing for a CFO or CHRO is that they think broadly and have credibility and strategic vision. That requires them to look beyond their functional roles. As CFO, I consider myself to be first and foremost an executive of the corporation, and then, secondly, a leader of the financial organization. I would expect the same kind of outlook from the CHRO."

Bruce Besanko, CFO, SuperValu, Inc

Although many of these trends have been taking place over a decade or more, recent years have seen a dramatic shift in the relationship between the CFO and the CHRO. Among the 550 finance and HR leaders surveyed for this report, 80% say that their relationship has become more collaborative (see chart 1). CFOs and CHROs with global responsibilities, and those who are at companies with annual revenues over US\$10b, are particularly likely to report an increase in their level of collaboration. This reflects the fact that larger global companies are grappling with increasingly complex human capital decisions, requiring the CFO and CHRO to work more closely.

Chart 1
Over the past three years, what change has there been in the degree of collaboration between the CFO and the CHRO in your organization (percentage)?



Four key drivers of collaboration

CFOs and CHROs have identified the following four factors as those that have driven closer collaboration over the last three years:

1. Talent scarcity and rising labor costs

Companies everywhere are struggling to identify, secure and develop top talent. In rapid-growth markets, where companies are focused on driving volume growth and labor costs are rising fast, these challenges are particularly acute. As the global economy recovers, unemployment falls and competitors increase their recruitment efforts, these issues will become increasingly evident in mature markets too. Wherever it occurs, talent scarcity and rising labor costs lead to costly rates of attrition, and can impact the viability of investments.

The combination of these trends requires companies to take a smarter approach to human capital cost management. Companies need a better understanding of the relationship between cost and performance.

“In the old days, finance would say: ‘We need to do a 10% across-the-board reduction in operational expense.’ And ultimately, that comes out of people because it’s the bigger number. That doesn’t make a lot of sense. You may want to double down on your sales and marketing workforce to allow you to invest in those feet on the ground, to make sure that there are customers that are aware of what you are doing.”

Sean Hurman, Chief People Officer, Imagine Communications
.....

2. Elevation of HR within the corporate hierarchy

Because HR has traditionally been a support function, it has often been too far removed from the strategic decision-making of the business. As HR rises in the corporate hierarchy, this is changing.

High-performing companies are achieving closer alignment between their corporate strategy and their human capital strategy.

“It is fundamental that the finance head and the HR head are in lockstep with the line business head. The relationship between the three should be symbiotic. When we have a strategy, as a business, it has both human capital and financial implications that must be in sync. When they’re not in sync, we make bad decisions and we confuse people.”

Rich Postler, HR VP of Global Business Services, P&G
.....

“The traditional finance and HR roles of the past are blurring. The best finance leaders will have an appreciation of issues that were traditionally in the HR domain. HR might not be as strong as finance at number crunching, but they are now much closer to our business strategy, goals and threats. At Yamaha, the HR team spends the time to really understand and add value to our various business segments.”

Brian Jemelian, SVP Finance and Administration, Yamaha Corporation of America
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3. Changes in strategy and the creation of new products and services

The rapidly changing global business environment requires each company to adapt its strategy continually and to introduce new products and services to remain competitive. The more rigorous and agile companies are in making these decisions, the greater the competitive advantage they will achieve. By involving both the CFO and the CHRO in the strategic decision-making process, businesses can ensure that, from the outset, both the financial and people impacts of decisions are addressed. This can result in better outcomes and can help businesses avoid future pitfalls. A close relationship between the CFO and the CHRO also increases the company's agility and its ability to respond quickly.

"The external environment requires closer and greater cooperation and synchronization. Companies need to be faster and they need to be less administrative than they were in the past. They need to be more proactive and be able to adapt quickly. Being able to think quickly, make the right decisions and implement them promptly depends on close collaboration between finance, HR and the business."

Marco Iannaccone, CFO, Yapi Kredi Bank
.....

"As a CFO, you need to understand people issues in order to be successful. Globalization means that you need to create and manage teams who have the local knowledge and cultural understanding. We need to train people and ensure that they can learn from each other. That takes investment, but it is very important for decision-making and strategy recommendations."

Zhong Hua, CFO, CNOOC
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4. Changes to operating models

Companies continue to transform key business functions, including finance, HR and IT. As EY explored in *Delivering tomorrow's companies today*,³ the process of seeking out greater efficiencies, standardization and scale in order to improve service delivery and increase profitability is ongoing. This has become a highly complex issue: companies must weigh up the opposing forces of onshoring and offshoring, navigate increasingly complex matrix structures, and adapt their operating models to capture new geographic growth opportunities. Many companies have already achieved efficiencies and increased productivity by moving production facilities to low-cost locations, or outsourcing. The logical next step for many companies is to move toward a multifunctional, global business services model. Transformation on this scale has significant finance and HR implications, and so requires close collaboration.

"Shared service centers and centers of expertise need to merge globally to give companies more visibility over key information, including data points from global payroll, pensions, total rewards and talent management systems. Many companies simply don't know how many pension funds they have around the world. Having global data oversight and knowledge is the next journey for companies to make and will give HR and finance business partners the insight they need to better enable business success."

George Brooks, Americas Human Capital Leader, EY
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³ *Delivering tomorrow's companies today*, EY, 2013.



What do high performers do differently?

Our survey provides strong evidence that effective collaboration between the CFO and the CHRO is associated with better corporate and HR performance. Such collaboration is also linked to greater EBITDA growth and to improvements on key HR metrics, including employee engagement and productivity. But all collaboration is not equal.

There are common characteristics in the way the CFOs and CHROs at high-performing companies collaborate, which set them apart from those at the other companies surveyed.⁴ In the pages that follow, we highlight the key differences that we believe contribute to superior organizational financial performance.

Greater maturity in organizational structure and operating model

High-performing companies in our survey typically demonstrate greater maturity in the transformation of their finance and HR functions. This means that both functions have integrated processes and have widely adopted shared service centers. Their governance models are also more mature. The CFO and the CHRO are likely to be peers in the top management team who report to the CEO. High-performing CFOs and CHROs also simply communicate more – they spend a significant amount of time in discussions, both formally, as part of management meetings, and informally, through one-on-one conversations.

“The implementation of shared services is driving greater collaboration between the finance and HR functions. From the CFO’s perspective, this is relevant because the approach is designed to cut costs. From the CHRO’s perspective, the implementation of shared services involves the transmission of employment, so it is also a key area of interest.”

Dharma Chandran, Chief HR & Corporate Services Officer,
Leighton Group

“Companies need a model that isn’t too prescriptive about which function does what. Both finance and HR need to be involved with the decision-making looking at different aspects of the same questions with HR examining the people strategy, risks and opportunities, and finance providing the same for the financial aspects and the business case for those different options that HR is presenting.”

Richard Baker, EY UK

⁴ See page 3 for how we have defined “high-performing companies” for the purposes of this study.

High performers spend more time on collaboration

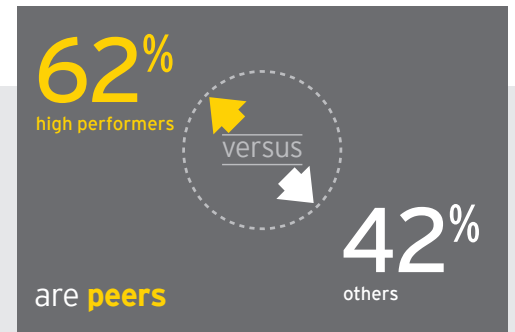
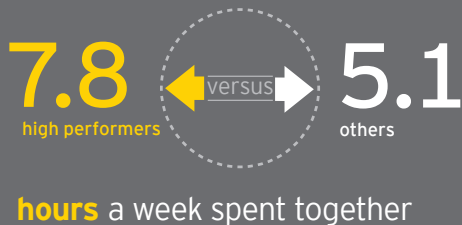
CFOs and CHROs at high-performing companies dedicate over 50% more time to each other than those at companies that do not perform so strongly.

