

Mastering Financial Acumen: Why HR Professionals Need to Embrace Business Literacy with Paul Butler

00:02.346-00:17.355 Announcer: You're listening to the HR Mixtape Your podcast with the perfect mix of practical advice, thought-provoking interviews, and stories that just hit different so that work doesn't have to feel, well, like work. Now, your host, Shari Simpson.

00:17.735-00:37.906 Shari Simpson: Joining me today is Paul Butler, client partner at Newleaf Training and Development. Paul founded Newleaf in 2006 after serving in senior finance roles with Marriott and Hilton, including director of finance for Hilton Honors. Newleaf has supported 300 plus clients across 30 states and eight countries, focusing on self-management, leadership, and business acumen.

00:42.108-00:46.241 Shari Simpson: Paul, I'm so glad that we are able to have you on the podcast today. Thanks for joining me.

00:46.702-00:48.026 Paul Butler: Delighted to be here, Shari.

00:48.820-01:22.483 Shari Simpson: So we had an opportunity to meet through a mutual HR person, and your role and background and passion is something that I think our HR peers need. And so I wanted to bring you on to talk about business financial acumen for the HR professional, which doesn't sound like a very sexy topic, but I think it is one of the more important topics that HR professionals really need to figure out how to dig into. We'll start with the very, very basics as we start with questions here. Why does having this type of financial literacy really matter for HR professionals now?

01:23.741-02:07.462 Paul Butler: I think two things I've noticed over the years as both an employee at a fairly senior level and doing what we've done for the last, what, 19 years now, is that it's a good reminder for human resource professionals that ultimately we're using human resources to produce business results. And I'm a great believer that all organizations are for-profit organizations. Obviously a non-profit doesn't pay tax because of its social purpose. And even educational institutions and government or quasi-government entities need to make sure their income is big in their expenses. And I think human resources can partner superbly well with their financial friends to help the organization continue to be successful.

02:07.723-02:20.553 Shari Simpson: As you think about the conversations you've had with HR professionals, what are some of the basic financial metrics or financial terms that you've helped HR leaders to understand or wrap their head around a little bit more?

02:21.670-04:06.782 Paul Butler: Yeah, so essentially there are three types of organizations. Manufacturers tend to use return on assets because they're obviously very asset rich. Retailers tend to also use return on assets because they're usually very inventory heavy. And then service-based organizations, because they sell time, they tend to focus on return on equity. So depending on where the HR professional works, you have to understand what's most important. So that's a key productivity measure. The numerator is return, which is net income, that's the proverbial bottom line of the income statement. And the denominator, of course, is just the total of the assets that are on

the balance sheet. So understanding that right off the bat is vitally important. If someone's working for a corporate entity, whether they're private or public, earnings per share, and earnings, the numerator, is exactly the same as net income. We just changed the word to confuse people. And the denominator is shares outstanding. Of course, the other two big ones that come to mind would be operating income, also known as operating profit, operating margin, all means the same as long as the O words at the front, and then net income, net profit, net margin, all means the same as long as the N words at the front. Obviously, if you're working for a retailer or a manufacturer, they'll have one level higher than that, which would be gross profit, gross margin, gross income, because you've got cost of goods sold, because you've got I think my final quick comment to that would be that if you think about it, as a HR professional, you're all about the numerator. You're all about the numerator because you can't really impact necessarily the denominator. I think HR professionals, again, with their financial friends, can do so much to really maximize that bottom line, which is the numerator of those calculations.

04:07.196-04:27.806 Shari Simpson: for our HR friends who were like, yeah, I feel like you were just speaking a different language to me. I have no clue what you're saying. Where do they begin? How do they start to dive in and learn some of these terms and have a better understanding of things like profit and loss and your financial statements that really is gonna help them make better decisions?

04:28.294-05:35.219 Paul Butler: The two things, I mean, if I could, just a shameless plug for a book that I wrote a couple of years ago called Business Financial Intelligence, and the subtitle is a mindset and a skill set that few people have and all organizations need. I did that intentionally. It's a very short, easy read. It's just 98 pages, and you can listen to it on audio within about two hours. The second thing I'd encourage, as I mentioned a couple of times, is for a HR professional to make a friend within finance. I think often what tends to happen, especially if someone gets more senior in their career, they kind of get embarrassed to be able to ask things, and so they'll nod their heads in meetings, and deep down they're thinking, gosh, I have no clue what they said there. We have to fight against human... So I've definitely found that to be a case. The third thing I think is also a mindset because the amount of times I've heard HR professionals say, hey, I'm no good with numbers. Well, gosh, if you did junior high math, you're good with numbers because that's really all you need to know in finance. And it's just once we understand the language, like any function has jargon, once you understand the language and we can do junior high math, we're in business.

