Ready, Set, Turn a Profit!

Find out how one company successfully transformed its HRD department into a business expected to sell its services back to the parent company and develop external consulting revenue.

By DAVID W. NOER

Imagine arriving at work one day to find that your human resource department now was expected to operate in a profit and loss environment. Imagine having to behave like a business that sells services back to the parent organization and, in order to survive, quickly develop external consulting revenue. Could your department cope?

The HRD function at Control Data did more than cope—it thrived after just such a transformation. Why the company made such a drastic change two years ago and how it has benefited should interest HRD departments that must soon face bottom-line finances.

in diverse organizational environments. At the same time, they lacked the desire and venture capital to strike out on their own as independent consultants.

The last and most significant motivation was the sheer cost of the operation. As in many organizations, Control Data maintained a talented HRD staff that year after year refined, developed and marketed their products within the organization. The cost of maintaining these professionals rose each year, while the value of their efforts diminished. If the staff could maintain their professional edge, pass on much of the expense base and costs to external customers and still

timing of our budgeting cycle forced the corporation to make the change an edict. Most corporate staff woke up one morning and found that they were no longer staff resources buried in the cocoon of a large company, but were now revenue producers, measured on a profit and loss statement. Most found themselves in a situation not of their own making.

It took a long time to work through this issue. In some cases, we have had to transfer people back to administrative positions in the parent company. For the majority, the pride and enhanced self-esteem that go with being a profit contributor have convinced people to remain in a business environment. (Bear in mind that participation and communication are essential; lack of discussion leads to resentment.)

Many of our corporate people had started their careers in technical and developmental roles. Some were not extroverts, and interpersonal communications skills were not among their greatest assets. We learned that a successful HRD consulting business requires a variety of personalities, and customer skills are necessary. But back in the early days, many—even the most marketing-oriented people—were afraid of meeting customers. They feared rejection. What's more, at a deeper level, they felt that if we didn't get a 100-percent response rate to our selling activities their paychecks would suffer. In fact, Control Data's strategy was to wean them gradually from corporate funding by providing a large corporate subsidy in the first year.

Not surprisingly, we found we needed our own medicine—training. There is no substitute for continual training, both in attitudes and skills. Any organization at-

Participation and communication are essential

There were a number of reasons for Control Data to place its corporate personnel staff in a profit and loss environment. The organization actively facilitates entrepreneurship. Part of its operating philosophy and corporate culture is to spin off business segments into smaller, more innovative and often independent organizations. Many of Control Data's human resource products—particularly our employee attitude surveys, job evaluation systems and productivity programs—were requested by outside organizations. A number of the HRD professionals involved in designing and developing these products wanted to expand their horizons and help solve human resource problems

provide substantial (if reduced) internal service, everyone might win. The external customers would get the benefit of user-proven products and services with much of the developmental costs already paid by Control Data. The parent company would realize a significant reduction in its costs, and the members of the corporate development staff would have the best of both worlds—the freedom and entrepreneurial spirit of an independent business, coupled with the security and stability of a large organization.

Good morning, you're on your own

It wasn't quite that easy. There were some slippery spots in our path from a corporate staff to a fully functioning business unit.

The size of the organization and the

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tempting to do what we did has to commit itself to plan continual sales, customer contact and business orientation training.

Everyone gets trained

Desire, enthusiasm and dedication can move mountains. But it is unrealistic to assume that successful staff executives from fields such as training and development, compensation and benefits, pesonnel research and organization development can immediately make the adjustments necessary to understand marketing, accounting and business planning concepts.

It is one thing to manage a large and sophisticated training and development staff function. It is another to manage a business that sells training and development and requires technical development funding, pricing decisions and financial analysis. So our leaders, too, had to undergo training and orientation. Therefore, we recommend involving professional line executives in this kind of venture in order to bridge the gap between professional staff management and line management skills.

Those who stay behind

Staff whose duties were primarily administrative remained with the parent organization. Those whose duties were primarily developmental moved into the consulting business. This led to some interesting issues. The most bothersome to the new consultants was that many of their former peers no longer treated them collegially. Those who remained in administration began treating the new consultants as costs to be minimized—not as fellow staff assets to be nurtured. Worse, the administrators were jealous that the consultants would have all the fun bringing products to the outside market—while they had to stay home and mind the store.

We learned that joint planning and organization development activities are essential. From the consultant's perspective, it is difficult to be both a vendor and a colleague. From the parent administrator's perspective, it is psychologically difficult to pay for something once free.

Is it worth it?

Is the reward worth the risk and trauma? I think the overwhelming majority of our employees would respond with a resounding "yes"! Our external sales grew beyond our projections; we profited from the beginning, and our products and services are valued in the marketplace. Our employees have grown in self-esteem and are proud to be profit contributors, as opposed to staff spenders. For us, it has been well worth the effort.

But before following our path, you need to consider these conditions for similar success:

■ *Make a long-term commitment.* Putting an internal staff function into a profit and loss environment is expensive, requires a change in culture and an extensive commitment to training. Before any organization makes the decision to transform its staff function to a line environment, these costs need to be weighed carefully, and top management committed for the long term.

■ *Have good products and excellent people.* No amount of planning or commitment can gain marketplace acceptance for mediocre staff or products. Before deciding to put your human resource function in a profit and loss environment, it is essential that the people have skills that are valued in the external market, and that human resource products be relevant and meet real customer needs.
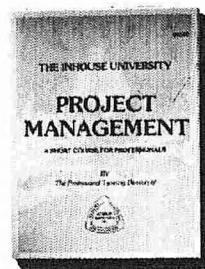
■ *Embed your efforts in a strategy.* The marketplace is large, complex and fluid. If you have excellent people and products that meet customer needs, someone will buy them. The risk is in getting spread too thin, trying to serve too many masters and failing for lack of focus. Agree on a strategy and force yourself to adhere to it. Lead with diagnostic products and follow with applications that meet customer needs. You might even grow to the point where you can turn down business you don't really need.