

HR in the Gulf Region: FOCUS ON REVENUE, NOT COSTS

By Dave Millner

MR. MILLNER: Hi, I'm Dave Millner and I'd like to focus on HR today and HR's focus on increasing revenue, not just focusing on managing costs. Now, HR's supposed to be more strategic these days, and yet, historically, its focus has been on managing and cutting costs. Now whilst cutting costs is important, there are several reasons why it's essential that HR shifts its focus away from cost-cutting towards increasing output and revenues for the organization as a whole.

Every major private organization in the gulf is striving to increase its profits and margins, especially in these difficult times. For every government department, the challenge is to ensure that it's increasing the added value that it provides. However in striving to meet those goals, it's important to realize that there are two distinct parts to any profit and loss equation, revenue and costs. A business can increase profits in two basic ways, firstly by reducing costs and secondly by increasing revenue, either by charging more or selling more. Now HR is traditionally focused almost exclusively on the cost-cutting portion of the equation, quite possibly because cutting people costs is relatively easy and it fits with the process mentality that is seen in most HR functions. It's also the expectation of the organization that that's what HR do. Now unfortunately, cutting people costs can have some disastrous consequences. HR's long-standing practice of not considering the hidden costs is one of the prime reasons that HR fails to increase productivity. Hidden costs relate to the forgetting and not considering the additional costs that are caused by a bad practice or a process because those unintended costs consequences are not directly connected to the initial action that HR needs to take.

Some obvious examples of some dubious cost-cutting and hidden costs might include recruiting people with fewer skills in critical positions. Yes, I know it's cheaper than recruiting individuals with superior skills, but it may negatively impact upon product quality, innovation, and undoubtedly customer service. How many times have you had performing individuals demand more money? Yes, they can be replaced with cheaper or be it less effective workers, in the long run, creates the need to recruit significantly more people, but all you're doing is just maintaining the same level of production. The big challenge is connected to ignoring the ongoing market compensation rates and salaries. If you're known as an organization that underpays people, either on salary or benefits, you're ultimately going to hinder the ability to recruit and retain top people, people who are talented, because they just won't be attracted to you in the first place.

Now as you can see, there are some potential negative consequences of arbitrarily cutting costs without looking at the impact of cost-cutting on both revenues and productivity. If that's any account and can blindly cut costs, that's easy to do. But it takes a true productivity expert to understand that cutting costs and forgetting these hidden costs can actually have a significantly negative impact on the organization as a whole. I think the strategic target for HR should be to increase revenues and productivity, whilst maintaining or reducing, or at least being aware of, what the people costs are. It's easy to say and it's hard to do, I know. But if you give any CEO a choice as to whether they would prefer increasing revenues or cutting costs, I think they're going to pick the option to increase revenues. This is because whenever you increase revenue in a competitive marketplace, it's obvious that you're improving your products and services, and these are long-term competitive advantages for any organization. Short-term cost-cutting might actually improve short-term profits. But in the long term, profits may go down and careless cost-cutting may permanently harm your competitive position, your image with customers and your organizational brand.

This shift in HR thinking is absolutely critical to ensure that your organization is fit for purpose when it's in a position to actively drive forward growth. This, of course, assumes HR has the measurement systems in place to measure the changes. But, hey, that's another story altogether.

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