



# Strategic HR?

## Employees are Like Peanut Butter and Napkins

### A Story of HR not yet at the Strategic Table

By Jeff Higgins, Human Capital Management Institute

*The problem exists today that HR may believe they are partners at the strategy table without realizing that, in fact, they are not. If HR is only invited to the table after strategic decisions have been made, then the strategy part is over and HR is there to do operational work, not be strategic. The following is a story based on actual events at a real company in the U.S.; however the company and other names have been changed.*

In August of this year, Natalie Sun, chief human resources officer (CHRO) of TechSoft and Sheila Brown, director of Workforce Reporting and HR Information Technology (HRIT) were summoned to CEO Dennis Tanaka's office to meet. Natalie and Sheila were met by CFO Andrew Darwin and two partners of McBrain Consulting, dressed in matching grey suits, who were already in the CEO's office waiting.

As Natalie and Sheila arrived, CEO Dennis Tanaka got right to the point, "Natalie, you are being brought in on an initiative critical to the future success of TechSoft. As you know, the market has been slowing this year. Without steady growth in our top-line revenue, TechSoft will not meet its goals or shareholder expectations this year or next. Andrew here has assured me that we can pick up some profit gains in tax savings. However, the big impact has to come from our workforce. What I mean is; how do we know we have the right number of employees? What is our productivity? How do we know our employees are as productive as our competitors? I believe we may be overstaffed."

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Before Natalie could respond, Dennis continued, "McBrain has done some analysis and recommended offshoring

some manufacturing and key product support infrastructure in software technology services. This will result in the closure of our hardware manufacturing operation in Oregon, as well as one or more North American research and tech support centers. I believe in this proposal. I know TechSoft needs strong action to achieve its profit goals. It's a bold plan. Let's make it work."

Dennis gestured toward Andrew the CFO, "HR needs to partner with Finance, identify exactly how much reduction in the workforce will achieve our goals, where and who it will affect. To impact this year's results I need all analysis presented to me in 30 days. Then we announce and implement immediately."

Ever composed, CHRO Natalie bravely responded, "Of course, Dennis. I wish HR had been brought into this sooner but we are team players. In 30 days we can deliver what you need. However, TechSoft's growth and multiple acquisitions without any workforce realignment in years might give us other options to consider." Sheila clenched her jaw to mask her surprise at all this, but noticed Andrew Darwin's smile and the McBrain twins giving each other subtle nods, like mental fist bumps. She tried to take a sip of Diet Coke to calm herself.

"Natalie," Dennis responded already distracted by paperwork on his desk, "If there are other options to meet our goals, I'm open. But we still announce in 30 days."

"Okay! We'll need a copy of the McBrain proposal and supporting analysis from Finance," Natalie responded with as much zip as she could muster.

"Andrew, get them what they need," Dennis said and started tapping on his keyboard signaling the end of the meeting.

After the meeting with the CEO Natalie and Sheila met to plan their actions. "No matter what numbers we give the business they still treat HR like financial simpletons," Sheila fumed as she thought about how this started. "Perhaps top management thinks employees are disposable, like napkins to be used up and then discarded as needed and replacements hired on a whim."

In Natalie's mind, Sheila needed more experience with corporate reality. HR often didn't have the luxury of implementing only decisions that they agreed with.

Sheila, for her part, was trying to put on a brave face but frustration just kept seeping out. She was pretty sure Natalie felt the same way but somehow her boss had the strength to deal with corporate "BS" like a superhero. Sheila's current frustration was that TechSoft's CFO, Andrew Darwin, had sold a McBrain Consulting business case proposal to the CEO without input from HR. Sure McBrain had a reputation for saving money and building outsourcing programs with large organizations, but when she was at a previous company, Medical Products Co., she had been tasked with cleaning up a McBrain outsourcing mess.

McBrain's proposal for TechSoft recommended cutting 10 percent of the workforce based on a high-level benchmarking exercise. Using that, TechSoft's CEO and CFO had decided the pain of cuts was to be shared across the company, effectively spreading many reductions evenly across the business like peanut butter. This solution was both fair and at the same time unfair, since no one knew where or how much fat existed in TechSoft's business units and support functions.

### 30 Days Later

Shelia had spent the last 30 days finding truck-sized holes in the darned McBrain business case – yet the changes were still going to be implemented. How could the otherwise brilliant CEO not have been open to more of HR's alternative recommendations and consider the risk factors?

The CEO meeting had been just one dizzying month ago. Now Sheila was focused on Natalie's pep talk.

"Sheila, let's keep in mind what's best for TechSoft. We presented good alternatives. We demonstrated that we have the goods to be at the decision table. Sure, they didn't buy all our recommendations but that's why being professional now really counts to implement the CEO's decisions. All eyes are on us. Do you see what I'm saying?"

Sheila smiled faintly and said, "Yes, I'll play nice, Natalie."

Natalie smiled. She didn't think it would be constructive to admit how much she agreed with Shelia. Sheila was an excellent manager and had done an amazing job under difficult circumstances in the last 30 days. The hard truth was that diplomacy was never easy with Finance looking down their nose at you.