05:35.559-07:04.823 Shari Simpson: I think about going down that road to have a better understanding and coming to the table and having those conversations with your financial counterparts. I love that you mentioned find a friend in finance. I don't know that that's like a natural thing that you would do as you walk into an organization. You know, you typically look at your, your C-suite and you know, your influential quote unquote leaders in the organization. But I don't

know that you have on the top of your list. Let me go find that finance person to become BFFs. So that's great, I love that, I think that's such an important tip because hopefully you can create a safe space to have some of those conversations and say, I did listen to the earnings call, I didn't understand this part of it, can you walk me through that? I have done that many times in my career, said hey, I got about 98% of what you just shared, but that 2% I'm still struggling with, can you walk me through that? And I think there's definitely a culture shift when it comes to Asking questions like that, I think when I was earlier in my career, I was encouraged by my mentors to not show up that way. It's exactly the opposite now. The more questions you ask, the more curious you are. You really show that you want to understand the business to be able to make those recommendations. You know, as you increase your acumen, you're going to use some of these tools to help make decisions around compensation and bonus structures and some of those kinds of things. What are some of the mistakes that you're seeing HR teams make in that space as they start to think more about these financial metrics?

07:05.219-08:09.505 Paul Butler: Yeah, yeah, good stuff, good stuff. First of all, the first thing that comes to mind is the phrase, you know, what you reward tends to get repeated. And I've often noticed within bonus packages, what human resource professionals will do, often influenced by other senior leaders, is they'll focus on say what I call like one wheel of the car. And what I mean by that is if you focus just on profit, people will do everything they can to hit the profit number. Or if you focus just on, say, the people side, people will focus just on the people side. So I'm sure all of our listeners have heard of the balanced scorecard. Hilton Hotels Corporation, I used to work for, one of the first publicly traded global companies to use the balanced scorecard of people, quality, customer. and profit. And I think that's a great picture of thinking about four wheels on the car. So again, in essence, I've found that some HR professionals, they'll focus on certain rewards, which is only kind of one part of the vehicle, as it were.

08:10.270-08:47.125 Shari Simpson: And that's common if you think of the managers that you've coached throughout the year who are dealing with an employee who's like, well, I've met every, you know, line item on my performance review. But maybe they are like have terrible personality or they're like difficult to work with. Right. You're like, OK, well, it's not the only thing you're being measured on. So that's how that we're familiar with, as they start to use that concept of making sure that they're touching all four wheel as they go through their programs, how can they start to use that language to define ROI on some of the things that they sit in or in charge of, like training and development programs, for example?

08:47.925-10:21.947 Paul Butler: Yeah. So I think when it comes to things like training and development programs, it's been the perennial problem, hasn't it, of people talking about How do I measure return on investment for training programs? One of the things that we've done over the years with our clients is encouraging them to think about a

different type of ROE, and that would be return on expectation, so return on expectation. So for HR business partners to say to the people that are wanting to sponsor the training, well, what are the desired results you want to get from this training, both in terms of quantitative measures and qualitative measures? Trying to establish a kind of a line in the sand, like where are we at now on, say, customer service? Where are we at now on attrition? Where are we at now on the pulse survey when it comes to, say, employee engagement. And the other thing I tend to find is, is that most HR professionals, if they do have these types of conversations, they just focus on the numerator, which is good. In other words, the profit piece, forgetting the denominator, because what's the denominator of return on investment? It's investment. In other words, could we outsource something rather than insource something? If we're using a vendor for X, could we use them for X and Y and get a cost Could it be negotiate things like payment terms, 50% deposits up front? There's a whole bunch of things that HR professionals can do to reduce the denominator in addition to obviously trying to drive the numerator. Does that kind of make sense?