“I meet with the CFO almost daily on one issue or another.”

Kimberly Hauer, Vice President and CHRO, Caterpillar

“All strong relationships are built on shared expectations and understanding. As an HR professional, if you don’t understand how the drivers of the business lead to different financial outcomes and how the financial markets work, then you’ll find it really hard to build a strong relationship with the CFO. Equally, that needs to be reciprocated so the CFO has to understand human capital issues. When you have got those two perspectives, you can then have sensible discussions around allocation of scarce resources for different priorities.”

Jon Scriven, Group Executive People and the Office of the CEO, Qantas



High performers have a peer relationship

In the majority of high-performing companies, the CFO and the CHRO are peers. This coincides with the increasingly common elevation of the CHRO's role to a board-level position, which helps ensure that human capital issues form part of strategic decision-making.

“It needs to be a peer-to-peer relationship in order to make sure that the human resources leader and team have the proper voice that relates to the strategy, rather than it being driven solely by numbers. It truly needs to be driven by your talent and workforce agenda. The workforce plan becomes the key driver that brings the two of us together. We work in a very collaborative fashion and then reach out to the other executive members to help them manage within their particular area of responsibility.”

Sean Huurman, Chief People Officer, Imagine Communications

“The alignment of responsibilities and accountability between finance and HR lends itself to a much more productive discussion between the CFO and the CHRO about how we set expectations for the business and how we structure and manage performance to help achieve those goals.”

Kimberly Hauer, Vice President and CHRO, Caterpillar

M&A coordination at Old Mutual

Africa's strong economic growth, large population and relatively undeveloped financial services industry are making it an important destination for investment by multinational insurers. In recent years, Africa's largest insurer, Old Mutual, has been maximizing this opportunity by undertaking a series of acquisitions and joint ventures across the continent, while at the same time building businesses organically, for example in Zimbabwe.

Making these transactions work across such a diverse region requires careful planning, and close consultation between all key functional areas. To enable effective coordination, Old Mutual has formed a joint acquisition committee, with representation from the Old Mutual Emerging Markets CEO, and the heads of Strategy, Finance, HR and Risk.

For Anisha Archary, HRD of Old Mutual Emerging Markets, it is vital for the HR function to become involved at the earliest possible stage of these deals. "We don't just wait for the business strategy to evolve and then respond to it," she says. "We are actively involved in influencing strategy from a people point of view and understanding the business transformation we're trying to drive."

The HRD plays a key role in assessing the cultural fit of the acquirer and target, evaluating the leadership capabilities at the target, and determining where the key strengths and weaknesses lie within the workforce. "Expansion into Africa requires a whole new set of skills, investment and talent," says Ms Archary. "We need to think about how the workforce will come together, and how we will create one culture made up from the diverse strengths of the businesses in different geographic regions."

A key part of the workforce planning process involves building a pipeline of management talent to ensure that the acquired business has the right leadership team in place once the transaction has been completed. To do this, Old Mutual has recently introduced a new HR process. "We have started to agree a pool of money, six months in advance of the transaction, that we put aside to start recruiting people who we will bring to South Africa for training and development," says Ms Archary. "This will help ensure that we have the people ready for their appointment when we start the integration process."

By having a pool of funds to pay for this development, Old Mutual is also in a better position with the right talent in the right place if an acquisition takes place more quickly than expected. "Sometimes deals happen very quickly, and you may need to find a new CEO in a couple of months," says Ms Archary. "By building a partnership with the finance director and acquisitions committee to create this pool of money, we feel we're better placed to attract the talent we need in Africa's challenging market."

Greater CFO and CHRO contribution to strategic planning and decision-making

The finance and HR leaders at high-performing companies play a bigger role in strategic planning and decision-making than those at other companies. They use factual commercial information and analysis to help shape strategy, rather than just reacting to it, and work together to identify solutions to business problems. The CFOs at these companies also get more heavily involved in strategic workforce planning, helping to explore potential scenarios and forecast the impact of broader trends on the workforce and productivity.

The CFO makes a bigger contribution to strategic workforce planning

Our research has found a strong link between CFOs' level of involvement in strategic workforce planning and the broader performance of the business. High performers are much more likely to say that the CFO is heavily involved in scenario planning, predictive workforce analytics and skill gap analysis than lower performers (see chart 2). CFOs can play a valuable role in strategic workforce planning, helping the HR function to analyze future workforce trends and to explore supply-and-demand scenarios based on key industry, demographic and economic trends. This goes far beyond the traditional budget-driven finance perspective on human capital.

“When CEOs have a strategic decision to make, they should have the HR director and CFO together in the room with them all the time. It becomes such a tight partnership that the CEO probably won't move too far without talking to both of them.”

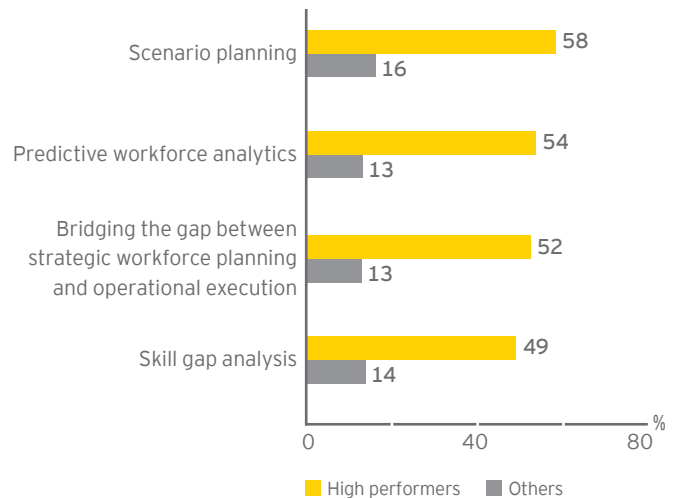
Darren Gibson, Global People and Organizational Change Leader, EY

“I believe that it all starts with the workforce strategy, which then drives the financial strategy. So many organizations have that backward. Especially in a company such as this, where we are truly transforming the business, we first need to understand the requirements of the business and the talent and skill-sets that we will need. We can then take that back to the CFO and say: ‘Here is what our business leaders are telling us, and here is what we believe the cost associated with the transformation will be.’ Once you look at the financial implications of that, then you can begin to refine and go back to the leaders and start talking to them about what is feasible.”

Sean Huurman, Chief People Officer, Imagine Communications

Chart 2

How involved is the CFO of your organization in the following aspects of making human capital investment choices? (Chart shows the percentage who say the CFO is heavily involved.)



High performers have more upstream involvement in shaping strategy

High-performing companies are much more likely to give a high rating to the quality of collaboration between CFO and CHRO on business strategy and development. These companies have moved beyond perceiving HR and finance as support functions that simply implement the strategic choices that a company has already made. Instead, they see that these functions must contribute early on in the strategic decision-making process.

“The biggest change in the relationship with my HR counterparts is that we are starting to look at decisions together much further upstream. The earlier the HR lead and finance lead can be aligned on where they’re going, the better the end solution will be and the less time you’ll take to get there.”

