

The Human Resources Forum

"HR on the Edge"
Future Trends You Need
To Know Today



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"HR on the Edge" Future Trends You Need To Know Today

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INTRODUCTION

Human resource professionals—like the organizations they serve—are confronting the fallout of powerful economic forces, demographic shifts, and ever-evolving business management philosophies. Overall, they're handling it well, as they prioritize their targets, pick their strategies, and marshal needed resources to get the essential HR job done.

But their efforts and critical choices need not be made in an information vacuum. Indeed, they can enhance their prospects for success by comparing notes with their peers. This research, which was undertaken for the 2004 HR Forum and readers of *Human Resource Executive* magazine, seeks to provide a useful vehicle for benchmarking. Participants were selected from a pool of prior HR Forum attendees as well as from demographically equivalent *Human Resource Executive* subscribers. Overall, 321 HR professionals participated in the survey. A large proportion (43 percent) of the respondents were directors or vice presidents of HR. On average, the organizations represented in the sample were multinational (64 percent) with more than \$100 million in revenue (59 percent). Survey data was drawn from a broad range of industries, and manufacturing appeared as the most frequently selected classification (24 percent).

The survey was designed, funded, and analyzed by research analysts at Development Dimensions International, Inc. (DDI), which has helped more than 2,000 companies worldwide select and develop exceptional talent since 1970.

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HR MEGATRENDS

The fundamental goals of the survey were to identify basic trends that are having an impact on HR today and to see how HR is responding to them. Survey respondents were asked to rate the expected level of influence that some 23 trends, culled from the broad range of human resource disciplines and realms of responsibility, will have on HR practices or policies over the next two to three years (1 = Low, 2 = Moderate, 3 = High). The trends included in the survey instrument were drawn from reports that have appeared in human resource professional publications.

Individual trends were grouped into six intuitively clustered themes. The themes, in turn, were ranked, based on averaging the percentage of respondents who rated the individual trends as having "high" significance.

TABLE 1: SIX TRENDS INFLUENCING HR IN THE NEXT 2-3 YEARS

	Percent "high level of influence"
Rising Compensation Costs	62.6
Rising cost of benefits, especially health care	70.3
Competitive pressure on wages, etc.	54.8
Developing Human Capital	47.8
Managing talent—developing and retaining the best workers	66.8
Labor shortage—finding the right talent	44.3
Greater demand for highly skilled workers	42.6
Higher ethical standards	37.5
Harnessing New Technology	39.1
Use of technology to communicate with employees	48.3
A move toward single software platforms	36.2
Evolution of new technologies	32.8
Organizational Pressures on the HR Function	35.4
A focus on the impact of HR on business performance	43.9
Improving organization's ability to adapt to change	54.6
A need to have more seamless integration	41.9
Increase in employment-related government regulations	21.8
Outsourcing pressure	14.9
Adapting to a Global Economy	25.7
Economic pressures that force organizations to rethink	50.5
A need to change or initiate HR systems more quickly	32.2
A push to increase consistency of HR practices	20.3
Increased global interdependence and competition	16.2
Change from manufacturing to service economy	9.3
Managing the Changing Workforce	23.8
Increased diversity in the workforce	29.0
Work-life balance	28.6
Increased vulnerability of intellectual property	23.0
Changing work patterns—24/7 availability, etc.	14.7

RISING COMPENSATION COSTS

The percentage of high ratings for this cluster was nearly 63 percent, rendering it by far the most significant trend grouping. (The results are summarized in Table 1.) The subtrend driving that result was the "Rising cost of employee benefits, especially health care." In particular, more than 70 percent of survey respondents reported that trend will exert a high degree of influence on their HR practices over the next two to three years—not a surprising result given the recent spike in health plan costs.

Survey data from other source documents that, while the pace of health care inflation is declining somewhat, it still remains unacceptably high. For example, a recent survey of 449 employers¹ points to average health plan cost increases of 12 percent in 2004, down only one point from the previous year's 13 percent average for that group. Another recent survey² suggests that average increases in the near future will be below the double-digit pace of 2004 (specifically, 7.4 percent), but will still be a challenge for most organizations to handle.

"Competitive pressure on wages, compensation, and total rewards" was rated as a highly significant trend by nearly 55 percent of the survey base. Only 3.4 percent rated this trend as being of low significance. While employers have yet to begin granting substantial raises across the board, they are bracing for the competitive necessity of increasing compensation once again.

"Rising concerns around health care and job benefits [are] not just about cost control," according to David Shadovitz, editor and publisher of *Human Resource Executive* magazine, a cosponsor of this study. "With expected long-term talent shortages and the economy heating up, it is all about retaining our big players." One survey respondent made the link this way: "The rising cost of health care . . . will probably cause more retirements and employee dissatisfaction," with direct implications for talent retention.

¹New Reality. New Choices. Ninth Annual National Business Group on Health/Watson Wyatt Survey 2004.

²Changing Benefits, Critical Decisions: The Health Benefits and Behavior Study, 2004. Fidelity Investments.

DEVELOPING HUMAN CAPITAL

Concerns relating to talent retention, under the broader framework of Developing Human Capital, ranked second behind the Rising Compensation Costs trend cluster. Within that grouping, "Managing talent—developing and retaining the best workers" was deemed a high priority by two-thirds of survey respondents. High priority also was assigned to the related issue of finding needed talent when internal talent is considered to be lacking. The survey data suggests that fears of an impending "war for talent" are as strong as ever, notwithstanding common talk of a current "jobless recovery."