10:22.503-11:20.101 Shari Simpson: Yeah, and it shows that you're thinking differently about engaging things like vendors. It's like when you're thinking about budgeting, forecasting, workforce planning, those kinds of things, and you're defining out what your workforce needs to look like, You know, one of the things that I got taught early on in my career, and this was before I had had any schooling, was to think about when you're bringing your employees on board and the impact that that has onto the budget and finances. So if you're budgeting for a full-time FTE for the whole year, that's different than I have a full-time FTE, but I'm bringing them on mid-year, right? So that has that compounding effect on things like your ancillary benefits, your medical, dental, vision, all those other financial items that you have to talk about. As you've helped HR understand that, what are some other things that they need to be considering when they think about budgeting and forecasting specifically?

11:20.121-12:38.949 Paul Butler: I think to be quite blunt, I've actually found that most budgeting strategies within most organizations are, for want of a more academic word, lazy. and inefficient, because most budgeting strategies essentially boil down to last year plus a bit and whatever we can get away with it. I'm a great believer in zero-based budgeting. When I was an employee, either with PWC, Hilton, or Marriott, and then the work we now do with clients is encouraging to do zero-based budgeting. That's, of course, where you start with a blank piece of paper, and you're essentially asking the question, Do we need to do things the way that we've always done them? Because of course, human nature is we just keep doing the same thing over and over again. One of the phrases that we use in the work we do is intrapreneurial spirit, not entrepreneurial, intrapreneurial, where you try to encourage employees to think and act like owners. So it's very powerful to encourage people to think about, well, hang on, if it was your business, What would you stop, start, and continue? I won't name the client, but I was with an organization

yesterday with about 38 of their kind of mid-level managers, and it was incredibly powerful what they came up with. And I'll be printing a little report today for the senior leaders on what they actually think we should stop, start, and continue. The wisdom is in the room really.

12:40.473-14:03.128 Shari Simpson: So many times it is when you have that kind of a conversation, we've used that concept that start, stop, can continue in some of our product retrospectives to really push us to think through, do we have to do it this way? Does that make sense? Do we continue with this path? Do we make changes? What kind of feedback are we hearing from our clients? Those kinds of things. I will tell you, I have been on both sides of those budgeting experiences. Zero-based budgeting is definitely more work, but it's more work, I think, in a good way. I actually would agree with you. I think being able to come to the table and say, listen, I've done my due diligence. This is the information that I'm bringing. This is the supporting documentation as to why we still need to do this and the impact that it's having. That is a really robust conversation that you can have when you're going through that process instead of the, yeah, here's the line item, give me 3% because that's what, you know, cost of living is this month. It is definitely a better way to approach things. As you've worked with leaders on this, how do you start to measure some of the financial impact that things like turnover or employee engagement have? I mean I know we have there are basic numbers that we know, right? The ability to, the cost to ramp somebody up, those kinds of things. Is there other metrics that you've been talking about with HR professionals when it comes to those two buckets, turnover, employee engagement, that they really need to pay attention to?

14:03.148-15:26.883 Paul Butler: If I could kind of counter that a little bit, I've actually found that some organizations, they focus on attrition, you know, the balance between people joining an organization and people leaving an organization, they think that people joining the organization is a bad thing compared to, say, losing people at the organization. I think you and I would agree, Shari, there are some people in organizations where the best thing they could do is actually move on. It's the proverbial hashtag deadwood. I know hashtags are a bit 2014, but I still think I'm hashtag cool. I do think there are many organizations where because of, again, like we said, what you focus on tends to get rewarded. If you focus on employee retention and you're rewarding people very, very well, then they're going to stick and they'll just do what's on the job description. I think new blood can sometimes be a good thing. I also think as well, in my opinion, that many people overcomplicate things. And I'm a great believer in the net promoter score, the zero through 10 piece when it comes to things like employee engagement. Very powerful to just ask that simple question on the zero to 10 basis, how engaged are you with the organization? It's a heartbeat of the Gallup piece as well, around nines and tens and sevens and eights and zero through sixes for the detractors. It's a tough measure. are a very clarifying measure. So I always recommend the simplicity over the

complexity.

