

## **Data Proves Link Between HR Performance and the Financial Performance of a Company, a New Study Reveals**

*Research by The Boston Consulting Group and the World Federation of People Management Associations Shows How Stronger HR Departments Can Improve Business Performance*

**BOSTON, December 1, 2014** —High-performing human resources (HR) departments help to drive the financial performance of companies, according to a new report being released today by The Boston Consulting Group (BCG) and the World Federation of People Management Associations (WFPMA). The results of an in-depth study are detailed in the report, titled *How to Set Up Great HR Functions: Connect, Prioritize, Impact*. The report is the eighth in the annual Creating People Advantage series, which explores emerging trends in HR.

The report's authors looked at the ten-year stock performances of the public companies in *Fortune* magazine's "Best Companies to Work For" rankings in 2014, and compared them with the S&P 500 Index. The 100 best companies—those with the strongest HR performance—outperformed the index by nearly 100 percentage points. However, the report notes that this is the case only if HR leaders are equipped to partner with business leaders.

"HR functions need to connect by partnering with stakeholders both inside and, increasingly, outside of the company to improve operational and financial performance," said Jean-Michel Caye, a senior partner at BCG and a coauthor of the report.

This year's research drew survey responses from more than 3,500 executives across a broad range of industries in more than 100 countries. The authors also conducted in-depth interviews with 64 HR and non-HR leaders.

### **HR Leaders Need to Connect with Internal Stakeholders**

The report underscores the importance of a clear link between HR and business leaders, which the survey data indicates may be significantly missing at some organizations.

"Non-HR respondents rated their company's people-management capabilities as significantly lower than HR respondents ranked their own performance," said Jorge Jauregui, recently appointed the new president of the WFPMA. Of the 27 HR areas that the paper explores, non-HR respondents ranked 40 percent in the "red zone," indicating a significant need for action. These areas include critical topics such as leadership, talent management, and strategic workforce planning. By contrast, HR respondents did not rank any HR areas in the red zone.

In addition, the report segmented the best-performing and worst-performing companies based on their average revenue changes and operating margins, and identified common themes in each group. The most notable finding was that HR departments at financially top-performing companies are able to identify clear priorities to improve their HR performance and therefore target their investments and future efforts much more effectively. "Companies with lower financial performance adopt a more arbitrary approach to investments in HR topics," said Rainer Strack, a senior partner at BCG and a coauthor of the report. "They don't identify clear priorities, and they don't focus their investments."

### **KPIs and Analytics Are Crucial**

Perhaps not surprisingly, given the growing availability of analytics and other data-driven approaches to management, the findings also indicate a strong correlation between the use of HR key performance indicators (KPIs) and analytics and a more strategic role for HR overall. The message for HR leaders is clear: those who want a seat at the table during strategic deliberations with C-level executives must be able to assess—and communicate—the performance of the workforce. This entails going beyond rudimentary metrics that look at things such as personnel cost and headcount, and toward more sophisticated output indicators, which can gauge employee productivity and other critical data.

“Companies need to create an impact by using KPIs and steering tools to support the organization and its strategic goals and by concentrating on developing talent pipelines and shaping organizational behaviors,” said Pieter Haen, the past president of the WFPMA.

Source: Boston Consulting Group