

# A letter to the senior management team

**Re: Do you understand how a Human resources function can add to the bottom line?**

By David Parmenter

Increasingly today the Human resources function is being cut back and marginalised. The often quoted rationale is "we pay our managers to manage their human resources".

This article will explore some of the ways the value the HR function can deliver and some of the consequences of depleting the HR resources. The waymark solutions limited better practice studies are showing that a number of HR functions are adding to the bottom line in a number of ways including:

## HR adding to the bottom line

- selecting the right people for the business
- developing managers and staff
- enhancing the organisation's performance through changing the culture
- reducing ACC payments

### Selecting the right people for the business

Most readers can reflect back to a recruitment that they approved that did not work out. In most cases this would have been based on interviews and references. HR practitioners have found there are far more effective ways to recruit, starting by taking an in-depth focus on the job requirements followed by competence based interviews, simulated exercises and assessment centres. All of this takes experienced in-house resources to manage and deliver. The cost of appointing the wrong person can be very much greater than just their salary.

### Developing managers and staff capacity

Building organisational capacity is often left to on the job training. Some organisations invest substantial resources into sending senior managers on overseas courses. Some enlightened participants\* are investing in building in-house development centres. Such developments require experienced people (your HR team) supplemented with some external experts.

One finance sector participant\* has put about 180 managers through development centres to improve their management competency.

Following the centre some managers realised that they would like to redirect their career within or outside the organisation.

### Enhancing the organisation's performance through changing the culture

A new culture can improve the bottom line in many ways: less absenteeism, lower turnover, more initiative, higher productivity and possibly greater business opportunities created by staff.

Any culture change requires high level of buy-in. Participants\* who have been successful have had an experience HR resource to support change processes.

One participant in the service sector has successfully tied the culture of the recent re-launch of the company into their employment contracts. The re-launch of the company was based around staff empowerment and trust. Call centre staff are allowed to approve company expenditure even where the company may not be liable. Decisions are reviewed post the event for performance management purposes.

One participant\* in the private sector successfully developed its own in-house 'culture change' course. Internal teams were set up to identify a company with outstanding customer service. An airline was identified and liased with. Consultants then assisted the internal teams to develop a customised course to guide the organisation's staff through the culture change.

### Reducing ACC payments

Participants\* who have "back to work programmes report great success with significant reductions in ACC levies. One manufacturing participant\* achieved an annual saving of \$0.4m in ACC levies partially through setting the goal of "no accidents in a million hours". The work force now believes that accidents are preventable rather than an industry norm. Another participant\* has made annual savings approaching \$0.8m through major driven by the HR function.

### An estimate of how much HR can add to the bottom line

We have developed some broad estimates based on discussions we have held with participants. We have used a hypothetical company in the "service" sector with approx. 500 staff

<b>Savings created by an active HR function</b>		
	High 000's	Low 000's
ACC savings through accident prevention and good back to work programme	400	150
Reducing cost of absenteeism (less use of temp staff)	60	15
Reduction in recruiting costs through retention of staff and more in-house involvement	75	25
Reducing cost of redundancies through managed contraction	150	50
Reduction in cost (incl legal costs) of unfair dismissals	90	30
<b>Savings</b>	<b>775</b>	<b>270</b>
Direct costs of HR function	450	180
<b>Contribution to the bottom line</b>	<b>325</b>	<b>90</b>

**Why managers haven't the time and expertise to be a surrogate HR resource**

Thinking back to your most recent management position, how much time did you allow for performance feedback to your staff? If I was a betting man I would say you found the annual assessments difficult to fit in. Participants\* are now giving feedback 3 to 4 times a year to ensure performance is on track: if managers are spending time managing performance, how can they develop and maintain expertise in, recruitment techniques, accident prevention or management development? I have come across a multinational company who proclaim to have successfully delegated this responsibility to managers. This however requires a different company culture, where managers are extensively trained and in this case all managers attend an intensive management course where "your not the same person coming out of the course as you were going in".

**Possible consequences of removing an internal HR function can comprise the following:**

- over reliance on external advisers, which may cost more in the long run which defeats the objective of cost saving;
- a trend to purchase rather than grow trained staff and thus becoming over reliant on the training provided by past employers;
- remuneration is out of kilter, especially at the senior levels;
- the organisation's culture is talked about but nothing is really done about it.
- new recruits are not performing as anticipated
- staff turnover and absenteeism rising;
- young talented staff never learn good management skills;

All of the above can lead to the organisation's results travelling on a downward spiral, with the shareholders asking questions.

**Some of the warning signs that your HR is being marginalised are:**

- 🍏 **CEO has no direct input into HR (HR does not report directly to the CEO)**
- 🍏 **Absence of an Human resources report in the Board papers**
- 🍏 **CEO states that the departing HR manager does not need to be replaced**
- 🍏 **No data capture or monitoring of the money spent on training**
- 🍏 **% spent on training is down over last 5 years**
- 🍏 **No clear documentation of the organisations core competencies**
- 🍏 **No succession planning for management roles**
- 🍏 **HR position is not headed by a trained professional;**
- 🍏 **senior management positions are recruited by the CEO (often previous work associates);**
- 🍏 **Pay an additional ACC levy at the end of the Tax year**
- 🍏 **Lack of HR trend analysis in absenteeism, Health & Safety, headcount, demographics, etc**
- 🍏 **Performance management system that is not working**

Steps you can take right now

- relocate the HR function so that it is close to the CEO's office;
- ensure the HR function is lead by a broadly educated & skilled HR professional;
- change recruitment policy as from tomorrow. Insist on a more comprehensive regime;
- ask for an informative 2-3 page HR report to be included in the monthly board papers.
- ensure that your HR resources are involved in the business planning, they have much to give and it represents the ideal forum to enhance their perceived value

\* waymark solutions limited run a study on Human resources functions every six months.

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