Speaking to this issue, one survey respondent described the challenge of finding "highly qualified, high-performing individuals in a declining labor market." Another spoke of the trend in which "knowledge work is increasing at a faster pace and becoming a larger part of the work done than the availability of knowledge workers in the workforce." A similar comment, with a distinctly "post-9/11" spin, referenced the difficulty of finding suitable talent "with security clearances." Although many candidates might be available, the critical issue is an organization's ability to find employees with the right type of skills. Overall, by 2020 the gap between available and required skilled workers is projected to be 14 million.³

One "talent" that is receiving a fair amount of attention by many survey respondents is the ability to act ethically: 37.5 percent of survey respondents believe that a "greater focus on trust and integrity" (and the regulatory compliance implications [i.e., the Sarbanes-Oxley Act]) will have a high impact on their HR practices or policies in the next few years.

This emphasis on ethics—particularly at the top—exists partly because of a broader focus on organizational leadership, which has contributed to the accelerated pace of CEO turnover, generally through firings. This has had a disruptive impact on HR and throughout many organizations. And this painful disruption typically has no upside. "Most companies perform no better after they fire their CEO than they did in the years leading up to the dismissals," according to Margarethe Wiersema.⁴ "Companies that fire their CEO not only fail to boost their earnings, they also do worse than companies that replace their CEOs in a routine succession process," she wrote. According to William Byham, coauthor of *Grow Your Own Leaders* and CEO of DDI, "Those companies that succeed in the future will be a step ahead in terms of developing their leadership talent within their own ranks."

³Kaihla, P. (2003, September). The coming job boom. *Business 2.0*, 4(8), 97-104.

⁴Wiersema, M. (2002, December). Holes at the top: Why CEO firings backfire. *Harvard Business Review*, 80(12), 70-77.

What's more, poor leadership at the top—and, for that matter, in all tiers of management—affects HR more directly than the financial indicators might indicate. Research by DDI reveals that the most important factor for employee retention is the quality of relationship with one's supervisor or manager. This factor is far more important than compensation, according to the research.⁵

Perhaps the overarching theme of HR concerns the development of human capital at all levels of the organization—the need to do more with less. Lamented one survey respondent: "I'm in a declining industry where we're pressured to reduce costs every year, while maintaining service levels."

HARNESSING NEW TECHNOLOGY

Such pressure has led many HR executives to focus on the potential of information technology to drive productivity improvement, either throughout their entire organization or within the scope of their human resource operations. Thus, the Harnessing New Technology trend cluster is ranked third behind Rising Compensation Costs and Developing Human Capital.

Nearly half (48 percent) of survey respondents said that using technology to communicate with employees, including using self-service applications, was a high priority. Only 12 percent rated this as a low-priority issue. This typically translates to building employee information portals. HR portals are becoming "ubiquitous" in part because, with the presence of a portal, HR executives "can shift their attention from fielding rudimentary questions and filing forms to focusing on core competencies such as recruiting and retention."⁶

The statement is echoed by one survey respondent who reported, "Our push to get self-service technology . . . has saved the HR department a great deal of transactional work and freed us to proactively work on more strategic projects."

Interestingly, the 48 percent "high-priority" rating for this trend roughly correlates with the percentage of organizations that budgeted funds in 2003 for building an employee portal (52 percent).

⁵Bernthal, P.R., & Wellins, R.S. (2001). Retaining talent: A benchmarking study. Development Dimensions International.

⁶Waxer, C. (2004, March 2). Portal evangelists. *Human Resource Executive*, 18(3), 1, 22-26.

Portals are only one part of HR's technology transformation. Most organizations already have or plan to implement applicant-tracking systems to increase their hiring efficiency.⁷ Online tests and assessment tools offer a lower-cost option for enhancing selection quality. Learning management systems are being developed to push out e-learning 24/7 anywhere in the world. Performance and succession management systems have gone online as well. And, players like PeopleSoft, ORACLE, and SAP are all building toward the ultimate end game: totally integrated HR systems on a single platform.

Despite the growing excitement about electronically enabled systems, employers have learned that the HR technology trend is about more than just installing a system and waiting for the magic to happen. As with any major initiative, installing a portal or other electronic-based HR system is, in part, a change management exercise. As *Human Resource Executive* reported, "Employees aren't necessarily eager to abandon age-old routines for untested technology."⁸

ORGANIZATIONAL PRESSURES ON THE HR FUNCTION

Nearly half of the survey respondents said that "a focus on the impact of HR on business performance" is a high priority. One survey respondent cited "changes in our business model, forcing HR to be much leaner and more efficient in the services we deliver to the business" as guiding his role in the immediate future. Another mentioned "continued efforts to become more strategic." Most respondents believe that HR will be held accountable for demonstrating its value in the next two to three years. About 62 percent of survey respondents believe that the focus on both ROI and justification for HR are on the rise.

One area where survey respondents appear to believe HR can have a significant impact is in their organization's ability to adapt to change. More than half of survey respondents (55 percent) ranked this as a high-priority item.

