

Ken Moore Associates Presents

Commentary

Human Resources as a Profitability Factor

What would you do if you had an employee who could improve the company's profit margins, positively impact the cost of goods sold, lower the days sales outstanding, and increase the price/earning ratio while liquidating some overhead costs to the business - and still deliver flawless transactional and traditional HR services.

Most CEO's would react two ways:

- 1. Why is this individual wasting his/her time in HR?**
- 2. Why didn't I demand this level of HR performance five years ago**

The concept of Human Resources as a profitability contributor is fast gaining currency in US businesses and bears closer examination. Professor David Ulrich of the University of Michigan, a leading expert on HR competency models, sees the changing business world as 20-20-60 proposition. 20% of executives surveyed currently use HR as active and innovative business solution partners. 20% believe that HR should remain as administrative overhead and only perform transactional work. It's the 60% who are starting to expect HR to partner with others departments to improve the company's core competencies and competitive advantages. And more HR people are stepping up to the plate and delivering the goods.

What's driving this thinking? The short answer is competitive pressure in a fast changing business world – pressures for sales, talent, and profits. Most CEO's (and their CFO's) are held accountable for three general but powerful results: Increasing revenue, generating cash, and reducing costs. In order to focus on these three accountabilities, paradigms that no longer work are being discarded as companies seek to stay in and grow their business. HR as a strictly administrative overhead and resource consumer is one of the paradigms under justifiable attack.

Transactional HR activities such as payroll, benefits administration and records keeping can now be easily outsourced or digitized (or should be) with significant cost savings. We have worked with companies who have digitized their current and past employee data bases. In one company, they eliminated over 35 five-drawer file cabinets (and two rooms) and condensed them into CD's that fit into a shoebox. With advances in technology, even the shoebox is in jeopardy as a storage device.

To many CEO's and CFO's, HR as a revenue enhancer takes some getting used to. That's not the way they were taught. They are more interested in the payoff and are asking appropriate questions: What's in it for the company? Where is the

improvement in the revenue stream? How does this get us new customers and retain our current customers. Where is the proof of corporate performance enhancement metrics? Once they get solid answers to these questions from competent HR leaders, the CEO's are quick to change their thinking.

To answer the payoff questions, we must understand that a continual company-wide value chain analysis is critical to the success of any organization. Over the past decade, CEO's began demanding that their teams deliver flawless functional work and become a knowledgeable partner with all other disciplines to advance the business plan of the company. Individual professional silos are breaking down. Disciplines such as finance, sales, marketing, operations, and HR no longer exist as stand alone entities. They are inter-dependent with one another. Weakness of any one of the links inhibits other links from maximizing their efficiencies and productivities.

There are emerging concepts in the practice of HR that bear examination:

1. What value does the HR team bring to the organization. Many HR teams lack a vision that includes their value to the organization. Do their activities directly help the company achieve its broad business objectives? Are their arguments for or against a business strategy credible to the other department heads at the decision making table? How are HR strategies selected and implemented that benefit the employees, the shareholders, the customers, and all other stakeholders in the organization?
2. What value does HR generate for the customer – the end user of our company's product or service? Sales and quality are no longer restricted to the sales and quality assurance teams. Edwards Deming taught us that quality and value must be built into every step of the process. HR doesn't just hire a salesperson based upon a manager's request. The end result of HR's recruiting and hiring efforts are that the customer who interacts with the new sales person receives continuing world class service from our company. HR shares the quality of the new hire with other silos to insure that our company is, or becomes, the vendor of choice for that customer.
3. What core business competencies must HR possess in order to be a credible strategic partner with the rest of the executive team? Each company and each industry can generate its own list of core business skills their teams must have that go beyond their individual specialties. This issue has become so critical that in graduate and undergraduate level business programs, new editions of Organizational Development textbooks are including chapters on financial calculations and ratios, corporate social responsibility, globalization, and major workforce diversity challenges, among others. The biggest barrier to profitability is ignorance – ignorance by many people about how the company makes money and how it achieves its objectives, and how all of the silos are interdependent on each other. The myth that only finance people need to know

about finance or that marketing people are the only people who need to know about marketing is fast disappearing. In today's business environment, profitable organizations require highly skilled employees who can solve complex problems using multi-disciplinary teams.

Can HR be linked to profitability metrics? Yes. Here are three examples.

A well known global company formed a group of HR professionals who developed processes and training programs in sales, customer service, workouts, project management, process improvement and leadership development that focused on critical performance issues for their internal and external customers. By partnering with operations, sales, and customer service they served as a catalyst to forge alliances, partnerships and agreements. Many of their efforts resulted in improved relationships that translated into "Preferred Provider Status", which increased sales and lowered costs. All of their costs were liquidated by charging a fee for the service while creating net revenue. After two years, this HR group generated sales of \$4 million and a profit margin in excess of 30% which was returned to the division budget at the end of each fiscal year.

Secondly, an HR team, partnering with the Audit staff, discovered that the accounts receivable turnover had moved from a preferred 30 days to 45 days during the past two years. It was determined that the chief credit officer should be let go. The HR staff then began examining candidates for their ability to reduce the ratio from 45 days back to 30 days. The HR staff recommended one candidate for hire. Within six months, the company's DSO ratio was reduced to 35 days.

In a third case, while designing and negotiating a new health care and 401(k) plan, the HR leadership partnered with the sales and marketing team to determine if the cost of the program would erode the company's market share and competitive pricing strategy. The resulting benefit program design achieved its cost/benefit objectives without jeopardizing the company's market share and pricing metrics.

How do HR leaders and CEO's make the transition?

Here are some suggestions based upon our belief that the more employees become knowledgeably involved in the business the better they will be able to become a more productive asset.

- 1. Develop a leadership development program that includes hands on training in all of the functional disciplines. For example, in the production department, what are the barriers that prevent managers from achieving efficiencies and savings;**
- 2. Insist that they receive financial training so they understand the impact of cash flow, receivables, billing cycles etc. If you're a public company, teach them how to read and understand your company's annual report or 10-k. Reading the**

proxy statement is always informative – even if the information contained in it is reluctantly revealed, and occasionally masked with arcane accounting jargon;

- 3. Have them participate in sales strategies, customer visits, technology reviews. Encourage them to learn quality methods, process improvements techniques, terms & conditions, and contract negotiations with suppliers and customers. Engage them as process consultants (have them trained if necessary) so they can assist with growth initiatives;**
- 4. Most importantly, hold all employees accountable for achieving the “critical numbers” established for your company. A superb HR department becomes irrelevant if the company is sliding into bankruptcy. HR’s powerful value focuses on its contributions towards reversing the slide.**

Include your employees as full business partners. They will rise to the occasion and surprise you by building your bottom line and becoming a profit center contributor as well as maintaining their traditional responsibilities --- and they will be better at both.

The intense and brutally competitive business environment of our global and digital world needs the help of everyone in the company. Which group of 20-20-60 does your company belong to?

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