At this point Tony Collins, the Finance-designated project manager arrived in Natalie's office and extended a hand, "Good to meet you," Natalie said with authenticity and then introduced Sheila.

"I understand HR did a lot of work to shape the total workforce reductions," Tony whispered workforce reductions to show his tactfulness as a freshly minted MBA.

"Let's start at the beginning," Natalie said directing Tony to a chair. "So when Dennis called me to his office a month ago, I had thought it might be regarding a proposal HR made to truly integrate and streamline lines of business due to TechSoft's many corporate acquisitions. That proposal included targeted elimination of duplicate jobs and early retirement offers. However it seems HR's cost-efficiency proposal was stuck in Finance's review process."

Looking visibly surprised, Tony said, "So you are telling me that HR recommended cost-efficiency changes that would save millions and Finance, the savings and efficiency people, held it up? That sounds like a Dilbert cartoon."

Sheila couldn't resist chipping in, "Yes, Finance basically said, sorry we can't get to your savings proposal, we are too busy paying millions to someone else who knows little about our business to do the same thing. Dennis has been quoted saying that employees are the true source

of value creation and most valuable assets at TechSoft. However, employees are also the largest cost and therefore greatest cost reduction opportunity. So here we are getting ready to implement McBrain's peanut butter and napkins program."

"They didn't want HR's perspective, just our rubber stamp on McBrain's work." Sheila added. "I guess this is a good point to introduce you to the team. We can give you all the details you want."

| Key Points of McBrain Proposal                                                                                                                                                                                                                                                                              |           |                    |                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------------|---------------------------------------------------------------------|
| Goal: Drive long term growth and increased market share:                                                                                                                                                                                                                                                    |           |                    |                                                                     |
| <ul style="list-style-type: none"> <li>Meet shareholder expectations of 9-10% annual revenue and profit growth</li> <li>Continue to meet customer needs in product quality and performance</li> </ul>                                                                                                       |           |                    |                                                                     |
| Issues:                                                                                                                                                                                                                                                                                                     |           |                    |                                                                     |
| <ul style="list-style-type: none"> <li>Flat demand in a tough economy has led to slow growth and reduced profits.</li> <li>New products underway will not launch in time to impact this year.</li> <li>Acquisitions led to bloated infrastructure, taking focus from innovation and new products</li> </ul> |           |                    |                                                                     |
| Profit Improvement Projection                                                                                                                                                                                                                                                                               |           |                    |                                                                     |
| Profit %                                                                                                                                                                                                                                                                                                    | Headcount | Annualized Gain \$ | \$ 000's in millions                                                |
| 1.5%                                                                                                                                                                                                                                                                                                        | -         | \$60.0             | Tax (offshoring), & procurement cost savings                        |
| 1.0%                                                                                                                                                                                                                                                                                                        | -         | \$40.0             | Selected software/hardware price increases                          |
| Off-Shoring and Job Cuts                                                                                                                                                                                                                                                                                    |           |                    |                                                                     |
|                                                                                                                                                                                                                                                                                                             | 1,000     | \$40.0             | Offshore MFG to China, close US plant                               |
|                                                                                                                                                                                                                                                                                                             | 2,000     | \$100.0            | Offshore technical consulting + top tier customer service to India  |
|                                                                                                                                                                                                                                                                                                             | 2,000     | \$175.0            | Close open job requisitions for new/replacement positions           |
|                                                                                                                                                                                                                                                                                                             | 1,000     | \$40.0             | Cut temps and contractors                                           |
|                                                                                                                                                                                                                                                                                                             | 650       | \$55.0             | Job cuts in R&D from new products                                   |
|                                                                                                                                                                                                                                                                                                             | 350       | \$25.0             | Job cuts in corporate and administration                            |
|                                                                                                                                                                                                                                                                                                             | -         | (\$140.0)          | less Restructuring costs (plant closing, severance, training, etc.) |
| 7.5%                                                                                                                                                                                                                                                                                                        | 7,000     | \$295.0            | Subtotal Offshoring, Job Cuts and Closing Open Jobs                 |
| 10.00%                                                                                                                                                                                                                                                                                                      | 7,000     | \$395.0            | TOTAL SAVINGS AND PROFIT % IMPACT                                   |

As Sheila left with Tony, Natalie flashed back to that final recommendation meeting. Now it was D-Day, thirty days after HR learned of the restructuring based on McBrain's proposal. Dennis and Andrew were there as were the McBrain partners. HR was represented by Natalie, Sheila and Goran, Sheila's analytics manager. Dennis started with the ultimatum, "Today – decisions. Tomorrow – changes. So Natalie, give it your best shot."

Before Natalie even started, Andrew leaned forward on the attack, "Finance just got HR's numbers yesterday. I think we desire more than one day for review – after all you've had 30 days to get this together."

Sheila thought, *'just like you gave HR time to review McBrain's data before presenting it to Dennis,'* but said nothing.