Curiously, pressure to outsource HR functions was deemed as a "high-influence" trend by only 15 percent of the respondents. As noted later, this might be indicative of the trend that a great deal of tactical HR outsourcing (e.g., payroll, benefits) has already occurred.

⁷Pramuk, M. (2003) Worldwide and U.S. Recruiting and Staffing Services Forecast, 2003-2007. IDC
⁸Waxer, C. (2004, March 2). Portal evangelists. *Human Resource Executive*, 18(3), 1, 22-26.

ADAPTING TO A GLOBAL ECONOMY

Under the general heading of Adapting to a Global Economy, survey respondents were most attuned to the trend described as "Economic pressures that force organizations to rethink how to grow and be profitable." One survey respondent commented, "Our customers' ability to go offshore [to pay less for the products we make] will force us to tighten everything but the kitchen sink!" But another trend under the same globalization umbrella, "Increased global interdependence and competition," set off alarm bells for only about 16 percent of survey respondents.

Nevertheless, there is little doubt that as companies become global in scope (or seek to become so), HR practices must keep pace. The key challenge is to balance the need to embrace local cultures and employment laws with the need for a corporate culture and a consistent set of practices.

MANAGING THE CHANGING WORKFORCE

The sixth major HR trend grouping explored by the survey, Managing the Changing Workforce, appears to be the least of the average human resource executive's worries. While not off the HR management radar screens entirely, issues such as diversity, work-life balance, and changing work patterns were, in general, deemed less influential than others covered in the survey. The combined average "high-influence" score for this trend cluster was below 24 percent.

Note that terms like "diversity" are often mistakenly viewed narrowly as shorthand for a particular form of diversity, such as ethnicity. A more complete understanding of diversity must embrace workers with varying expectations of their jobs and work patterns (geographic [e.g., working from home] and schedules), with different degrees of loyalty, and with a focus on personal development rather than merely on compensation.

Either respondents feel that their organizations have adequate policies to address diversity, or these organizations have minimized diversity in favor of other more urgent priorities. However, given the recent U.S. census data predictions that, for the first time in America's history, more than 50 percent of its population will not be Caucasian,⁹ diversity will likely be an issue that most U.S. organizations must soon address.

⁹Miller, S. (2004, March 18). Census predicts decline of whites. *The Washington Times*. Accessed April 9, 2004 at: <http://washingtontimes.com/national/20040318-124558-3841r.htm>
Also: Table 1a from U.S. Census Bureau, 2004, "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin" (<http://www.census.gov/ipc/www/usinterimproj/>)
Projected Population of the United States, by Race and Hispanic Origin: 2000 to 2050 (<http://www.census.gov/ipc/www/usinterimproj/natprojtab01a.xls>)

HR'S RESPONSES TO TRENDS

Despite its growth in recent years from being mainly an administrative function to actually having greater involvement in organizational strategy development, HR would be ill equipped to respond directly to each trend that was quantified in this survey. (Indeed, some trends are even beyond the power of CEOs to address, at least in the short term.) Even so, there are steps that HR can take—and indeed is already taking—to respond to the changes and forces identified in the survey. We asked respondents to indicate which areas of human capital management will receive the most attention in their organizations over the next two to three years (1 = Low, 2 = Moderate, 3 = High). Figure 1 shows the percentage of "high" ratings for each of the areas.

FIGURE 1: AREAS OF HUMAN CAPITAL MANAGEMENT FOCUS IN 2-3 YEARS



The clearest example is the trend that is most widely identified by respondents (70.3 percent) as having a "high" level of influence on HR practices or policies over the next few years: the rising cost of employee benefits, especially health care.

Asked to identify "the best HR action or program you have initiated or been involved with in recent years," several HR Forum survey respondents pointed to their efforts to confront this challenge. "Aggressive health cost initiatives: new broker, high deductibles, focus group, etc.," one reported. "Redesign of the benefit program and changing health insurance carriers to balance costs and meet the needs of employees," wrote another. Other survey responses indicate that changes in how benefit programs are managed day to day might be part of the solution. "Outsourcing of health and welfare plans administration" was named as a "best HR action or program" by one person. Although the HR Forum survey avoided probing into specifics regarding changes to health plan designs, other recent research efforts have shed light on the subject.

CHANGING HEALTH PLANS

"Our 2003 annual enrollment data suggest that both plan adjustments made by employers and changes in employee behavior positively contributed to an overall mitigation of health plan cost increases in 2004," according to Fidelity Workplace Services.¹⁰ The general theme of plan design changes is increasing the proportion of health benefit costs that are borne by employees (averaging 29 percent in 2004 versus 26 percent in 2003). "Eighty-four percent of employees faced 2004 contribution increases to their current plans and 66 percent faced plan design changes."

Other research shows additional employer responses to rising health care costs. For example, one survey suggests that employers are doing less vendor-hopping.¹¹ In 2003 only 1 out of 10 employers changed medical plan vendors versus 3 out of 10 in 2002, according to the survey. A similar pattern was evident regarding pharmacy benefit managers.

This study concludes that employers are focusing more on changing their employees' behavior than on extracting pricing concessions from providers. "The only viable way for employers to break the log jam may be to help workers become more educated consumers of health care," states Helen Darling, president of the National Business Group on Health.