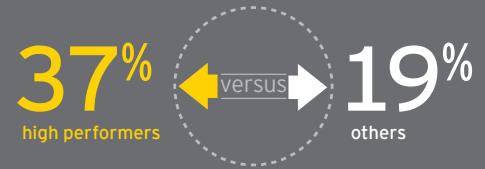
Bill Tofflemire, CFO, Wal-Mart Canada

“Traditionally, the business and strategy team developed the strategy then threw it over the wall to finance and HR. I have insisted from day one that this will no longer happen when the leadership is making decisions. I will sit at the table when we develop our main strategy, and I will input into what we buy and sell. It’s not my job to make the decision, but I do need to be front and center to influence it from a human capital, governance and reputational standpoint.”

Rich Postler, HR VP of Global Business Services, P&G



rate the **collaboration on business** strategy and development as excellent



say the relationship is primarily **forward-looking**, rather than backward-facing

High performers adopt a more forward-looking approach to identify opportunities and solutions to get the most out of people and capital

High-performing finance and HR functions have a forward-looking mindset. Rather than reporting on or analyzing what has already happened, they think strategically about opportunities and threats; and they work closely with colleagues from the business to consider the implications for the company. In addition, they have the confidence to identify and propose solutions that achieve strategic objectives within appropriate financial and people parameters.

“The conversation is very different when you have collaboration between finance and HR. It’s about looking at a strategic challenge and thinking through the people dimensions of shaping and executing it. HR becomes a strategic contributor to solutions from the outset, instead of being called in to address potential barriers.”

Nick Pond, Asia-Pacific Human Capital Leader, EY

Build, buy or rent? Talent decisions in finance at PETRONAS

The Malaysian national oil company PETRONAS takes talent development seriously. Since the early 1990s, it has run a chartered accountancy program, which has been an important breeding ground for future finance talent. The company also has an extensive program for nurturing top talent. Of 46,000 employees worldwide, around 500 have been identified as top talent, and PETRONAS has a structured approach to ensure that these individuals are closely tracked and have the opportunity to develop and be challenged in their roles.

The CFO and CHRO both play a role in these talent development programs. The two executives form part of the people development committee, which identifies, tracks and manages key talent in the company. This structured process helps to ensure very low attrition rates among top talent of just 2% a year. “The relationship that I have with the CFO goes beyond compliance and governance to look at how we are going to plan for the future leadership of the company and ensure that our talent development plans are on track,” says Puan Raiha, Vice President of the Human Resource Management Division at PETRONAS.

The emphasis in PETRONAS has always been on building, rather than buying, talented accountants. Ms Raiha estimates that the balance of investment is typically 80% on building, 15% on buying and 5% on renting. This balance will shift slightly, however, depending on current business needs and strategic goals. Recently, for example, the company has acquired assets in Canada and there are growth opportunities in Malaysia and globally that have increased its need for accounting expertise. This has meant ramping up recruitment from outside the company to address key talent shortages.

“When the business is growing rapidly, you can’t always wait for the talent you’re building to grow, so you need to intervene,” says Ms Raiha. “That means buying in talent selectively from other companies, but also renting if we need to fill short-term gaps in expertise. In the long term, PETRONAS will always build its talent given its investment on capability development.”

Wider adoption and greater use of analytics

Analytics provide a powerful platform for collaboration between finance and HR. When data is consistent and mature across both functions, finance and HR leaders have the opportunity to make decisions from a more informed standpoint. This helps them to identify opportunities and risks and to understand the drivers of performance in the business. In particular, a focus on predictive analytics can be a particularly powerful differentiator, as most companies only focus on lagging indicators, such as employee turnover. By looking ahead to assess how changes to the business will impact new skill requirements, and assessing the availability of those skills in the market, companies are better able to plan ahead and determine the viability of key investment decisions, and any potential human capital bottlenecks that need to be overcome. This forecasting process – often undertaken over several years – forms a greater alignment and synergy between finance and HR.

High performers use analytics to understand the workforce better

The survey shows that high performers have higher levels of sophistication in their use of analytics and are more likely to have adopted analytics across all aspects of human capital management (see chart 3). More than 70% of high performers are using these tools for strategic workforce planning. And a similar proportion is applying them to gain a better understanding of the drivers of employee performance and engagement. This requires strong collaboration between finance and HR, because it takes input from both functions to generate insight into the real drivers of workforce and corporate performance.

“You need both financial and people data to make the right decisions. By analyzing this data, management teams are able to gain greater insight into the drivers of a business’ performance. Analytics also enables companies to model different scenarios, using a combination of external and internal data, to predict potential outcomes from a range of investment choices. This helps organizations determine the best approach to managing their global workforces to deliver the business strategy – by building internal capability, by acquiring it or by deploying it differently and into different parts of the business.”

Bill Leisy, Global Human Capital Talent Strategy and Analytics Leader, EY

Chart 3
In which of the following ways is your organization using analytics as part of the collaboration between finance and HR (percentage)? Select all that apply.



High performers take a data-led approach to decision-making

Finance has always benefited from a wealth of data and information on which to base decisions but, in most organizations, the data on people has lagged behind. Today, many HR functions are collecting and analyzing workforce and human capital data to inform robust human resources decisions. At leading organizations, the focus is on predictive analytics, and moving beyond a focus on historical, lagging indicators. Finance is also accessing increasingly sophisticated information on the financial and operational aspects of the business. Data is, therefore, providing an increasingly important platform for collaboration between the CFO and the CHRO, and is also ensuring more robust decision-making for the organization as a whole.

“The mission of finance is to help our colleagues make the best, most-informed business decisions that benefit our shareholders. As long as the strategy of the business is clear and laid out, we are going to gear our work to helping achieve that strategy, whatever that might be.”

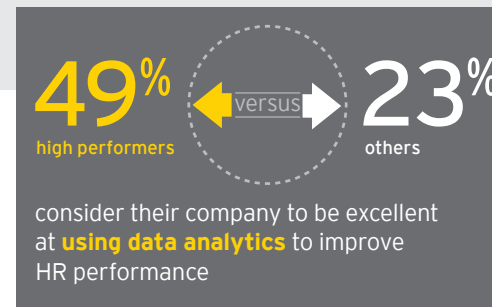
Brad Ferrer, EVP Finance, CNN

“The multidimensional nature of business challenges today means that companies must ensure that finance, HR and the business have the same level of information and all provide collective input into relevant decision-making. A mistake some companies make is to look at a business issue from a single perspective – for example, a financial one, when in fact multiple viewpoints are required.”

L Krishna Kumar, Group CFO, Tata Global Beverages

“It’s easy for a company to see when a business is not doing well. What’s more challenging is to figure out why that business might be struggling, particularly if the underlying reasons are people-related. Collaboration between finance and HR creates that visibility. We may find, for example, that the business has low engagement or manager-trust scores. That is vital input to our decision-making, because without it, we might just conclude that it’s a bad business, so we should get out. In fact, it might be a great business, but we’ve got the wrong people managing it.”

Joel Bernstein, CFO, Global Customer Operations, SAP America



Five reasons why CFOs and CHROs should collaborate on workforce analytics

Workforce analytics help companies to gain greater visibility into how key aspects of human capital management affect corporate performance. It can help companies to increase the effectiveness of the recruitment process, strengthen retention of employees, manage HR risks and provide a more objective, rigorous approach to performance management. “By collecting more information about the workforce, and making it visible, companies are better able to make informed decisions and strengthen human capital management to drive performance improvements,” says Drazen Nikolic, EY’s Advisory Center Lead for Enterprise Intelligence, Europe, Middle East, India and Africa.

Below are five key areas where analytics can be applied to improve performance:

1 Managing attrition. Companies typically have attrition rates of between 7% and 12%. This means that they must spend significant amounts of money on recruitment and training to replace employees and train new recruits. Using predictive analytics, companies can reduce attrition by examining behavior and communication patterns to create a better understanding of employee engagement and to spot early signs of burnout or low productivity.

