

Focus Experts' Briefing: Human Resources — Cost Center or Strategic Contributor

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Why do CEOs feel HR plays a small role in an organization's success?

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Executive Summary

The Focus community had quite a lot of insightful feedback and strong opinions when a member recently asked, “Why do CEOs feel HR plays a small role in an organization's success?” So, how has the HR department let itself slip off the CEO's radar — or worse yet, become defined by the top brass as simply a cost center? And, more importantly, how can it transform itself into being seen as a strategic contributor to the business? The Focus Research team compiled the most compelling passages in the ensuing conversation for this report. In this guide, Focus Experts Anke Borngraeber-Berthelsen, Guy Farmer, David Mair, Tim Rutledge, Iris Sasaki, Wayne Spivak and Wayne Wood share their thoughts on how HR can re-invent itself from being a cost center to a strategic contributor.

After reading this guide, check out the entire discussion and join the conversation:

<http://focus.com/c/FzO/>.

Expert Insights

1. The CEO sees HR as a cost center.
2. CEOs see HR as a tactical, rather than strategic, partner within the organization.
3. HR tends to shy away from broadcasting the value it brings to the organization.

Bonus Advice

Unlocking HR's potential to become a strategic partner.

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Why do CEOs feel HR plays a small role in an organization's success?

1. The CEO sees HR as a cost center.

"Let's face it: HR is not a revenue center, nor are many HR departments good at showing where they contribute to the effectiveness of departments that are. Of the items for which HR is generally responsible (wages, benefits and recruitment), costs are typically increasing at a time when other departments are being asked to reduce expenses. Other departments are resisting financial cuts and pointing to rising compensation costs as one of the reasons they aren't making numbers. Too often, when asked what is being done to control costs, an HR director will come back with an external study showing how the company compares to others. From a C-suite perspective, that's nice but it wasn't an answer to the question. Where HR is achieving reductions in cost-per-hire, for example, those are either seen as insignificant or are not shared with other departments, so HR is not seen as an effective partner." (Mair)

"HR until today has hardly been recognized as strategic partner or asset. CEOs see HR as cost factor with very little, if any, return." (Borngraeber-Berthelsen)

"CEOs (business owners) tend to view non-income-producing aspects of their businesses with a 'cost view.' What these myopic individuals don't realize is that many times these non-income producing departments can be cost-saving or neutral and in fact add to the bottom line." (Spivak)

"Most CEOs, and their executive teams, encounter HR through the large hard dollar HR costs: wages and salaries, benefits, some recruiting and separation costs. Executives scrutinize these costs carefully, which they should. They tend not to be exposed to the soft dollar HR costs. I'm generalizing here, but many costs associated with training, recruiting, succession planning, job evaluation, organizational development and so forth are soft dollar costs that the finance people don't capture on the books of the business. These costs can be significant. As a result of this focus on the hard dollar people costs, some CEOs come to equate HR with these areas, and have the function report to the CFO, who doubles as head of HR." (Rutledge)

2. CEOs see HR as a tactical, rather than strategic, partner within the organization.

"In changing employment markets, HR is often hoist on its own petard. In one quarter, the report relates to employee retention, but when employees find a better market for changing jobs, the focus goes from retention to how many jobs have to be filled. The real issue for the organization is that full, effective employment is a basic expectation. The reports are tactical and miss the strategic mark entirely. R&D, whose ROI is linked to projections, does a better job in this respect. Who in HR is looking at what the company's needs are going to be three quarters from now?" (Mair)

3. HR tends to shy away from broadcasting the value it brings to the organization.

"HR has not mastered the skill of positioning itself and presenting its value to management or the CEO." (Borngraeber-Berthelsen)

"Perhaps there has been limited communication in the past and HR is seen as a necessity rather than a vital part of the organization." (Farmer)

Bonus Advice: Unlocking HR's potential to become a strategic partner.

"There are some HR activities that are, or have the potential to be, strategic. Here are some suggestions: Organizational development. The 'development' part of training and development. Recruiting (hiring for a new position, not replacing someone who's leaving). Performance management, to the extent that performance objectives are linked to company strategy. I omit compensation because it's more tactical than strategic. For HR to assume a strategic role, the traditional HR functions that are not, and never will be, strategic, need to be separated from those people functions that can make strategic contributions, and given separate leadership." (Rutledge)

"I dream of being in the meeting where a C-suite exec looks at the HR director and says, 'Company A is failing/succeeding/changing. We need to look at getting some of its a-players over here to replace our B- and C-players,' and the HR person says, 'We've already begun evaluating who the best people are and are contacting them.' Instead, HR waits to see what positions are vacant and watches to see who applies for the openings. The sales staff aren't waiting to visit Company A's clients, and the difference in performance is glaring." (Mair)

"We need to look at everything we do and ask ourselves, 'How does this run with the goals of the organization?' Yes, it is critical that HR values employees, and listens to each individual with interest and care. We also need to be more than that. We need to be the people the company (especially the CEO), can't do without." (Sasaki)

"HR has to become more strategic, solution-oriented, supporting the business strategy, reflecting business data through metrics and bringing vision and solutions. HR must stop feeling 'sorry' for itself. It is a new, modern way HR has to start walking, engaging in partnerships, bringing workable solutions and being an asset and gain to the business/organization." (Borngraeber-Berthelsen)

"HR needs to be a little more 'on the ball' when dealing with C-level individuals. You don't ask a potential C-level individual to fill out a shop-floor employment application (and for that matter any application, with the exception of federally mandated questions). This type of behavior turns the C-level individuals off and fosters in some respects the feeling by the C-Level of un-professionalism in the ranks of HR. There is a difference between viewing an internal organization as zero costing or adding to the bottom line and being professional. A well-oiled warehouse adds to the bottom line and the employees can be highly professional, but I think we agree we're talking about a different level of professionalism." (Spivak)

"Savvy leaders understand that HR helps link together various parts of the operation and can be a valuable tool to build a strong, positive culture. HR can also be more proactive by actively looking for opportunities to partner with the CEO to help move the organization forward." (Farmer)

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