

Ken Moore Associates

Presents

HUMAN RESOURCES—AT A CROSSROADS?

In your company, is the HR department viewed as an administrative overhead expense or as a profitability and productivity contributor?

Answering this question is critical to establishing value-added HR services that directly affect the performance of the company. As companies are forced to change their way of doing business in order to meet intense competitive and financial pressures, each department within a company must also rethink its contributions toward corporate success. Indeed, as Peter Drucker observed, leadership that views employees as a cost factor and not as a profitability resource is fatally flawed. HR professionals are learning how to directly link their activities to the achievement of the performance metrics established for the company.

Why is this happening? Arguably, within the past 10 years, someone or some thing stepped on the economic gas pedal and the pace of global business accelerated to warp speed. Companies caught unprepared discovered that they had to run three times as fast just to keep pace with their competition. Rapid and consequential advances in technology, a global business mindset and brutal competition are constantly redefining political and business boundaries. Every company is being affected by the driving forces of change.

Faced with these mounting pressures, companies are compelled to rethink their business models if they wish to sustain—let alone grow—their business. Concepts such as outsourcing, mergers, divestitures, consolidations and other actions are routinely considered by executive leadership. Executive leadership now demands a constant review of operations and all facets involved in the successful running of the company.

How does this relate to the HR discipline? As companies are compelled to adapt in order to survive and prosper, so must each major department within the organization. Functions such as HR, production, marketing and sourcing must undergo a constant cost/benefit analysis of their contributions in order to justify their existence as an internal organizational resource. Human resources is one of those functions that has struggled to keep up with the demands for change.

Internal HR departments fulfill vital administrative functions such as regulatory compliance reporting, managing the employment process, administering compensation and benefits programs, and writing policy and procedural handbooks. As necessary as these functions are, they are typically considered administrative overhead by corporate leaders. Thus, they are prime activities that can possibly be outsourced, digitized or even eliminated at considerable short-term cost savings.

Outsourcing HR administration is made easier because far too many HR executives are unable to align their department's performance factors to those factors critical to the organization's success. How, for example, does one negotiate a health care contract or design a compensation program without considering the impact that it will also have on the company's ability to competitively price its products or services in order to maintain or increase market share?

In the accounts receivable department, HR must understand why the average collection period (ACP) is increasing from 30 days to 45 days. Are the right people running accounts payable? If it is

determined that personnel changes are necessary, does the HR recruiting staff know what is at stake when it screens or recommends someone to lead the accounts receivable department? Understanding the financial cost of this trend to the company will cause the recruiting team to focus on candidates who can reverse the trend and return the ACP back to 30 days. HR will have then contributed to the profitability factors of the company.

How does HR effect this change in thinking? Simply, it must recast the underlying assumptions of the human resource function into the two fundamental approaches:

- HR leaders can no longer manage their departments as administrative overhead.
- HR must operate as a profitability and productivity contributor to the organization's performance drivers.

Clearly, if the company views the HR function as administrative overhead and the HR leaders run it as such, then research and discussions are going to be held by executive leadership to determine if the work can be better performed by an outside source and at a lower overall cost.

The competitive marketplace is forcing HR and other executive teams to reorient their thinking to focus their efforts on profitability and productivity contributions to the organizational goals. Listed below are some suggestions to help HR leaders focus on linking their activities to the performance metrics established for the company.

1. Learn to read and interpret basic financial performance data.

The local chapter of the HR society in Albany, NY, holds a CEO panel every March. A constant theme during the past three years has been this: "Send us people who can read and understand our financial condition. Learn to communicate in our language." Whatever your job is in the organization, you must be fluent in this language. Otherwise, your arguments will be less persuasive at the decision-making table. You don't have to be a CPA to understand basic finance and accounting. HR professionals who can speak this language are able to generate strong and articulate strategy sessions that are aimed at helping to move particular quantitative or qualitative metrics in the desired direction. There are a number of books in the bookstore that explain financial statements to people who are intimidated by or fearful of numbers. Look up selected ratios on the Internet. You will find a gold mine of information regarding any ratio important to your industry and company. It will explain what it is, how it is calculated and why it is important. Ask your local HR or other trade association chapter to engage a consultant who can explain financial statements to non-financial (i.e., HR) people.