2 Fraud prevention. Most organizations carry out thousands of transactions a day. The sheer volume makes it very difficult for traditional internal controls systems to identify fraudulent activity. Analytics can enable companies to examine every transaction to identify any anomalies or outliers that could indicate fraudulent activity. In this way, analytics can help companies to supplement their risk and controls frameworks.

3 Identifying hidden potential. Analytics can also be used to identify high-performing members of a team. Analyzing patterns of communication enables companies to spot individuals who both receive and send a lot of information, suggesting that other team members seek them out for advice, and that they make a strong contribution by providing information themselves. Equally, companies can use the same process to spot individuals who consume a lot of information but give very little back.

“There are tangible financial benefits to workforce analytics through cost savings and performance improvement but the key is to understand the dynamics and behavior of the workforce. To achieve this, HR and finance practitioners need to look beyond the typical KPIs on attrition or productivity and use analytics to understand why staff are leaving, what makes an employee successful and what are the benefits of HR initiatives.”

Ralf Keuthen, Director, Business Modeling and Analytics at EY

4 Spotting process deficiencies. When a company puts in place a new process, it can check whether it is working by comparing the communication structure with the process structure. “When you implement a process, people tend to follow it for a while but, after 6 to 12 months, they will start to use other ways to locate information or secure a decision,” says Mr. Nikolic. “Although many companies measure the outcomes of a process, not all look at whether the process is being followed.”

5 Strengthening the sourcing process. Recruitment and succession decisions are highly prone to subjective biases and human error. By combining traditional recruitment processes with the use of workforce analytics to screen potential employees, companies can improve hiring decisions, which ultimately leads to higher retention rates and increased productivity.

Partnering for performance: the CFO and HR

Changing business landscape drives greater collaboration



Strong collaborators experience:

Faster growth

- ▶ **41%** experienced EBITDA growth greater than **10%**.
- ▶ Only **14%** of the others had the same results.

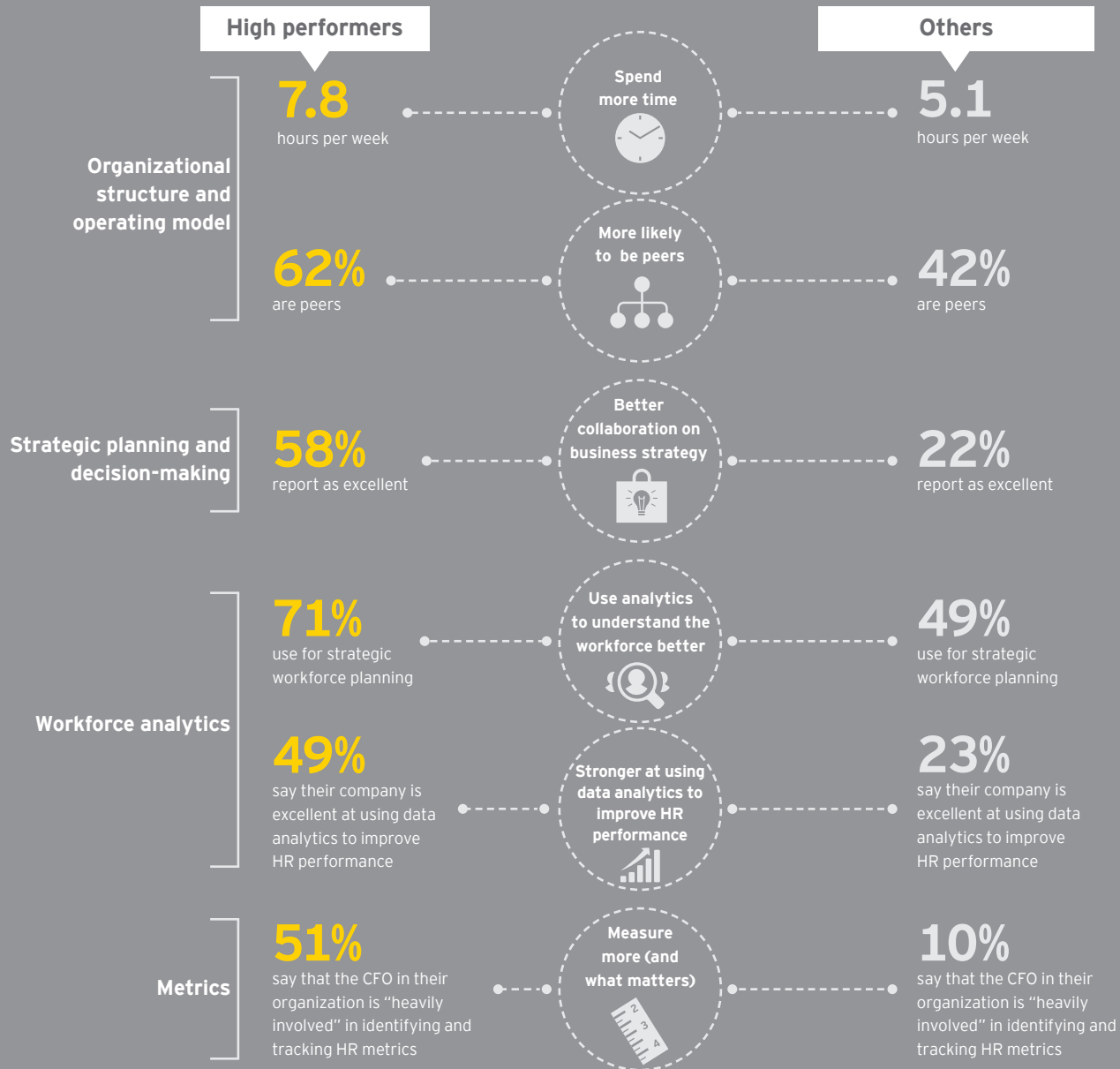
and

Better HR performance

- ▶ **44%** have seen a significant improvement in employee engagement compared to only **9%** of others.
- ▶ **43%** have seen a significant improvement in workforce productivity compared to only **10%** of others.

High performers collaborate differently

The way CFOs and CHROs from high-performing companies collaborate sets them apart from the rest in these four areas:



We classify high performers as those who have achieved 10% or greater EBITDA growth in the last year, and have seen a significant improvement in employee engagement and productivity in the last three years.

More rigorous HR measurement

A platform of data and analytics across HR and finance enables a much more sophisticated approach to choosing and monitoring key HR and performance metrics. This means that companies can move beyond a narrow selection of metrics to one that encompasses those that really matter to their business. High-performing companies recognize this and have adopted a more sophisticated approach to choosing metrics, which allows them to base their actions on the continuous monitoring of performance.

High performers measure better and measure what matters

What gets measured gets managed. High performers are more likely to track all of the metrics we asked about than low performers (see chart 4). What is perhaps more striking, however, is where the biggest gaps between high and low performers lie. Both track traditional metrics, such as workforce costs or retention rates, at similar rates. But, when it comes to the tracking of more strategic metrics, such as return on investment from HR projects, workforce productivity or employee engagement, the high performers are far more likely to do this. This strongly suggests that high performers have moved beyond the more traditional HR metrics and have a much greater focus on tracking the more strategic metrics that really make a difference.