¹⁰Fidelity Releases Study on Health Benefits Behavior Trends: Study Shows Employer Actions Fostered Employee Consumerism, Mitigating 2004 Health Plan Cost Increase. (2004, March 17). (See footnote 2)

¹¹New Reality. New Choices. Ninth Annual National Business Group on Health/Watson Wyatt Survey 2004.

PRESSURE ON WAGES

Employers participating in the HR Forum survey expressed great concern over "competitive pressure on wages" (see Rising Compensation Costs in Table 1). Their responses to that concern were varied, including identifying the "best HR action or program you have initiated." Responses relating to compensation featured a common thread of harmonizing pay more tightly with organizational goals, employee productivity, and appropriate labor market norms.

From the opposite perspective—identifying the **worst** HR program—one respondent named a compensation program that is "personality based" and whose measurement standards "are not communicated." Presumably, turning such a situation around would have greater benefits on the organization than merely bringing wages in line. That person likely would have hoped as much.

Survey participants as a group were very much concerned with the fundamentals of HR management that, when executed well, accomplish a great deal more than tempering wage demands.

EXECUTING BUSINESS STRATEGY THROUGH ACCOUNTABILITY

When respondents were asked to rate the importance of a set of human capital management focus areas over the next two to three years (see Figure 1), the following three items were at the top (after "Managing benefits costs"):

- "Performance management and the appraisal process" (51 percent).
- "Talent acquisition" (50 percent).
- "Talent identification and development" (49 percent).

"I am not surprised by the increased importance organizations are placing on performance management; it can be an effective process for aligning individual/team goals with corporate strategy," comments David Shadovitz, editor and publisher of *Human Resource Executive* magazine. Indeed, 43 percent of the survey respondents also identified "Aligning strategic priorities with individual/team goals" as a matter of high importance.

This, in our opinion, is good news. HR is beginning to realize that performance management is far more than a functional appraisal process. It also can be an invaluable approach to managing strategy execution and business accountability.

That does not mean, however, that employers are satisfied with their efforts thus far. "While organizations fully understand the importance of having strong performance management systems in place to support a more strategic reward strategy, at this point, about half are not satisfied with the result of their efforts."¹²

A similar conclusion was drawn by DDI President Robert W. Rogers in his upcoming book, tentatively titled *Performance Management for CEOs and Those Who Wannabe*. Rogers, citing research by DDI and others, suggests that the financial impact of unsatisfactory performance management programs can be staggering. "Let's say you're one of the median companies that responded to [a survey showing that only 27 percent of managers were either satisfied or very satisfied with performance management]. You've got 20,000 associates. You just spent \$40 million on your performance management system. The odds are 3:1 that you are unhappy with your purchase."¹³

FOCUS ON TALENT ACQUISITION

Although the emphasis on hiring has diminished in many market sectors during the economic slowdown that began in 2001, the war for talent will inevitably intensify. Demographers have been warning for years that, as the massive baby boomer generation retires over the next decade, demand for employees will once again outstrip supply. This means that recruiting will be increasingly difficult and more costly as well as being very risky at times. Regardless of how carefully an organization screens, failure rates remain higher than anyone in HR would care to admit—in excess of 50 percent in many studies. An indication that HR executives are gearing up for this baby boomer phenomenon is that "Workforce planning, resource management" appeared relatively high on their priority list—ranked 8th (see Figure 1).

Winning the war for talent acquisition is likely to depend on three factors:

- Employers will need to describe themselves using propositions or brands, setting themselves apart from the competition as an "employer of choice."
- Employers must establish a selection system that is geared toward higher retention. This means assessing skills, knowledge, and motivational fit for the job.
- As outside talent becomes scarcer, organizations will need to do a better job of keeping and developing their current employees.

¹²Towers Perrin HR Services Global Study 2004: Reward and Performance Management Challenges: Linking People and Results.
(<http://www.towersperrin.com/hrservices/global/default.htm>)

¹³Rethinking Performance Management: Andersen Performance Management Survey Results (September 2001) Author: Andersen Consulting

DEVELOPING TALENT

Respondents assigned "Talent identification and development" virtually the same priority as "Talent acquisition" (see Figure 1). This perennial challenge—particularly regarding current employees—is compounded by a current climate of low confidence in corporate leadership, triggered in part by the spectacular Enron, Tyco, and WorldCom financial scandals.

A subtle distinction exists between acquiring talent externally and developing it internally, and organizations sometimes find it difficult to determine which is the most productive path. Past studies have shown that internal promotions are typically more successful than external hires.¹⁴ Recognizing that internal promotion is important also is evident from HR Forum survey responses; "Succession planning to ensure future leadership" ranked 6th on the list of important HR trends (see Figure 1). Effective succession planning requires developing a pool of fast-track candidates who are ready to step forward and assume important leadership roles at any time. Doing so involves a well-crafted succession management plan that contains methods for identifying, assessing, developing, and promoting suitable leadership prospects.

CULTURE AND EMPLOYEE ENGAGEMENT

A final broad area of HR focus, in response to the challenging trends that respondents face, comes under the general heading of company culture. Apparently, many—if not most—organizations need to promote a new culture that can handle the intensifying demands on the business. Their goals for doing this are to make the work environment more appealing and to facilitate a highly productive workforce. Essential ingredients of a corporate culture today are a strong sense of both direction and resolve.