15:27.203-16:20.457 Shari Simpson: Oh, that's such a good point. And if you're looking for a hashtag quote to use, that's a great one. You know, and if you're not tracking your turnover in this bucket, I'm glad that you brought it up. You know, the way we track it is we track regrettable turnover and non-regrettable turnover, because you're absolutely right. There are people in the organization that we go, you know what, that's okay that they left. We actually don't regret that they decided to move on. And that could be for frustrating reasons or it could be for positive reasons. Hey, you know what, this person was hitting retirement, right? We don't regret that that person's moved on and we actually aren't going to backfill them because the role had changed, those kinds of things. So if you're not tracking regrettable and non-regrettable, definitely something to add to your tracking metrics. Absolutely. Have you seen a shift at all in CFOs and how they're perceiving HR when HR comes to the table and starts to speak some of that same financial language?

16:21.618-17:50.425 Paul Butler: Gosh, absolutely. Obviously I've got a good few years under my belt now as both an employee and then doing what we've done. If I take my mind back to, you know, about 20 years being an employee, I've noticed there are two types of HR professionals essentially that executives directly or indirectly talk about. It's either those with good business acumen. or those that need it. And what I've found is because change is the only constant, of course, within organizations, whether we call it right-sizing, downsizing, re-engineering, business process re-engineering, change management, et cetera, I've noticed that when an organization goes through change, there are two types of HR professional. There's either those that really major on the people piece. It's almost like they become very unionistic. Trying to defend everything about the people. It's important. The other side of the coin, of course, is thinking about what's best for the business to navigate through this change. And I think the answer, of course, is it needs to be a balance. When I think about the best HR professionals I've partnered with as a senior financial person, it's where they understand the change is necessary. We just need to do the right thing by the people through this change. I always think as well, the fruit that falls from the tree on that is organizations always have these very admirable values up on the wall. You can really tell when they believe those when you're going through a big change. And I think HR and finance can hold hands and partner really well to hold the glue together, the values.

17:50.984-19:16.975 Shari Simpson: Well, and the values piece is a good thing to bring up when it comes to finance, because if you believe in your values and they actually are driving your organization, you are making financial decisions against those values. And I think it highlights a lot of times whether you actually do believe the values or don't believe the values based on what decisions you're gonna make. And I love that you mentioned the synergy between HR and the business when it comes to handling things, right? You nailed it on the head. There are HR professionals who super focus on

the employee piece and making this a fun place to work. And I don't mean fun like in activities, but a great place to work. compared to understanding the profit piece and in what the business is actually doing. And you're right, that magic HR person that is so valuable is the person that can come to the table and say, okay, I have a clear understanding of what we're trying to accomplish with our business. here are the things that we need to do from a people perspective to accomplish this, and here are the changes we're gonna make. And if the business says, hey, you know, we don't wanna do that, at least you can come to the table and have the same conversation and say, okay, I hear you, I hear you, I'm gonna support that decision, obviously, when we leave this room, here's the people impact it's gonna have. It might impact culture, it might impact attrition, it might impact, you know, whatever it's gonna impact, but being able to have that conversation is so powerful.

19:17.555-19:57.792 Paul Butler: I mean, they're literally worth their weight in gold. Again, I won't name the organization, but when I was an employee over in Europe, we went through a major organizational shift. We went from four regions down to two. And when I think about the HR people that were in the four regions, we held on to two of them. And the two that we held on to were the most business savvy. They realized that the change may impact them, but they were literally worth their weight in gold. They made sure that we did the right thing by the people. that we honored the values of the organizations, but they helped us navigate through the change rather than resisting us, not resisting me, but resisting the change that was necessary and coming at it almost from a unionistic perspective, which just wasn't helpful.

19:58.629-20:15.886 Shari Simpson: Yeah, I love that. Paula, as we wrap up our conversation, how does somebody get in touch with you, your organization? I'm gonna put your link to your book and your organization in the show notes for anybody who wants to jump on and grab that, but maybe you could share just a few minutes before we close up here, how they get in touch with you.

20:16.485-20:42.797 Paul Butler: Yes, certainly. So best way to get hold of me would be either on LinkedIn, and I do go by Paul Austin Butler, because there's quite a few Paul Butlers on LinkedIn, so Paul Austin Butler, and that's my middle name, obviously. Or you can get me on our website, newleafthd, like traininganddevelopment.com, so newleafthd.com. And if you do want to reach out to me on email, it's just paul.butler@newleafthd.com. Thanks, Shari.

20:43.424-20:48.666 Shari Simpson: Thank you so much, Paul, for jumping on the podcast and sharing this really important topic with our audience.