Showing How the HR Program Directly Increases Profitability

Is your CFO one of those executives who perceives HR as a cost centre with no direct connection to bottom line profit? If so, there's an excellent study you can use to demonstrate the link between HR management and profitability.

The Cornell HR Management & Profitability Nexus Study

Researchers from Cornell University's Gevity Institute conducted a study examining the relationship between certain HR management practices and small companies' financial performance. ("Human Resource Management Practices and Firm Performance in Small Businesses: Research Report on Phase 4 of the Cornell University/Gevity Institute Study—Financial Impact," May 2006) They surveyed employees and top managers/owners of 323 small businesses—that is, companies with between eight and 600 employees. Using survey data, they assessed the extent to which the company was using particular practices for three crucial HR functions—hiring, managing, and motivating employees. They then assessed different organizational characteristics and company performance before comparing the financial performance of each company based on its HR practices.

Result: The researchers identified three specific HR hiring/managing/motivating that contribute directly to a company's financial success. As compared to companies that used some or none of these practices, companies that used all three practices had:

- 22% higher sales growth;
- 23% faster profit growth; and
- 67% lower employee turnover.

So, what were these three performance-boosting HR practices?

1. Using a Person-Company-Fit Employee Selection Model

Employee turnover represents a major cost. So, one important way HR helps improve financial performance is by reducing turnover through hiring the right types of employees. One way to make sound hiring decisions is by focusing on how well an individual fits the company's culture or values, as opposed to how well his skills and knowledge fit a specific job opening. The study shows that companies that hire people because of their the capacity to work well with other company employees had

7.5% higher revenue growth, 6.1% faster profit growth, and 17.1% lower employee turnover than companies that use a person-job fit employee selection model.

2. Encouraging Employee Self-Management

Management of employees is another dollar-and-cents HR function. One approach is to give employees lots of discretion to monitor their own performance and trust them to get the job done right the first time without direct oversight. The study shows that companies that foster employee involvement and self-management had 11.5% higher revenue growth, 3.9% faster profit growth, and 15.1% lower employee turnover versus companies that tightly control and monitor employee activities.

3. Motivating & Retaining Employees by Creating a Family-Like Environment

Companies also count on HR to motivate employees and retain key talent. Some try to do it by monetary incentives. Another approach is to create strong family-like attachment to the company and co-workers via company-sponsored social events, regular company-wide meetings to keep employees informed, and challenging work opportunities giving employees the chance to learn and grow. The study shows that companies that create a family-like environment had 3.8% higher revenue growth, 13.3% faster profit growth, and 19.1% lower employee turnover than companies that rely solely on monetary incentives.

Conclusion

It’s one thing to argue that HR management practices positively affect a company’s financial performance and quite another to prove it. The results of the Cornell study can help you make the business case demonstrating that your HR program isn’t just a cost centre but, at least potentially, an essential contributor to your company’s profitability.