As a means for driving business success, many organizations have focused their efforts on promoting employee engagement. When employees are engaged, they have focused work, interpersonal support, and a sense of individual value. HR Forum survey responses related to culture include "Employee engagement" (ranked 7th in the list of responses to HR trends) and "Improving manager-employee relationships" (ranked 9th). Organizations that focus their energy on engaging employees and improving employee-manager relationships recognize the value of motivated employees for business success.

¹⁴Bernthal, P.R., & Wellins, R.S. (2003). *The Leadership Forecast*. Development Dimensions International.

HR CLOUT RISING

To place in context HR's responses to the challenges it faces, this survey explores how human resource professionals perceive their roles, value, impact, and shortcomings. As Figures 2 and 3 indicate, the vast majority of respondents believe their level of influence with corporate leadership and their involvement with line operations are either stable or on the rise. Only 6 percent report a decreasing influence in both areas.

FIGURE 2: HR'S INFLUENCE AT THE BOARD OR EXECUTIVE COMMITTEE LEVEL

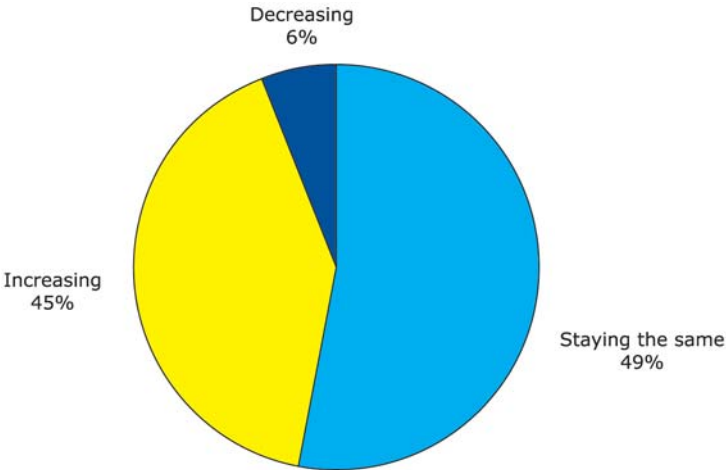


FIGURE 3: HR'S INVOLVEMENT AS A "BUSINESS PARTNER" WITH LINE OPERATIONS

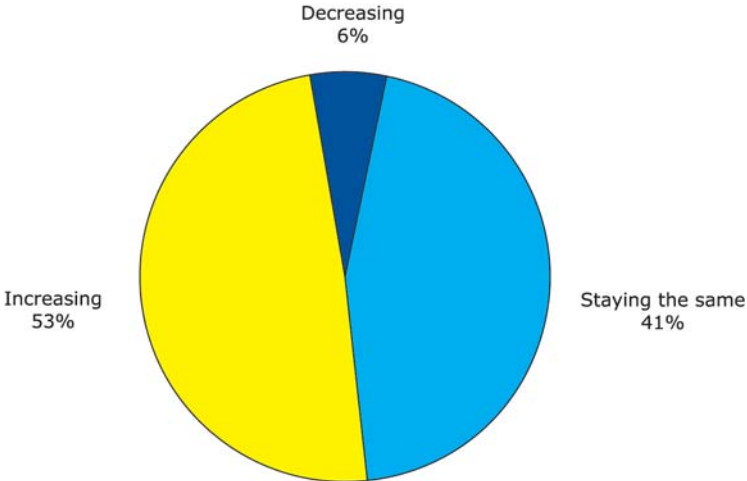
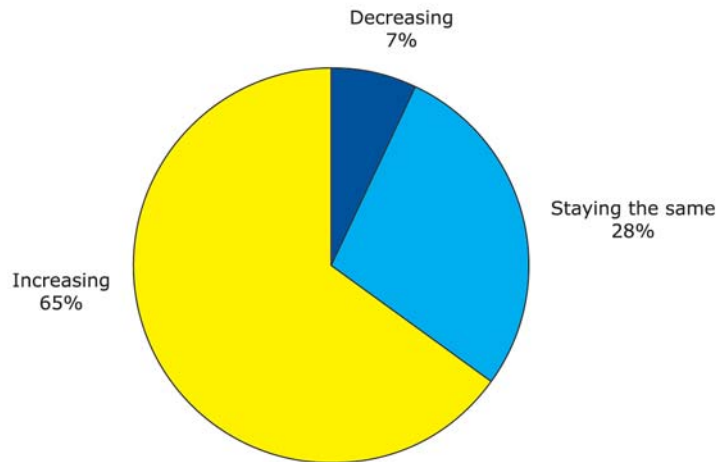