Natalie put up a PowerPoint comparing McBrain's proposal to HR's findings. She discussed some of the value of outsourcing but also the unaddressed problems. "India has great talent but compared to our service center there are major experience, training and communication gaps. Plus India has a 100 percent turnover rate versus our domestic service center's 20 percent turnover rate which compounds the hiring and training issues, as well as negatively impacting service delivery."

Natalie continued, "The director of Customer Service's research shows an inverse relationship between customer sat-

isfaction and customer up-sells when offshoring customer service on our most complex products. In other words, the higher the level of service skills offshored, the lower the rate of customer satisfaction and product up-selling. I strongly recommend delaying offshoring of our most complex, top-tier service and support jobs until further research can be done.”

Natalie was talking fast to keep Andrew from stealing Dennis’s attention, “Also we found 1,000 more contractors and temps than were included in the Finance total head count. We recommend those as reductions. You can show a positive revenue impact in our consulting units by continuing to recruit on open consultant positions that we fill with internal candidates. The company was built by hiring the best from the top schools, so now do we abandon our cornerstone? Just for software developers alone, there is a projected need for 150,000 additional developers over the next 10 years. That means steep competition, even in a slow market, to get the best in a shortage situation and retain our technology edge. McBrain proposed to freeze all searches – even the most critical ones, which delays new product launches and we’ll lose revenue due to open billable consulting roles.”

Natalie paused for a breath and, Andrew, took over. He peppered Natalie with questions, demanding details then questioning each spreadsheet line item. Over time, Dennis seemed to be listening to Finance.

Andrew circled in for the kill, “Your lost revenue numbers are unsubstantiated by the *senior vice president* for consulting, so wherever you got that information it is not real.”

Sheila interrupted, “That information came from a direct report to the senior VP, the consulting director with the open consulting positions, who is much closer to the work. He briefs the senior VP.”

Andrew resumed, “I repeat, without *senior* management sign-off those numbers are speculative. Your risk items have all been addressed in a different McBrain study. Finally, the cost savings from internally filling jobs is unsubstantiated or worse yet, invented by your own department. Closing open positions and locations are concrete savings.”

Natalie argued back, “Moving talented personnel from positions scheduled to be outsourced to open positions does reduce cost, protect internal knowledge and help smooth over dramatic change. Cutting engineers and programmer positions we will later need to rehire may save today at the expense of tomorrow. Are we really that short sighted? Numbers, like employees, need to support our core values.”

Before Andrew could reply Dennis cut them both off. “Natalie, I appreciate the obvious effort you and your team have made, but I must have real savings falling to the bottom line. Under different circumstances I might be inclined to entertain more of your recommendations or give you more time, but we are up against a deadline and market expectations.

What I will do is agree to reduce terminations by 1,000 based on your contractor findings. Also, you have approval

to fill the 500 most critical engineering, development and consulting roles internally – *provided* the business unit leader signs off on each position that it is critical. The rest of the job cuts will need to happen ASAP. This meeting is over!”

Back in HR, Sheila continued briefing Tony, “The biggest surprise we found was an unexpected savings in the temps and contractors. We had 1,000 more contractors than McBrain thought were there and our quarterly spend was millions more than McBrain had estimated. So we annualized that number for comparison purposes. It seems contractor costs hide in many places so it took a special analysis to really find and cost them out accurately. With more time we could have quantified trends and forecast needs.”

Sheila leaned forward and said, “Here is an overview of an ad hoc database we put together for open positions, turnover, and hiring activity. We also compiled HR costs relating to recruiting, training, and retention, and examined Finance’s methodology for making return on investment (ROI) recommendations – their standard business case template. It included TechSoft’s standard ROI, net present value (NPV) and internal rate of return (IRR). Nice worksheets but they don’t work with people investments like internal promotion versus external hiring, lost revenue due to open positions, or the impact of great service on customer retention and revenue.”

Sheila added, “The best human capital modeling and management methods, not to mention cost management, comes from using workforce planning metrics that Finance doesn’t incorporate, so human capital ROI is essentially lost because it doesn’t fit Finance’s outdated accounting model.”

As Sheila walked back to her office she thought about what Natalie said after they lost the battle but overall made a positive but frustratingly incomplete difference: *‘Sometimes even great analysis and charts are not enough to stop management from a committed course of action. Like walking up a sand dune, three steps forward and two steps back, but making a point is still progress and maybe, just maybe, Finance would include HR next time.’*

## About the Author



Jeff Higgins is the CEO of the Human Capital Management Institute, a driving force in workforce analytics helping companies transform data into intelligence via workforce planning and predictive analytics. With his unique experience as a senior HR executive and former CFO, he helps organizations rapidly advance their analytics and workforce planning journey to unlock billions of dollars in workforce ROI. He is a founding member of the Workforce Intelligence Consortium and a member of the SHRM Global Standards Committee on human capital. He can be reached at [jeff.higgins@hcmint.com](mailto:jeff.higgins@hcmint.com).

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