

## **Magic, Science and Art: Should Finance Take Over HR?**

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Are you prepared to absorb the HR function into your Finance function? The Harvard Business Review recently published a [high-profile recommendation](#) to CEOs and organization leaders, written by a leading organizational consultant, Ram Charan. Mr. Charan suggests that the best leaders of HR have operational and business experience, but too few HR leaders get that experience in their career. So, he suggests (1) eliminating the CHRO position entirely; (2) splitting off compensation and benefits, and having that report to the CFO; and (3) splitting off “leadership and organization” to report to the CEO, and having it led by “high potentials” from finance or operations with strong “people skills.”

This is [a harmful idea](#). The principles and processes of Finance are not sufficient to guide decisions about compensation, benefits and employee rewards. Yet, there is something about the tangibility, logic and strategic focus of Finance that many leaders would like to see incorporated into HR. Finance seems more “scientific.” HR seems more like “magic.”

A careful consideration between the value of Science, Magic and Art can help guide how finance and HR should work together.

**HR as Magic.** Gandalf in the “Lord of the Rings” has a pointed hat, a powerful staff that can emit thunderbolts, and an enigmatic ability to see the future. HR can seem like “magic” when its value emanates “soft” phenomena that are understood only by the lucky few. You see this magical approach when leaders say, “My HR leaders are strategic because they sense when something’s not right with our workforce, and I rely on their gut.” This can be powerful and tantalizing for HR, because it bestows respect and deference, just as for wizards like Gandalf. It explains why leaders “shop around” for an HR executive they like or trust as a confidante. With magic as the value proposition, leaders ask Finance to take over HR because they already like and trust their CFO. Yet, magic is ultimately unsustainable, because you can’t develop a reliable way to make decisions if you’re only as good as your particular wizard.

**HR as Science.** Science can predict chemical reactions, physical tolerances, and astronomical cycles. It can predict things before we can observe them such as the [Higgs-Boson particle](#). The fascination with “big data” applied to talent and HR emanates from this “science” value proposition. It has produced massive investments in HR data systems and HR analytics teams.

[Big data and analytics now routinely predict employee turnover](#), sometimes even before the employee knows they are at risk. [Decades of social science research](#) can guide those predictions. Employees create data through emails, fitness devices and web activity, making it possible to predict employee performance and health. [Intelligent algorithms may be better predictors than human recruiters](#). The science value proposition often motivates leaders to ask Finance to take over HR. Finance has long been based on fundamental economic principles about how money and markets create value. However, people are not financial assets that can be easily bought or sold. Just because we can use personal data to predict worker behavior doesn't mean that we should, when you consider ethics of privacy.

**HR as Art.** HR as an art combines magic and science. True artists are well-grounded in the principles or “science” behind the art. Visual art has principles of perspective and proportion. Musical art has principles of music theory, harmony and acoustics. Artistic mastery requires “[dedicated practice](#),” much of that devoted to the fundamentals (such as repeatedly playing scales on the piano). An accomplished artist masters the science, and then applies it in new and creative ways to create artistic “magic.” Art requires neither abandoning all scientific principles to “magic,” nor rigidly following only rules that have been proven. In HR, artistic balance combines evidence-based principles with the artistic license necessary to create strategic success through talent and organization capability.

Finance may be more art than many realize. CFOs tell me they rely on financial principles, rules and guidelines, but also judgment. The “story” of how an organization creates value through money can be told in many ways. Rules such as how to account for sales and depreciation may legitimately vary. CFOs are often strategic confidantes to the CEO, just like their HR colleagues.

In the “[The Capitalist’s Dilemma](#),” Clay Christensen and Derek van Bever suggest that leaders have been socialized to their role as capitalists, and thus may rely too heavily on traditional finance principles. That can produce strategic missteps, if financial capital is more commoditized, while talent resources are increasingly scarce and pivotal. We need better organizational systems for decisions about human resources.

That requires extending traditional finance systems to support decisions about HR and talent. The balance will not be achieved simply by tucking HR into the finance function. Nor will it be achieved by a stubborn refusal by HR to welcome financial insights. Finance and HR have much to gain by closer collaboration, with the right balance between magic, science, and art.

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