FIGURE 4: CHANGES IN THE STRATEGIC IMPORTANCE OF HUMAN CAPITAL MANAGEMENT



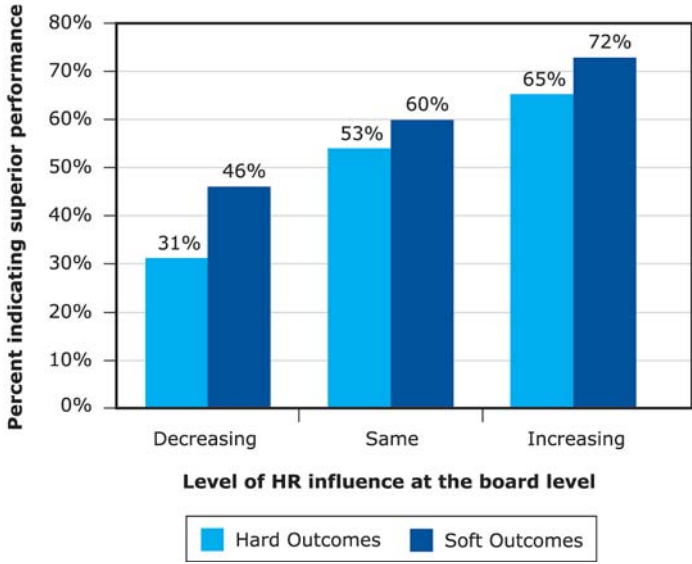
A natural consequence of rising HR influence in organizations is evident in Figure 4: a rising level of the strategic importance of human capital management. In other words, the more strategic HR professionals become in their initiatives and outlook, the greater the impact of HR on organizational performance.

That correlation is explored in Figure 5. Survey respondents were asked to indicate their projected organizational performance for the coming year, with "performance" broken down into two categories:

- **Hard outcomes**—including revenue growth, productivity, profit, and market capitalization.
- **Soft outcomes**—including product/service quality, customer satisfaction, employee satisfaction, and retention.

Results show that the strategic qualities of HR are related to both the hard and soft outcomes of an organization. As Figure 5 indicates, organizations where HR perceives its level of influence as increasing also are reported to be achieving superior performance results on both hard and soft outcomes. Contrarily, less than one-third of the survey respondents who believe the HR influence is decreasing are enjoying superior hard outcomes performance.

FIGURE 5: IMPACT OF HR INFLUENCE ON BUSINESS PERFORMANCE



Other strategic qualities were significantly correlated with business outcomes. Anticipated business performance was significantly associated with HR's role at the board or executive level, its level or partnership with line operations, and its degree of focus on human capital management. In other words, all indicators of increased strategic focus and influence in HR point to an enhanced level of impact on the organization. HR is well positioned to advance organizational success by leveraging the impact of human capital.

DRIVERS OF HR SUCCESS

Survey respondents were asked to choose between alternate pairs of descriptors, covering nine HR characteristics (see Figure 6). The proportion of organizations selecting each extreme provides a gauge of the overall qualities of HR functions.

FIGURE 6: QUALITIES OF HR FUNCTIONS

	Percent	Percent	
Strategic	35.9	64.1	Tactical
Centralized HR organization	71.0	29.0	Decentralized HR organization
Common HR practices across the company	64.1	35.9	Flexible HR practices across the company
Specialist HR professionals	21.2	78.8	Generalist HR professionals
Proactive	48.1	51.9	Reactive
Technology savvy	51.0	49.0	Technology challenged
Outsourced HR processes	7.8	92.2	Internal ownership of HR processes
Lean	79.3	20.7	Well staffed
Influential	42.7	57.3	Supportive

By a wide margin, the majority of HR departments operate with lean staffs; only 21 percent reported they were well staffed. Obviously, HR is not immune to the "do more with less" syndrome.

A more troubling result: Only 36 percent of respondents describe their HR shop as being strategic, as opposed to tactical, despite responses to other survey questions that suggest an increasing level of strategic importance on human capital management (see Figure 4). Unfortunately, this finding might interact with the lean staffing response, forcing HR professionals into a position of "treading water" rather than on focusing on "winning the swim meet."

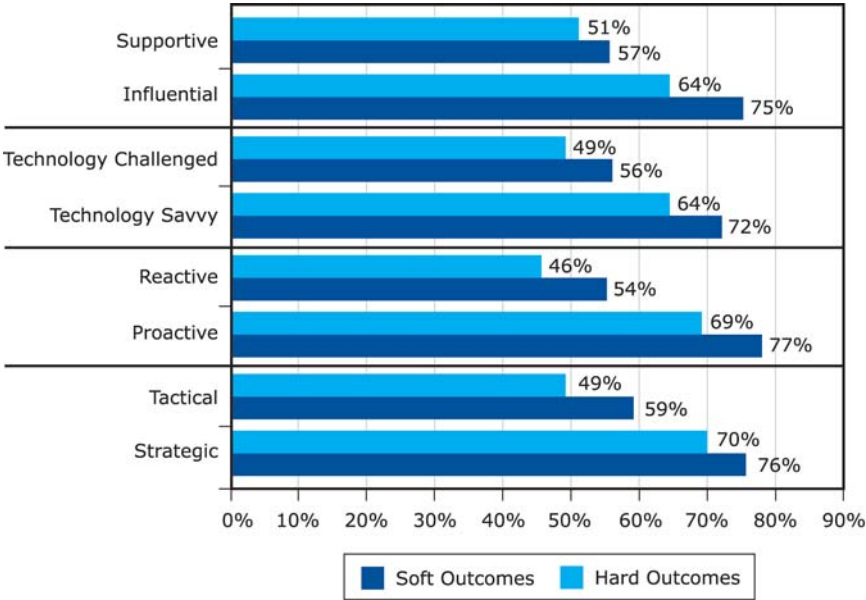
Responses to the remaining adjective pairs paint a picture of HR functions that is highly centralized and more supportive than influential. Roughly equal proportions of survey respondents described their HR departments as proactive and reactive. A similar even split divided the worlds of the technologically savvy from the techno-challenged.

