CFO.com

Leadership | April 30, 2012 | CFO.com | US

Does Finance Play Second Fiddle to HR?

Counterintuitively, finance executives actually spend less of their time acting as strategic business partners than do human-resources managers.

John Boudreau

My last column noted that CFOs report spending less time on being a strategic partner than do human-resources (HR) leaders. Because that was a surprising research result, I then posed the question of whether CFOs are *actually* less involved in strategic partnership, or perhaps finance and HR professionals accomplish their strategic influence differently. Let's take a deeper look.

First, to reprise the data from the prior column: HR leaders spend about 27% of their time on activities related to strategic partnership, such as serving on the management team, strategic planning, and strategic change. CFOs report spending only about 12% of their time on those areas versus others such as maintaining records, auditing/controlling, providing functional services, and developing functional systems and practices. (The figures were from a 2010 survey of 200 HR professionals by the Center for Effective Organizations and a February 2012 survey of more than 400 finance chiefs by Duke University and *CFO*.)

Now let's break down the overall data by some variable elements. Does company size correlate to the overall result? Yes; CFO time spent on strategic partnership is highest (17.2%) in companies with more than 10,000 employees, and lowest (10%) in firms with less than 1,000 employees. There is a similar pattern for HR leaders, but the differences are smaller, with about 23% of time on strategic partnership at companies with less than 1,000 employees and 27% at those with more than 10,000 employees.

How about public versus private companies? The time spent by CFOs on strategic partnership is higher for New York Stock Exchange–traded companies (16%) than for private firms and those traded on other exchanges (12%). Again, the HR pattern shows similar but smaller differences, with 29% for publicly traded companies on any exchange versus 26% for private ones.

Does the pattern vary across industry sectors? The time spent by CFOs again varies proportionately more, ranging from about 9% in retail/wholesale trade, mining, and transportation to a high of 19% in service consulting. For HR leaders, the result varies from about 25% in most sectors to 33% in communications/media and banking/finance/insurance.

In sum, the notion of CFOs spending much less time on strategic partnership holds up even when the data is parsed by company size, public-private, and industry. This is evidence, not just a statistical artifact.

I discussed the finding with both finance and HR colleagues, and everyone found it surprising, expecting that CFOs would spend as much or more time on strategic partnership as HR leaders. Judging from those discussions, there seems to be three explanations.

First, the financial crisis of 2008 and 2009 may have created enormous increases in reporting and system-transparency requirements. The idea is that CFOs used to spend more time on strategic partnership but demands have pulled them back to financial services and systems. We don't have CFO data for prior years, but for HR this does not appear to be the case. The 25% number for strategic partnership has been virtually stable since the survey began in 1995. Indeed, Ed Lawler, Jay Jamrog, and I wrote in the 2011 issue of *HRMagazine* that more than 80% of HR leaders and general managers reported that the status, strategic role, and effectiveness of the HR function had either stayed the same or increased through the financial crisis. Is the explanation that finance is under much greater recent scrutiny than HR?

Second, HR and finance may achieve strategic influence differently. Finance systems and programs are often closely tied to organizational planning, mergers and acquisitions, and other strategic activities, while HR systems and programs are more often separate from the core strategic planning process. Perhaps HR must spend more time directly involved in strategic partnership to influence strategy effectively. I have observed that all business leaders are expected to understand finance frameworks such as net present value, which are deeply embedded in financial systems. In contrast, HR frameworks such as motivation and learning are far less widely understood by business leaders and not as clearly articulated in HR systems such as performance management and training. Is the explanation that financial frameworks are better understood and embedded in the strategic models of leaders versus HR frameworks?

Third, CFOs may "count" differently when they describe strategic partnership. HR leaders may count activities such as organization design, scorecards, or compliance as "strategic" because they are conducted in discussions with top leaders, yet such conversations may not specifically shape strategy. CFOs, in contrast, may count only those activities that are more directly involved in shaping strategic direction.

Whatever the explanation, the well-accepted assumption that the finance profession has a bigger "seat at the strategy table" may be due for some careful scrutiny, with lessons for both finance and HR leaders about how to optimally achieve their strategic goals.

John Boudreau is a professor and research director at the University of Southern California's Marshall School of Business and Center for Effective Organizations. The results of the center's latest "Achieving Excellence in the HR Function" study will be published in 2012 by Stanford University Press. You can read more about the project at http://ceo.usc.edu/project/the_evolution_and_design_of_th.html.