2. Learn how the company positions itself for sustainment.

Learn how the company must position itself to stay in business and ultimately grow the business. Robert Kaplan and David Norton, authors of a current popular management book titled *The Balanced Scorecard*, argue that corporations and their shareholders and stakeholders can no longer measure performance strictly on financial results. They must also evaluate performance from three additional perspectives: 1) the learning and growth perspective—how do we grow our company and create improved and/or new value for our customers, clients, passengers, patrons, etc.; 2) the internal business process perspective—do our internal systems and processes directly assist us in achieving our strategic focus and help us deliver our product or service to a degree that meets or exceeds our customers' and shareholders' expectations; and 3) the customer perspective—how are we satisfying our customers; how do our competitors satisfy their customers; how do we establish a competitive advantage with our customers?

3. Understand the critical importance of corporate social responsibility.

Analyze the critical factors affecting how your company manages its relationships with various stakeholders. Do you have smooth or contentious relations with your employees? Are there price wars going on with your competitors? What is your company's relationship with federal and state regulatory agencies charged with overseeing your industry (e.g., OSHA, EPA, IRS, etc)? With careful deliberation, you can assign a number between 1 (poor) and 5 (excellent) to any of the categories important to your company. For example, if you examine the relationship between your company and its vendors and determine that it rates as a "2," this assessment will lead to strategy and decision-making sessions designed to move that evaluation to "3," then to "4" and, hopefully, to "5."

4. Understand well how your company makes money.

Why do customers buy your company's products or services? Who are your primary competitors? What are the biggest challenges to your company? HR people need to understand these business drivers in order to contribute to the success of the business. If the company's strategy is focused on the customer, then HR needs to direct much of its efforts to insuring that that focus is realized. Carefully analyze your competition and learn what it is that you are selling. Cadillac, for example, does not sell cars or transportation solutions. It sells prestige and status. It competes with diamonds, furs and other high-end items and experiences.

5. Wholly integrate HR into all other departments.

Human resources as a corporate function cannot exist as a stand-alone discipline. Organizations are made up of several interconnected and interdependent entities. HR must wholly integrate itself into all other functions, and its practitioners must be able to speak the language of every department. If you expect to work as an equal partner with the company's other strategic experts, you must be able to talk with and to them—at their level—about their areas of responsibility.

6. Focus on the flawless delivery of transactional HR work.

As you transition the HR function into a more strategic orientation, don't forget to also focus on the flawless delivery of transactional HR work. Whether it is done internally or externally, payroll has to be met on time, labor reports need to be produced and analyzed, benefits costs need to be monitored, and government regulatory agencies need to be satisfied. Without this, HR will lack the credibility and legitimacy it needs in order to champion more powerful and strategically relevant HR agendas.

7. Stay in school or go back to school.

Become more knowledgeable about the business that you are in. Continually and always update your skills, knowledge and abilities and those of your staff. Make continuing education a critical portion of your company's budget. Senior leaders should set the example by participating in and sponsoring professional development activities. Identify best practices in your industry and examine closely the activities of your competitors or benchmark companies. What can you learn from them? Create programs that will help all departments in your company define operational excellence and develop flexibility to sustain and grow your company's business in the face of intense and influential marketplace pressures.

In today's knowledge economy, organizational success depends on having highly trained people who are capable of dealing with complex issues and be productive and effective in multi-disciplinary team settings. Specialists in any discipline are extremely valuable. But if their work does not directly contribute to the success factors of the company, then they will find themselves marginalized within their company.

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