Although these findings present a snapshot of how HR operates, they do not convey an optimal state. We conducted a special analysis to determine which HR descriptors were predictive of hard and soft organizational outcomes, which were described previously. Across all nine descriptors, four are significantly correlated with superior business performance:

- Influential
- Technology savvy
- Proactive
- Strategic

This means that when these qualities are high, the organization is significantly more likely to predict successful business outcomes (see Figure 7).

FIGURE 7: HR QUALITIES AND BUSINESS OUTCOMES



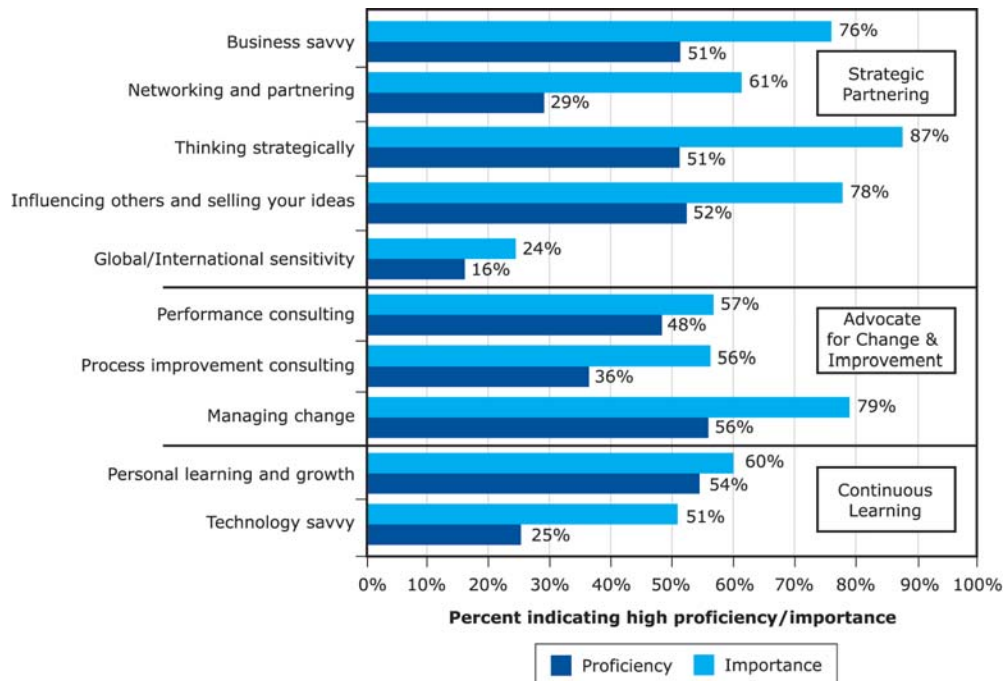
A LOOK IN THE MIRROR: COMPETENCY PROFILE


If organizations expect the human resource function to play a role in strategy development and execution, then HR must acquire and build key competencies to be equal to the task. Thus, survey respondents were asked to rate their current proficiency (Low, Medium, or High) across 10 competencies related to effective performance in HR (see Figure 8). Respondents also were asked to rate the perceived importance of each listed competency over the next two or three years. (This list of competencies was drawn from recent studies addressing the strategic role of HR.)

The 10 skill areas can be grouped into three clusters. Those that:

- Are required of strategic partnering.
- Are involved in effective advocacy for change and improvement.
- Pertain to continuous learning.

FIGURE 8: PROFICIENCY AND IMPORTANCE OF HR COMPETENCIES





As Figure 8 indicates, most HR professionals believe they have a moderate to high level of proficiency in all the competencies. They indicate their greatest strengths are in the areas of managing change, personal learning and growth, and influencing others and selling their ideas. In contrast, survey respondents feel weakest in global sensitivity, technology savvy, and networking and partnering.

However, a significant gap exists between their current proficiency in these competencies and their ratings of future importance of the areas. Two striking examples include technology savvy and networking and partnering. In both instances the percentage of respondents who consider themselves proficient in these areas was less than half the percentage who consider these as skills of growing importance.

Out of the 10 competencies evaluated, nine are predicted to be of high importance in the immediate future by at least half of survey respondents. The lone exception, global/international sensitivity, is likely to reflect responses from companies with no current or anticipated non-U.S. customers or operations.

BARRIERS TO CHANGE

Making the change to a new model of HR will not be easy. It involves a "higher bar" for individual competence and a redefined HR function. Several barriers stand in the way. Survey respondents were asked to pinpoint the barriers they encountered most often when attempting to introduce change (see Figure 9). In general, HR faces barriers similar to those encountered by other corporate functions.

Survey responses suggest that employees often dislike change and that groups within their organizations feel a need to protect their own turf. Change also is often impeded when it challenges the existing culture or lacks support from senior management. While the latter probably comes as no shock, the fact that only 50 percent of survey respondents identified "Lack of top management support" as a barrier suggests that resistance to HR initiatives from the top might be diminishing. And if top management is no longer the universal culprit, then HR needs to look inwardly to ask how it can do more to achieve more significant changes.