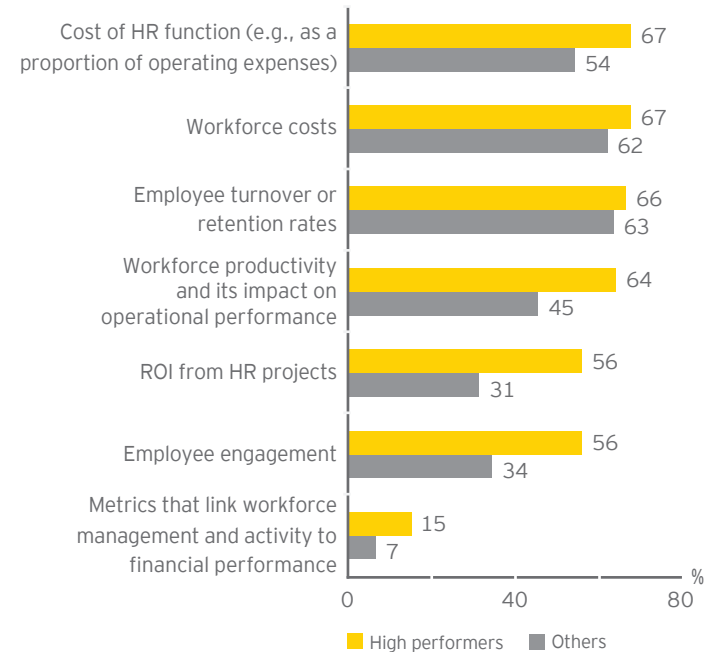
“The identification of the reason for high turnover or employee dissatisfaction is HR’s responsibility. However, the decision in terms of taking corrective actions will be a collaborative one between the CFO and the CHRO, because a lot of the corrective actions will have a financial impact.”

Amit Jain, CFO, Emaar Properties

“You’ve got to get under the skin of the strategy and understand what matters. All too often, HR functions track metrics that are linked to human resource processes or basic people measures like attendance or attrition, rather than focusing on what matters and in turn drives EBITDA growth – like employee productivity, connectivity and engagement.”

Simon Constance, Director, Talent Strategy and Analytics EMEA, EY

Chart 4
Which of the following HR metrics do you formally measure in your organization today (percentage)? Select all that apply.



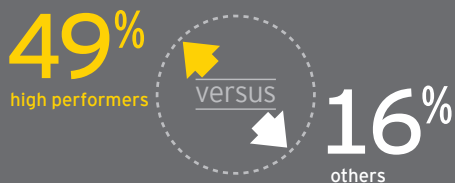
Measurement of key HR metrics is a continuous process

A company's workforce changes constantly. Key people may leave, others may join, and levels of engagement and productivity can fluctuate rapidly for many reasons. In most organizations, however, the tracking of HR metrics only happens infrequently. Employee engagement, for example, may only be tracked annually through a company-wide survey. This means that companies are often basing decisions on data gathered many months ago, which may paint an inaccurate picture of the current situation.

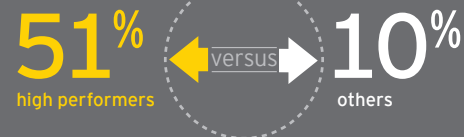
"Every day, there is an impact to the workforce – whether it's a new hire or a voluntary departure that you may not have anticipated. That will impact your business plan if you don't stay on top of it in real time. If you were to lose your top sales person a week into the quarter, but you were only doing quarterly reviews, finance may not be able to react for almost three months to the implications of that person departing."

Sean Hurman, Chief People Officer, Imagine Communications

Companies that take a more continuous approach to monitoring the workforce, using analytics tools, can create a more reliable and up-to-date picture. By analyzing the patterns in employee behavior, companies can identify changes that may signal emerging workforce risks, such as a drop in employee engagement. Early detection of these risks enables companies firstly to investigate further, and then to develop a response before a problem emerges.



consider their company to be excellent at identifying and monitoring **key HR metrics**



say that the CFO in their organization is heavily involved in **identifying and tracking HR metrics**

High performers use broad metrics to track the organization's health, not just the finances

Collaboration between finance and HR can open up a broader conversation about the metrics that matter most to the business. This can mean going beyond core financial metrics to gain a more holistic perspective on the health of the organization. The KPI agenda has traditionally been owned by finance but, when strong collaboration between the CFO and the CHRO is in place (along with the tools needed to enable it), HR can also make an important contribution.

Tracking the health of the organization – often through a balanced scorecard approach – means that companies can adopt a broader, longer-term system of KPIs that encompass leading workforce, as well as lagging financial, metrics. This should include more strategic metrics, such as workforce productivity and employee engagement, as well as the traditional ones. If HR does not contribute to this conversation, either because it does not have the right standing or the right tools or data, then the metrics tracked will inevitably be skewed toward the financial, and will not take account of broader workforce planning issues within the organization.

"You need strong alignment between your business unit performance management and individual performance management. The danger is that the business performance management cycle is primarily finance-driven and based around metrics such as revenue and profit targets. But that risks losing out on the broader set of KPIs that are related to the health of your business."

Richard Baker, EY UK

Head to head: the CFO and CHRO perspectives at SAP

Change is a constant in business, but nowhere more so than in the technology sector. Recent years have seen a wave of innovations that have revolutionized the industry, including the development of cloud computing, analytics, social media and mobility.

Like many large technology companies, the business software provider SAP has transformed its business in response to this fast-changing environment. “If you look at what we were selling just six years ago, those solutions now account for less than 50% of our entire business today,” says Joel Bernstein, CFO, Global Customer Operations, at SAP America. “We have pretty much reinvented our business and, as a result, the skills that we need are completely different.”

Dealing with such profound change demands a close, collaborative relationship between the members of the management team, including the CEO, COO, CFO and CHRO. “A business partnership between finance and HR is critical to ensure that we have the right strategy and are executing it properly,” says Mr. Bernstein.

This means that both finance and HR are involved very early on in the strategic planning process – providing different perspectives on the same challenges, and working together to help devise the most appropriate solutions. “You need diversity of thought because, to be successful, there are different aspects that you need,” says Mr. Bernstein. “You can’t just look at an issue from a people perspective or a financial perspective. You need to think about the implications of a strategy from each of those perspectives. And that means it’s critical to get involved early, otherwise you’ll be trying to execute on something that might be fundamentally flawed.”

The need for a business partnering relationship has significantly changed the role of the CHRO. No longer a back-office function, HR has become a key partner in decision-making, helping the business to make the right choices against a backdrop of constant change. “The modern CHRO is there to add value and make an impact,” says Brigette McInnis-Day, Executive VP, Human Resources, for Global Customer Operations and the office of the CEO at SAP. “If you’re making business or financial decisions without considering the people element, then you can build a business, but it won’t be sustainable.”

The need for a broad perspective across finance, HR and strategy is changing the way SAP thinks about leadership development. “When I look at high-potential finance people in our business, what differentiates them is that they are people-oriented,” says Ms. McInnis-Day. “We need to build that capability into our leadership development. We need to ensure that people do more rotations, and develop more transferable and general management skills across the business. If you don’t give people breadth of experience, they are not going to be value-adding to the business, because they won’t have an end-to-end view.”

Our survey respondents say that effective collaboration between the CFO and the CHRO depends on a mix of key ingredients. These are the right governance and operating model, the right knowledge and resources and the right technology. By removing barriers and building enablers in these three areas, companies will create the required backdrop for the CFO and the CHRO to work together to resolve organizational challenges and enhance performance.



How can companies make collaboration happen?

The right governance and operating model

Integrate processes and information across finance and HR

The integration of processes and information across finance and HR gives CFOs and CHROs greater visibility across the business, enabling them to establish a clear line of sight between investment in people and financial performance. But such integration can often be a challenging task. The processes and information used by finance and by HR to manage activities such as payroll, benefits and accounting have often grown up in isolation. This can lead to multiple versions of the truth and to inconsistency in how the HR and finance functions support the business.

