PERSONNEL NOTEBOOK
For Your Most Important Resource—The Human Resource

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By
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THE CHANGING FACE OF THE PERSONNEL DEPARTMENT

Part II — Is HR Aligned with Company Goals?

In the previous issue of *Personnel Notebook*, we visited HR professionals during their day-to-day front line experiences. In this second in a series of four articles, we will hear from a business professor who sees HR more focused on providing social services.

Profit Makers or Social Providers?
John Sullivan, a professor of Management at San Francisco State University, believes that the human resource function is following a pattern of misguided beliefs that just don't square with basic business. His research has convinced him that most HR departments do not seem aware that their companies are operating profit-making organizations and have gradually evolved their departments into centers for providing social services. According to Sullivan, this has resulted in HR departments that more closely resemble socialist institutions.

Basically, profit-making companies (businesses) believe in individual risk and investment to produce a profit and to reward contributors based on their merits and contributions. In contrast, socialist institutions would believe in the equality of all labor and the equal distribution of whatever the assets are.

Winston Churchill put it this way: "The inherent vice of capitalism is the uneven division of blessings, while the inherent virtue of socialism is the equal division of misery."

Professor Sullivan says that companies should stop draining off so much of their energies and resources on equal treatment for all and begin focusing their investment on the high performers. He makes his case in the following eight observations.

1. HR has become the advocate of the weak versus top performers.
Too many HR departments declare themselves to be "employee advocates". It is common practice for HR departments to focus their efforts on the poorest performing employees and managers even though no statistical evidence or metrics exist to show that focusing on poor performers results in them becoming good performers. Many HR departments offer

little in the way of programs that support, improve, or capitalize on the productivity of top performers.

From a profit-seeking business viewpoint, HR departments should spend most of their time developing the best performing assets. Most companies fire less than 1% of their workforce for performance.

2. HR supports equal pay versus differential pay.

Rewarding mediocre or poor performers equally with top performers sends a clear message. "We don't recognize good performance." Rather than "rewarding everyone equally" or "rewarding each according to their needs," HR needs to reward based on merit. HR departments act like socialists when it comes to pay, with across-the-board living increases and across-the-board pay freezes. Rewards rarely differ more than 10 to 15% between top performers and average performers.

3. HR focuses on seniority versus relevant and recent performance.

All too often, HR grants preference or rewards based on seniority. In vacation selection and transfers, it's almost a standard. Some companies even use seniority for pay increases and promotions. Many companies give out 10-year pins but do nothing to publicly recognize top performance on the job. Socialists believe in seniority. Profit-seeking businesses believe in rewarding performance regardless of seniority.

4. HR promotes equal treatment of departments and managers versus investing in results.

Chief Financial Officers (CFOs) allocate the company's assets and budgets based on the departments' (or managers') results. They put the money where it grows best. In contrast, HR departments routinely tend to treat every job and department equally. HR usually puts the same dollars, time, and effort into the lowest producing departments as it does in the highest-producing departments. CFOs invest in the highest return on investments (ROI). HR invests in equal treatment for all.

5. HR focuses on consensus decisions versus innovators.

HR tends to make big decisions based on votes or consensus decision-making. Profit-seekers want and value input, but they understand that those with the most information, knowledge, and best track record should make the most critical decisions.

In a world that requires risk-taking and innovation, businesses must weigh all the information and risk and then make their move on the best use of assets. Socialists look for compromise.

6. HR assumes the role of protector of people versus champion for profit.

Profit seems to be a bad word to many HR professionals. It's distasteful to mention it. But firms are in business to make a profit. To the extent that they focus on that, they will increase their opportunity to make a profit, to survive and to succeed. To the extent that they focus primarily on other goals, they minimize their opportunity to make a profit and increase their chances of failure.

HR professionals are usually over-focused on defending people and jobs even if that approach is detrimental to the company's best interests or profitability. The accumulation of such decisions can be disastrous.

HR tends to be opposed to all layoffs even though layoffs can improve a company's efficiency, productivity, and profit. HR departments often feel that a company's purpose is to provide employment and benefits to as many people as possible.

Profit-seeking businesses view layoffs as either a good or bad sign. Layoffs are a good sign when they refocus the company's assets on their best use, remove bad performers, take advantage of better technology, and allow the company to become more efficient. Layoffs are a bad sign when they are due to loss of business, lack of capital, bloated costs, or dwindling profits.

7. HR is biased toward people rather than capital investments, regardless of the ROI.
HR often sees itself as the employees' advocate, and it inevitably sides with employees. The profit-seeking business wants to invest the company's assets in the best ROI whether that proves to be in marketing, research and development, equipment, or people. It has no preference. It expects all assets to demonstrate a return and invests the most dollars in those assets with the best return.

8. Other indicators that an HR department is leaning socialist:
A. A large emphasis on "showing-up" type of rewards, such as across-the-board pay increases, large increases in pay for no work (more paid time off), or increased pay for acquiring more education instead of for better results. These programs send the message that showing up and sticking around is more important than performance.

B. Creating more bureaucracy, such as more meetings and a greater emphasis on process rather than product.

C. Striving to eliminate individual treatment means that "turkeys" and "eagles" are all treated and rewarded equally.

D. Tracking and maintaining headcount (thereby considering all employees the same) and not actual employee costs compared with their ROI.

Human Resources needs to focus on workforce productivity and making it more efficient, not on creating or protecting jobs. Businesses make money by being productive, efficient, and profitable. In the area of people management, that means increasing workforce productivity.

It is rare to find an HR department that talks about workforce productivity at all. And even fewer actually measure it.

Why the Focus on Social Issues?

Professor Sullivan says that he does not view all socialist concepts as bad, but why do HR departments have such a concentrated focus on being social workers?

"It's hard to single out a specific reason why Human Resources focuses more on equal treatment and loves to delve into social issues," says Sullivan. He sees that few people in the HR profession have degrees in business or have any extensive experience in managing a profit and loss (P&L) business unit. "Let's face it," he says, "too many people are there because they like to work with people. Seldom do they say that they want to make the company more money by increasing people productivity."

In many companies, social concerns are placed at center stage. Even though the HR department is a business unit, most of the people who speak or write about HR focus solely on the social issues and not on the business elements.

Says Sullivan, "I've never met a CEO or CFO anywhere who said that the role of the HR department was to make the world a better place. However, I see the cover of most HR magazines highlighting the social issues, obesity, housing issues, vacation guides, and happy retirements."

In a recent interview, Professor Sullivan came to the following conclusions.

The war between profit-seekers (capitalism) and socialism is over, and capitalism won. It won because it is the best system for individual development, achievement, and advancement for individuals, companies, and societies. It provides the best technology development and creates more real jobs than any other system.

Those who continue the effort to socialize the HR department are often those who also fight against technology advancements and avoid useing measurements or metrics in HR because they feel that they "dehumanize" people.

"I don't believe that all human resource departments are socialistic, but it certainly is true that a profit-seeking, business performance culture is more of an exception than it is the rule," said Sullivan. "Firms like GE, Intel, and Nucor are famous for their so-called capitalistic practices, while too many HR departments act more like government agencies that emphasize equity treatment instead of differentiation based on performance." Governments do not understand P&L because they don't have to produce it. They focus on equity, based on sharing whatever comes in.

"If your goal is to increase your company's people productivity through the effective use of human resources tools and strategies, it's time to change the DNA of human resources. It's time to change human resources so that it focuses on top performers and ensures that it spends most of its time and budget on high ROI activities. In brief, it's time for human resources to become a profit center."

In part III, we will take a look at a 2005 critique, "Why We Hate HR" and then we'll see what we can do about it.

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