In any good implementation HR should strive for a policy of "realization." Realization means that changes are implemented with a clear understanding of the objectives and what it will take to reach the desired state. To achieve effective realization, HR should strive for good communication, high accountability, the right skills, alignment with other systems, and the ability to measure the impact of the change. In the long run, HR will experience the best ROI and avoid the most barriers when it carefully plans and executes an implementation.

FIGURE 9: COMMON BARRIERS TO CHANGE

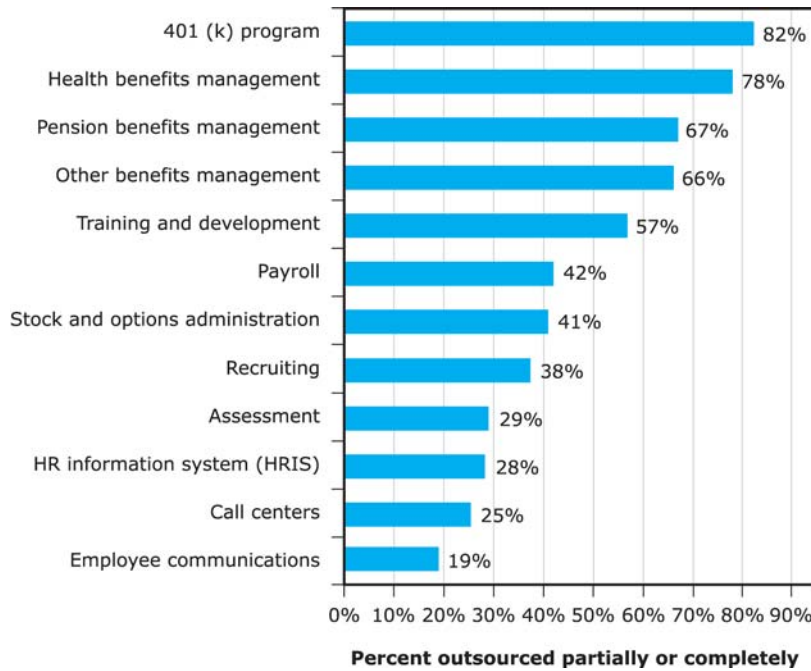


POTENTIAL FOR OUTSOURCING: NOT THERE YET

It is often suggested that if HR were to shed its administrative functions by turning them over to outside vendors, then it could devote its energies to strategy development and implementation and perhaps become genuine change agents. Whether this is true or not, the survey shows that outsourcing has yet to saturate the HR world, as few functions are outsourced completely.

As expected, outsourcing transactional services, such as retirement plans and benefits, are the most common (see Figure 10). However, a real resistance to outsourcing HR's strategic functions still exists. Yet, more and more HR functions likely will be outsourced—at least to some degree—in the next two years. Survey responses reveal that about 16 percent of organizations indicate that they will increase their level of outsourcing. In particular, health benefits management (27 percent) and training and development (21 percent) will be outsourced most frequently.

FIGURE 10: OUTSOURCING



There is a growing distinction between outsourcing and offshoring. Recent data¹⁵ shows that over the next 15 years, 3.3 million U.S. services industry jobs and \$136 billion in wages will move offshore to countries like India, Russia, China, and the Philippines. Offshoring is fueled by a combination of talent shortages in some job categories and cost efficiency in many others. Nevertheless, a backlash against offshoring practices is emerging as the U.S. continues to lose jobs to a global workforce. Several companies are actually stating publicly that they are not and will not utilize offshore jobs as a conscious decision to protect or enhance their image.

¹⁵(Forrester, 2002). Analyst: John C. McCarthy

CONCLUSIONS

1. It's a great time to be in the profession!

The value of intangible assets is becoming increasingly critical—and ensuring this value is HR's job, despite having to deal with lean staffs and increasingly complex roles. More than ever, HR is rapidly rising in stature and importance as the vehicle to leverage human capital. We have a unique opportunity to position ourselves as business partners who really know what it takes to drive organizational success through effective people strategies. With this new role comes great opportunities for learning and growth. Some might find this threatening, while others might recognize the great opportunity for building new skills. HR is rising to the challenge, but real dedication and commitment will be needed to keep pace with the changes.

2. We've come a long way.

HR finally has a place at the table. More and more organizations are inviting HR professionals to participate in strategic planning, recognizing the depth of knowledge that we possess. When we play this role, we are making an impact on business outcomes. Results from this study show that hard and soft outcomes are significantly higher when HR is strategic, proactive, technologically savvy, and influential. Few people five to 10 years ago would have used these words to describe HR. While we might be only halfway there, it is clear that the further we move in that direction, the more impact we will have.

3. There's great potential for impact.

In recent years studies linking human capital to the bottom line have become much more common. Employees run the company, and it would be foolish to think that investments in people do not produce a return. The trick is to make sure that whatever means are used to leverage employee talent are implemented effectively and to "realize" the true benefit of strong human capital.

4. We need to rise to the challenge.

Being an HR professional is becoming more difficult. The typical HR competency profile is evolving to more resemble a profile of a CEO or general manager. Skills related to business acumen and influencing and networking are becoming a common staple for HR. But are HR professionals up to the challenge? If anything, we have to be adaptable and willing to step out of our comfort zones. Functional skills are still critical, but they won't move us into the strategic role that leads to business success.

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