To Optimize Talent, Sweat the Small Stuff
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To CFO's HR Can Seem "Soft" at First, But Small Effects Add Up

The HR function is keen to present CFO's with "hard" data to show the payoff from HR investments and talent development. Too often, in their zeal to show an ROI, HR and finance leaders search for dramatic payoffs, and miss the power of aggregating lots of small but tangible improvements.

A writer whose "beat" is CFO's recently said CFO's find it difficult to understand HR because HR deals with "soft" things. CFO's are often more comfortable with the parts of HR that deal with "hard" things like the money paid to executives and employees, health insurance premiums and the payments to HR staff. CFO's tend to focus on these things, because they are very visible in the accounting system. HR also deals with "soft" things like engagement, wellness, and mindfulness. My writer friend said that such "soft" things often perplex CFO's who can't see their tangible value, and are tempted to cut them or not invest in them. That could lead to big mistakes, if the "soft" stuff matters.

How can CFO's be more systematic about the soft stuff? Big data gives a clue. The Economist magazine recently describes how "big data" makes it cost effective to mine massive data sets to build a mountain out of pebbles, by identifying "the right combination of tweaks capable of bringing about marginal changes that, when multiplied by a huge number of instances, or allowed to work over a long time, produce a significant effect." Google and Amazon build value by watching millions of transactions to find small tweaks in their web pages that each slightly improve the chance of clicking a link. Over millions of transactions, that adds tangible value. Similarly, UPS analyzes millions of data points from navigation devices in 60,000 vehicles to make small changes. Each mile a route is reduced saves $50 million in fuel costs per year.

This is not the result of the big-ticket investments, mergers or capital improvements that are often the focus of financial and strategic analysis. Rather, it is the result of consistent expenditures in data and analysis where value comes through small improvements that no one can predict in advance. This sounds pretty "soft," but the key is the power of aggregation, a consistent commitment to things that produce small improvements will add up to large returns.

What does this have to do with soft things like wellness and mindfulness and engagement?

In an earlier column, I noted that programs to increase employee mindfulness and wellness are often evaluated by how much they reduce "hard" financial outcomes like the costs to the employer of accidents, injuries and illness. Yet, compelling research on these programs suggests their largest effect may be below the surface, in the millions of ways that healthier and more mindful employees do their daily work better. CFO's are often pleased with the ROI on health and wellness programs, based on "hard" cost reductions in accidents, injuries and illness. Yet, these same CFO's admit that if the unseen effects are several times larger, their mistake may be in not investing enough to capture on a significant source of financial impact.

The same thing holds for employee engagement. Research shows that good things happen when employees report they are more satisfied, and more engaged. One such analysis of thousands of work places shows consistently positive correlations between what employees say on surveys about their engagement at work and outcomes such as customer satisfaction, productivity, profit, employee turnover, and accidents. The employee survey that was the subject of this research contains items as diverse as "Do you know what is expected of you at work?" to "Does your supervisor care about you as a person?" and "Do you have a best friend at work?" Answers to such questions may seem "soft" compared to the numbers generated by web clicks and truck navigation devices. Yet, the same principle applies. The small stuff adds up.

Think about the employees that work for you in your finance department. Would you rather have them be healthier, more mindful and focused and more engaged? Would you be willing to invest real money to get that? How much would you be willing to invest? How would you know if it paid off? I suspect that your answer will show that you believe healthier, more mindful and engaged employees produce value beyond what your formal financial system can measure, and the reason is that it's the small stuff that adds up.

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