No. 1 barrier to collaboration

Incompatible processes across finance and HR

“If you are a CEO of a business unit, you would like to see some consistency in how your HR business partner and your finance business partner work with you and support you. Leading practice would take you toward finance and HR sharing a lot of systems and processes, aligning data, driving economies of scale or synergies by greater alignment, and doing things in a consistent way. This will also allow them jointly to identify more easily performance improvements.”

Richard Baker, EY UK

Create a leadership culture that encourages collaboration

Effective collaboration between finance and HR requires leaders who are able to move beyond their specific functional areas of expertise to discuss business opportunities and risks. Such leaders will focus on initiatives that affect the entire organization, rather than just their own departments, and will have a broad perspective on how different decisions will affect other functions. Equally, the CEO and other members of the management team need to instill this culture of collaboration. They can do this by living these values themselves and by ensuring that they form part of the performance management culture of the business.

No. 2 barrier to collaboration

Lack of the perceived value of collaboration

“In our management team meetings, the CFO and CHRO don’t just speak up to comment on finance or HR issues. There is a very open debate and we are not just seen as specialists.”

Dieter Buhl, Member of Board of Management, responsible for Human Resources and Sales, Daimler Financial Services

“The development and maintenance of a ‘single source of truth’ about an organization’s employees, on which an organization bases its decisions, is critical to driving alignment between HR and finance. This includes the calculation methodologies that are used in all employee-related costings.”

Darren Gibson, Global People and Organizational Change Leader, EY

The right governance and operating model

63%



say that the transformation of **HR** and **finance** is a critical enabler

Transform the finance and HR functions to free up time for more strategic conversations

Over the past decade, many large organizations have transformed their functional areas – including finance and HR – by migrating administrative tasks to shared service centers and by creating centers of excellence. As well as helping companies become more efficient and effective at delivering their services, this has also freed up time for senior finance and HR executives to hold conversations that are more constructive and strategic.

“The transformation of the finance and HR functions frees up executives to perform their business partnering role. In the past, there was not enough time to focus on the more strategic aspects of the discussion, because the functions were stuck on providing or analyzing data. Today, they don’t have to worry about that, and this has been an important enabler of collaboration.”

Stephan Unger, CFO, Daimler Financial Services

“The operating model for both finance and HR has to follow the business model and be aligned with the business strategy. In our case, that means standardizing processes in both HR and finance to drive efficiencies, take work out of the system and deliver a better product. It also means that we carefully choose what we centralize, so we don’t lose more than we gain in the process. We never want to lose the entrepreneurial spirit that makes our company unique.”

Jay Kloosterboer, SVP of HR, Dover Corporation

The right knowledge and resources

Develop knowledge of people issues within the finance team

As we explored in *The DNA of the CFO: a study of what makes a chief financial officer*,⁵ the CFO role has evolved beyond its traditional finance heartland to encompass a much broader set of financial and strategic responsibilities. Success as a finance leader can hinge not just on the strength of the individual's finance skills, but also on their understanding and ability to relate to other functions, including HR. In addition, CFOs need to develop the softer skills that are more closely associated with HR, such as coaching, mentorship and talent development.

For their part, CHROs are taking a similar journey. In order to collaborate effectively with finance, HR leaders must be financially literate and commercially aware and must possess some of the numerical and analytical skills that have been more traditionally linked to the finance function.

"Companies need a CHRO with strong commercial capabilities. There is nothing that will annoy the CFO more than having a head of HR who doesn't understand the drivers of shareholder value. At the same time, CFOs need to be able to speak the language of HR and must become more familiar with concepts such as leadership development, coaching and human behavior."

Dharma Chandran, Chief HR & Corporate Services Officer, Leighton Group

"The softer skills, such as coaching, mentoring and talent development, can no longer reside only in HR. To build the financial organization of the future, CFOs must become adept at these skills and must measure the results of investments in people. Conversely, CHROs must master the use of data to support predictive analytics rather than trying to drive while only looking at the rear view mirror."

Dina Pyron, Global and EMEA Human Capital Leader, EY



66%

say that **knowledge of people** issues in the **finance team** is an important enabler

⁵ *The DNA of the CFO: a study of what makes a chief financial officer*, EY, 2010.

The right knowledge and resources

Only
19%

say their
company is
excellent at
leadership
development

Broaden the scope of leadership development and succession planning

The broadening of the CFO and CHRO roles means that companies need to put robust succession planning and leadership development programs in place to ensure that future candidates have sufficient breadth of skills and expertise to collaborate effectively. Executives who have remained specialists in either finance or HR, and who have not had the opportunity to step out into commercial roles or to develop a broader strategic perspective on the business, will find it difficult to collaborate at the required level. Companies need to encourage this kind of fluidity in career development as part of their talent management processes to help prepare executives for roles in which they must collaborate with other functional areas of the business.

Equally, companies need to think differently about which candidates will be best suited to the top roles. In recent years, for example, a number of companies have recruited CHROs from outside the HR function. Seasoned business executives can bring a different perspective to HR issues, as well as broader insight into how human capital can address key business risks and opportunities.

Resource HR and finance adequately and appropriately

Since the crisis, many companies have made significant cuts to their headcounts. The HR and finance functions have been no exception to this. As a result, these functions often struggle to keep up with their core responsibilities, leaving little time for a more strategic collaboration. For many companies, an ongoing shortage of resources remains a key barrier to effective collaboration.

In the current business environment, many companies will be unable to make a widespread investment in headcount, so they must be smart about how they make use of available resources. This will require an ongoing focus on eliminating process duplication and on the retraining of existing finance and HR professionals to develop a business-partnering skillset.

“Both finance and HR have to demonstrate that they are operating efficiently, and must also be able to show the value that will be added from any additional investment in headcount. This highlights the need for finance and HR to work closely together. It is HR’s responsibility to ensure that the company has the right people in the right places. Finance can support HR through the calculation and demonstration of added value.”

Tom McCabe, Global Human Capital HR Performance Improvement Leader, EY

The right technology

Embed enterprise resource planning

Enterprise resource planning (ERP) systems have become the backbone of many companies' business processes and decision-making. Both CFOs and CHROs regard them as a critical enabler of a more collaborative relationship because they enable end-to-end visibility and a consistent, integrated view across the entire business. By standardizing processes across finance and HR, collaboration can be encouraged and silos eliminated. In addition, this standardization provides the foundation for more complex analytics and the application of big data.

But – as many companies have discovered – ERP implementation is a highly complex process, from both a technical and a change management perspective. In addition, ERP systems should serve the needs of a diverse set of stakeholders. A system that meets the needs of finance but not of HR is likely to hamper collaboration between the two functions. And, in many companies, people data has been the last category to be integrated into ERP systems. This has meant that the HR function is often still playing catch-up in terms of data and systems.

“When we are looking at the organization from either a financial or an HR perspective, it's consistent because it's coming from the same information and the same system. If we had different systems that weren't connected, then it would certainly be a lot more difficult to align the financial performance of the business with individuals' performance. It's absolutely critical to have that alignment.”

Joel Bernstein, CFO, Global Customer Operations, SAP America

70% say that **ERP** is an important enabler

“A CFO could not operate without access to all the financial performance of the business. Yet, there are many HR directors trying to operate with nowhere near the same degree of people data. Neither finance leaders nor business leaders would want to be accountable for a performance outcome that cannot be measured or backed up by data that they understand. However, HR professionals are often expected to be responsible for performance of human capital with little or no data at all.”

Richard Baker, EY UK

“Many finance and HR processes and measures have grown up in isolation. ERP systems afford the opportunity to create clear lines of sight between an organization's investment in people and its financial performance. The CFO and the CHRO must be actively involved in system implementations and enhancements.”

