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Measuring HR's Impact on Profitability

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While highly valued as a specialized center of excellence, HR leaders are setting their sights on **quantifying their budgets**, specifically when it comes to benefits.

However, achieving this transformation requires overcoming numerous obstacles, including shifting mindsets, aligning HR strategies with business objectives, and implementing metrics to measure the impact of HR initiatives on financial performance. The latter is arguably the most challenging.

Despite these hurdles, organizations that successfully measure HR's impact on organizational performance stand to gain a significant competitive advantage, including enhanced employee engagement, improved talent acquisition and retention, and ultimately, increased profitability.

But before tackling how that can be achieved, it is critical to understand the current costs of HR and the connection to evolving employee needs.

HR Costs Surge Amid Mental Health Needs

On average, HR costs an organization as much as $3,800 per employee each year, according to Gartner. Meanwhile, it's very difficult to correlate any impact on profitability. In fact, much of the focus has been on how to reduce expenses to increase the bottom line.

But what mental health benefits should you offer to employees? Employee Assistance Programs (EAPs) that provide confidential support, counseling and resources for employees dealing with personal or professional challenges? Flexible work arrangements to support work-life balance? Mindfulness sessions, yoga classes, or meditation workshops?

While these are all beneficial, many organizations may be missing one critical area of mental health that greatly impacts productivity: financial wellness.

Mental Health Care Needs In The Workplace Increased 33% Last Year With No Signs Of Easing Up In 2024.

Financial Wellness Often Overlooked

Financial stability is a growing concern for many individuals. The overwhelming majority of adults are concerned about their finances as total household debt reaches record highs. Adding to this challenge, 43 million Americans had to start repaying their student loans, and according to the Department of Education, a staggering 40% missed their first payment.

Delinquencies are also ticking upwards, especially on credit cards and auto loans, and the average U.S. savings rate is down considerably. Looking ahead, nearly two-thirds of Americans don't expect their personal finances to improve in 2024, according to Bankrate.

Consequently, employees are coming to work more stressed than ever before. In fact PwC's Annual Employee Financial Wellness Survey found that finance is the primary stress factor among employees, superseding stress related to work, health and family issues. It also impacts all income levels, with more than half of those with six-figure incomes citing financial stress.

Stress also impacts organizations. The U.S. Bureau of Labor reports that worker productivity has seen the sharpest decline in 75 years, and one in five employees say that productivity at work has been impacted by financial challenges. Approximately half of those individuals admit to spending at least three hours each week thinking or dealing with it. To put it in perspective, that comes out to nearly 20 days each year.

Employees Want Financial Wellness Tools

The good news is that employees want financial wellness tools and employers are in a position to offer them. Unfortunately, even though 77% of workers view financial wellness programs as an important benefit, only 28% of employers currently offer them, according to a 2023 Transamerica Institute report.

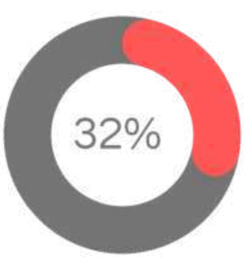
However, how do you know if financial wellness programs – or any other program – actually works? Like all things, you must measure it.

Measuring Financial Wellness Programs

For financial wellness programs to work, both for employees and employers, there must be a way to measure them. Credit Karma offers a simple model for this.

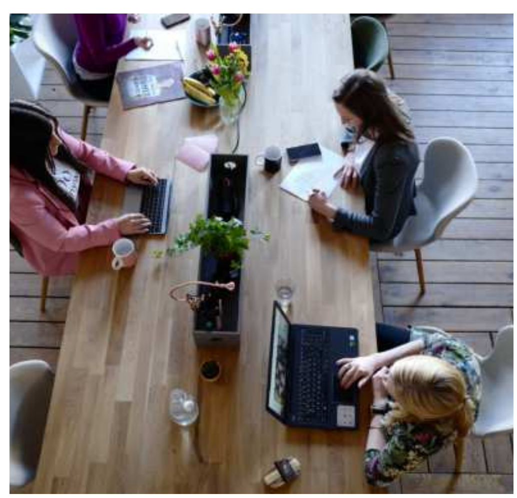
Positioned as a personal financial management platform, Credit Karma has more than 100 million members and 37 million monthly active users. Part of its appeal is the weekly credit score updates and guidance on how to improve those scores. Users benefit from greater access to financing options while Credit Karma's partners benefit from more borrowers and credit card holders. They can also measure the effectiveness. For instance, if the average credit score increases over a certain time, Credit Karma can correlate that to an increase in partner product offers and their own profitability. The problem is that Credit Karma focuses on an individual's existing debt and their capacity to acquire new debt – the better the credit score, the more credit and loan offers. However, more debt leads to more stress. Referred to as debt stress syndrome, greater levels of debt are linked to mental health issues, including impaired cognitive functioning.

Instead, consumers want and need greater insight into their total financial health, including their savings and ability to cover emergency expenses. A way to do this is by incorporating financial health assessment tools into financial wellness programs. By providing employees with a financial health score, like credit scores, they can assess their financial standing, allowing them to set personal financial goals and improve habits. Ultimately, if they are in a better cash position and have greater confidence, stress levels go down.



32% of workers run out of money between paychecks

2 out of 3 Americans can't cover a $400 emergency



Connecting Financial Health Scores with Organizational Performance

Not only do financial health assessment tools better support employees on a personal level, but it also presents an opportunity for employers. Similar to Credit Karms's model, HR leaders can leverage those scores, albeit anonymously, and correlate them to performance.

As an example, if an employer can see that its workforce has an average financial health score of 48 out of 100 while also seeing that its workforce has a high absentee rate, this could be used as a benchmark for incremental improvement. That employer could then make certain investments into programs that help its staff better manage their finances.

To evaluate whether those investments and programs are working, including the health assessment tool itself and the guidance provided, employers can encourage ongoing assessments. If the employer can see that average scores increased by 15% over a certain time while also identifying an improvement in attendance and overall profitability, HR leaders can directly correlate their efforts and investments to the organization's bottom line, thus, turning the HR department into a profit center.

HR departments have an opportunity to position themselves away from being viewed as a cost center. By understanding what employees truly need and then providing tools that help them in a meaningful way, employers can significantly reduce stress levels known to impact employee job satisfaction, absenteeism, productivity, mental and physical health. If they can connect those improvements to organizational performance metrics, organizations can operate more strategically and emerge as a leading employer in 2024.

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