

HR: Focus on Increasing Revenue Not Just Managing Costs

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HR is supposed to be more ‘strategic’ these days (whatever that means) and yet historically its’ focus has been on managing efficiencies and cutting costs. Whilst cutting costs is important there are several reasons why it is essential that HR shifts its focus away from cost cutting towards increasing output and revenues for the organization.

Every major organization is striving to increase its profits and margins whilst for every Government/public sector department the challenge is to ensure that it establishes, sustains and increases the ‘added value’ that it provides. However in striving to meet those goals it is 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). HR has traditionally focused almost exclusively on the cost cutting portion of the equation, quite possibly because cutting people costs is relatively easy and fits with the process mentality that is seen in a lot of HR functions.

‘Hidden costs are the enemy of HR and organizations alike and not enough attention is paid to this ‘disease’. Consider for example poor people management. This is one of the worst ‘hidden costs’ facing organizations; some examples are:

- **Poor hiring decisions:** These can lead to significant lead-in times for an individual to attain the necessary on-the-job performance level (some previous studies have highlighted up to eight months). That in itself can be a ‘hidden cost’ in terms of missed opportunity costs for sales roles, lower productivity in an operational process role, etc. but when looking at other employees perception of that individual can create even worse situations when their perception is that their colleague is incompetent – remember first impressions are very important to people.
- **Dealing with underperforming employees:** External studies have highlighted on average managers wasting up to 34 days per year dealing with underperformance issues. When you consider the daily cost of your managers and multiply that by the days spent, it creates a considerable ‘hidden cost’ that is written off by most organizations.

HR needs to take into account the ‘hidden costs’ phenomenon as this for me is one of the prime reasons that HR struggles to truly increase productivity. ‘Hidden costs’ relate to those additional costs that are caused by a bad practice or process, all because these unintended consequences are not directly connected to the initial action by HR.

Some obvious examples of dubious HR-driven cost-cutting and ‘hidden costs’ might include recruiting people with fewer skills in critical positions – yes it’s cheaper than recruiting individuals with superior skills but it may negatively impact product quality and innovation. How many times have you had high-performing individuals demand more money? Yes, they can be replaced with cheaper, albeit less effective workers that in the long run create the need to recruit significantly more people just to maintain the same level of production. The big challenge is connected to ignoring the going market compensation rates and salaries. If you are known as an organization that underpays people either on salary or benefits you will ultimately hinder the ability to recruit and retain top people as they just won’t be attracted to you in the first place.

As you can see, there are some potential negative consequences of arbitrarily cutting costs without looking at the impact of cost-cutting on revenues and productivity. In fact, any accountant can blindly cut costs but it takes a true productivity expert to understand that cutting costs and forgetting the ‘hidden costs’ can actually have a significant negative impact on the organization.

The strategic target for HR has to be to increase revenues and productivity while maintaining or reducing your people costs where feasible. It’s easy to say and hard to do but if you give any CEO a choice as to whether they would prefer increasing revenues or cutting costs, they invariably pick the option to increase revenues. This is because whenever you increase revenue in a competitive marketplace it’s obvious that you are improving your products and services, which are long-term competitive advantages. 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 and image among customers, let alone the impact it has on your workforce in terms of engagement, motivations, etc.

A lot of this cost-cutting activity inevitably has an adverse impact on the perception issue that continues to exist about HR and what ‘added value’ the function brings to an organization. HR has to help the organization understand how to best leverage HR so that it can go beyond the cost issue to address other important issues such as risk, compliance, talent, and compensation all of which are just as valuable in both tangible and intangible balance sheets terms.

This shift in HR thinking is critical to ensuring that your HR function and the organization are ‘fit for purpose’ to actively drive forward growth. This of course assumes that HR has the measurement systems in place to measure the changes – but that’s another story!

The post "HR: Focus on Increasing Revenue Not Just Managing Costs" was first published by Dave Millner here <https://www.linkedin.com/pulse/20141003110253-14746355-hr-focus-on-increasing-revenue-not-just-managing-costs/>

About Dave Millner

Experienced consulting practitioner with a demonstrated history of working across many different sectors and countries. Skilled in People Analytics as a recruiter, a facilitator and trainer for HR practitioners, HR Transformation, Culture and Employee Engagement programs, Organisational Development interventions (organisational design and workforce/succession/scenario planning) and Leadership/Executive Coaching . Strong consulting professional - Chartered Institute of Personnel and Development and Occupational Psychology professional.

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