Dina Pyron, Global and EMEA Human Capital Leader, EY

The right technology

67%

say that **big data and analytics** is an important enabler

Use the power of big data and analytics

Large organizations possess a huge amount of information about their workforce, but most are at an early stage of deriving benefits from this powerful dataset. For both finance and HR professionals, this data presents a major opportunity to generate valuable insights about the organization and the drivers of human capital performance.

Data and analytics can also serve as a bridge to link the HR and finance functions more closely. By applying a more analytical, data-driven approach to human capital management, CHROs will increasingly share a common language with their finance colleagues, sparking valuable conversations about the drivers of corporate performance and the implications of different decisions.

“Often, HR leaders and professionals have shied away from taking full ownership of HR and workforce data. My belief is that HR needs to be fully accountable for the data associated with our workforce. As such, you need to make sure that you are putting in place the proper systems to be able to properly capture, analyze and report that data. So that agenda can’t be led by IT or finance. That agenda needs to be led by HR to say what is the best system and approach for us to be able to capture that data for our organization.”

Sean Hurman, Chief People Officer, Imagine Communications

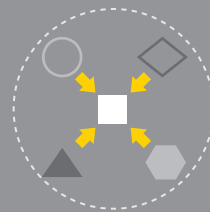
Centralize and standardize your organization’s data

To be able to collaborate effectively, finance and HR require accurate, consistent data on which to base their analysis and decision-making. Although organizations are at different stages of maturity on this, it is common for HR to be lagging behind finance in the quality and availability of its data.

HR practices and regulation differ widely across markets, and this can make it difficult for companies to aggregate key data about the workforce, including data on payroll, benefits, open positions and the use of contingent labor. Companies that have made greater progress on this will have a strong platform on which to base collaboration between the CFO and the CHRO.

“The data that comes out of an ERP system needs to meet the needs of both finance and HR. If the system is configured in such a way that the reports only meet the needs of the CFO, then the CHRO will be excluded. Equally, if the reports are primarily focused on the CHRO, then the CFO will see little value in them. Companies need a system that reports data in a way that works from both users’ point of view. That will create a lot of common ground for interaction.”

Sanjiv Misra, CEO, Carbon Black Business and Director, Group HR, Aditya Birla Group



66%

say that data **centralization** and **standardization** is an important enabler



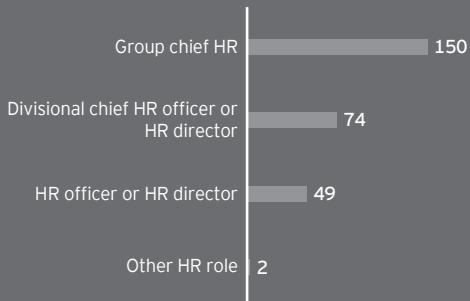
Ten steps for CFOs to build a more collaborative relationship with HR

Take the pulse of your relationship with the HR function. How collaborative is it? To perform effectively and grow over the long term, close collaboration between finance and HR is becoming increasingly important. To create effective collaboration, finance and HR leaders should consider the following ten steps:

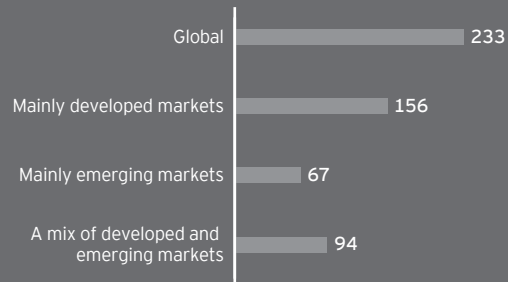
- 1 Make time for the CHRO and seek out common commercial ground.** CFOs and CHROs at high-performing companies invest the time needed to make the relationship work and they seek out common ground on business issues.
- 2 Ensure that finance and HR are involved in upstream strategic decision-making.** Companies make better decisions when finance and HR provide input into corporate strategy, rather than just being involved in its implementation.
- 3 Ensure that business challenges are addressed from multiple perspectives.** Considering both the people and finance implications in parallel increases the chances that the right decisions get made at key moments, such as during strategic review processes, major transformation projects or new product and service developments.
- 4 Continue the transition from support to enablement.** Working together, high-performing CFOs and CHROs adopt a forward-looking, enabling approach to finding solutions to key strategic challenges. This means cultivating a mindset across HR and finance that is really about business leadership, strong commercial awareness and knowledge of the broader business issues.
- 5 Build a culture of collaboration across functional areas.** In their approach to talent management, companies need to give both finance and HR executives broader experience across the business to ensure that they combine specialist knowledge with broader commercial awareness. Company leadership should also instill this culture of collaboration through their own actions.
- 6 Work with the HR function to identify the questions you have about your workforce, and determine the data that can solve them.** A lack of HR data has been a key barrier to the effectiveness of collaboration between the CFO and the CHRO. Finance leaders should work with their peers in HR to determine the questions that need to be answered, and build the data that would improve the decisions being made.
- 7 Focus on the KPIs that really matter.** The measurement of HR data has often been shaped by what is easiest to measure rather than by what is most important. Companies need to work hard to identify and monitor the workforce KPIs that will support the organization's differentiated strategy.
- 8 Make measurement a continuous, predictive process.** All too often, companies rely on snapshots of outdated data when tracking metrics such as employee engagement. To make these metrics better reflect current corporate performance, companies need to embed continuous measurement of HR initiatives and performance.
- 9 Apply a fact and data lens as a platform for deeper collaboration.** Workforce analytics is coming of age. Greater maturity of HR data, and the ability to apply this information to areas such as strategic workforce planning, and operational and workforce performance modeling, provides a powerful platform for understanding how people investments will affect certain key performance indicators.
- 10 Get strategic on workforce planning.** High-performing CFOs play an active role in strategic workforce planning and continuous forecasting. They bring insight and analysis to combine external and internal data in a way that helps the business to strike the right balance between building, buying and deploying talent to support the business strategy.

Survey respondent demographics

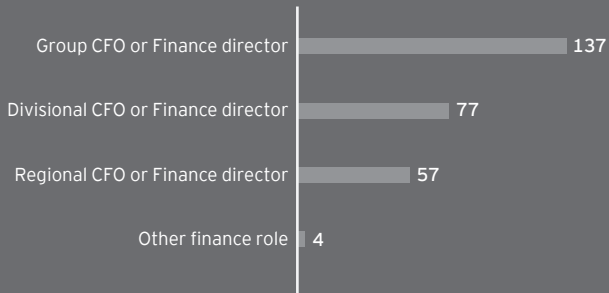
HR roles



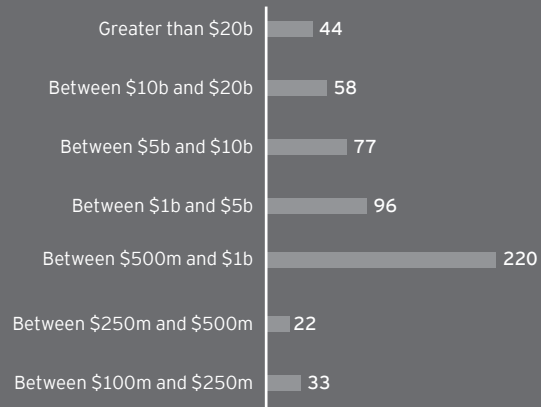
Geographic scope of responsibilities



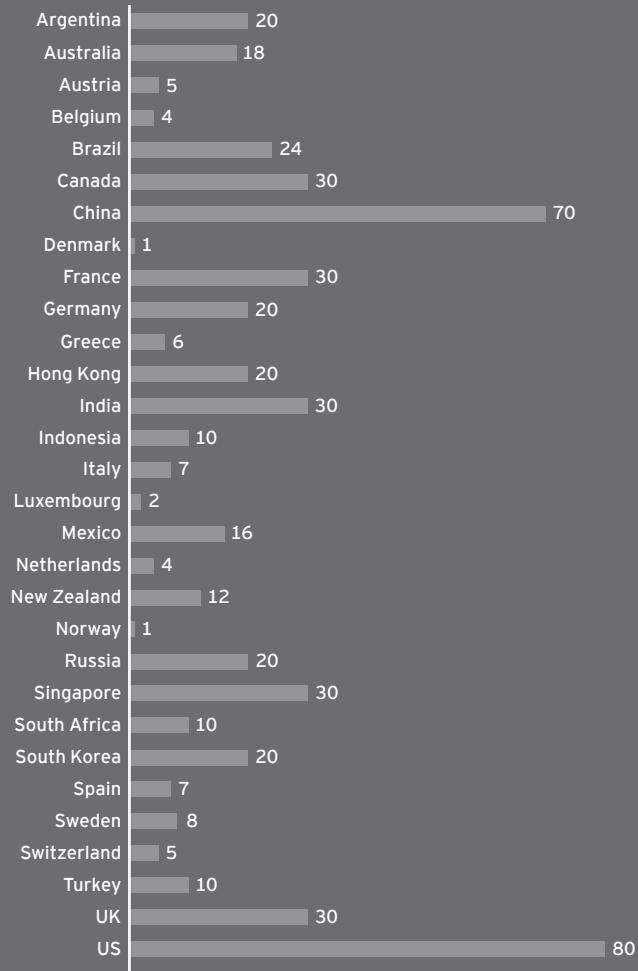
Finance roles



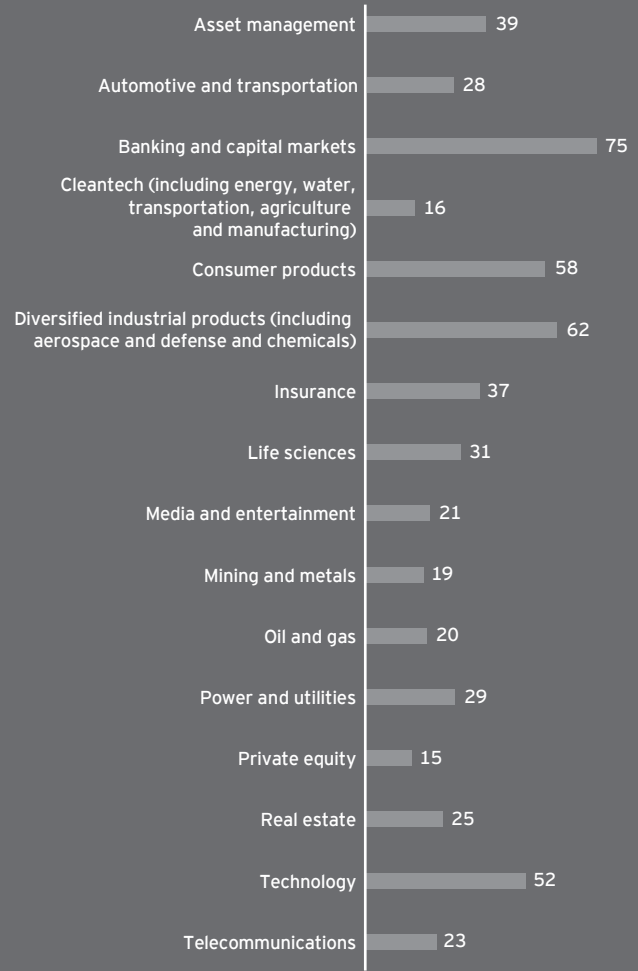
Annual revenue in US dollars



Country



Primary industry



Other publications for CFOs

This is one of a series of studies from our CFO program, which provides insight and guidance on aspects of personal interest to the CFO as they seek to develop themselves and their teams, and learn from others within their community. Other publications from the program include:

The DNA of the CFO series

EMEIA



The DNA of the CFO
A study of what makes a chief financial officer

Americas



Views. Vision. Insights.
The evolving role of today's CFO

Asia-Pacific



The DNA of the CFO
Shifting up a gear: from core finance to corporate strategy



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CFOs and the media



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The hidden costs of entering rapid-growth markets



A tale of two markets
Telling the story of investment across developed and rapid-growth markets



Drought or drowning?
Cash challenges for CFOs at both ends of the liquidity spectrum



Partnering for performance
Part 1: the CFO and the supply chain

For further information on these titles and our program of investment in CFOs, please visit www.ey.com/cfo.

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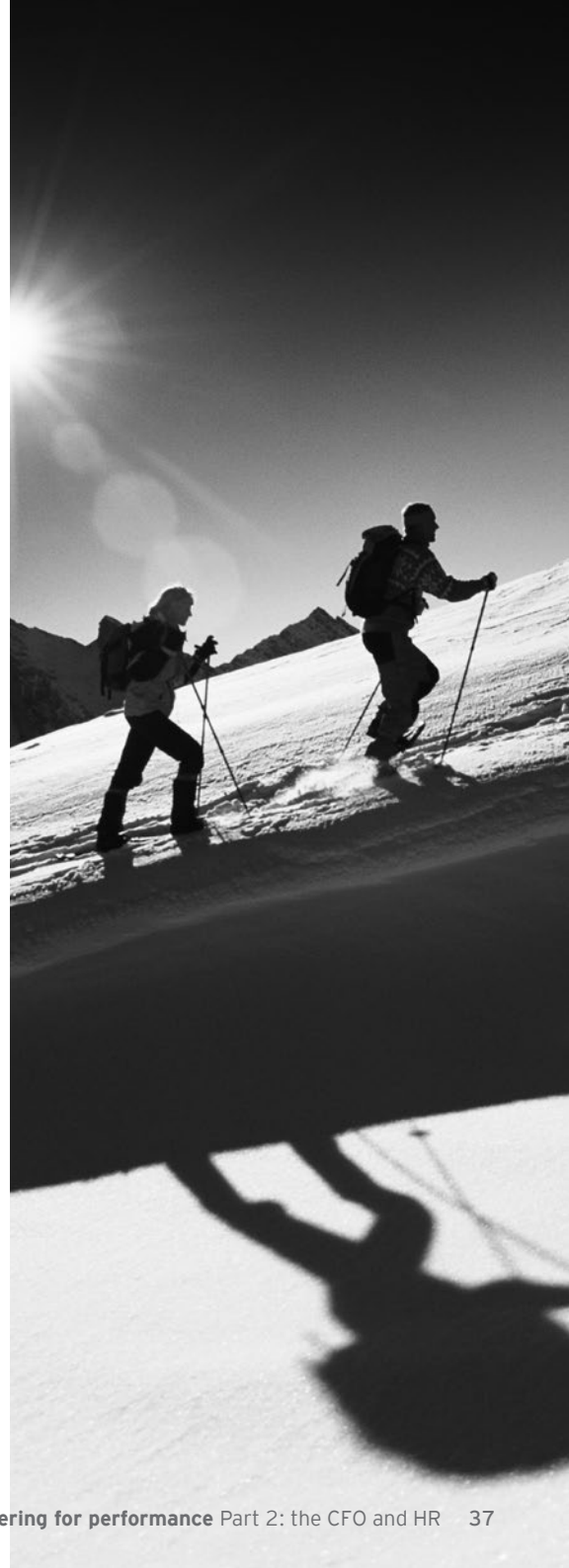
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