

Linking Behaviour to Bottom Line Performance

HR - Boom or Bust?

Commentators are currently polarised around the future of the HR function. Some suggest that the function is about to enter a boom period as after several years of cajoling, organisations are placing far greater emphasis on talent management and putting strategic HR activities at the heart of the business. On the other hand, others believe that HR is still struggling to rise to the challenge and is destined to remain a transaction based cost centre for the foreseeable future. As with most things, the truth probably lies somewhere in the middle. This article explores the evidence for both perspectives and suggests that solving apparently intangible human capital problems is the best way for HR to profit given current circumstances.

The Case for Boom

In examining the factors contributing to the possible 'boom' scenario, there are at least four underlying developments which contribute to this¹.

The Talent Management Agenda

The most significant development is recent research conducted by Price Waterhouse Coopers (PwC) and McKinsey which suggests that talent management is now a major priority for business leaders. PwC report that 89% of 1,150 CEOs agree that the people agenda is a top priority and a further 67% believe this is where their time is best spent². Meanwhile, McKinsey state that "By far the most significant trend - cited by 47 percent of the executives - is the intensifying battle for talented people. Shifting centres of economic activity and increasing technological connectivity were the next most important trends, each with 34 percent."³ Such data paints a clear

picture that executives are now firmly focused on talent management as a key, if not the top priority.

The Growth of Talent Management Software

The second development is the growth of the talent management software market, suggesting that leaders are paying more than lip service to the "our people are our greatest asset" mantra. Gartner defines such software by saying that "most large companies have implemented an integrated set of administrative human capital management applications. Now, these companies are turning their attention to strategic talent management applications to get more value from their investments in people."⁴ As reported by the Yankee Group, this market has a CAGR⁵ of 26%, making the market worth \$4.0bn by 2009⁶. The forecast also seems to be holding good with Gartner analyst Jim Holincheck reporting more enquiries for talent manage-

ment software this year compared to last, along with a record growth rate for 2007 of 20%⁷.

Rising HR Salaries

Likely to be of greatest interest to practitioners is the increase in salary and interim rates for HR professionals. Reed Human Resources reports an 11% rise in salaries during 2007 and a 30% increase in the size of the interim market. In similar fashion, agency Josline Rowe reports a rise in interim day rates from £350 to £500. As with the software market, such growth rates suggest that the intentions reported by PwC and McKinsey are being translated into the market and show a genuine commitment to act and recognition of the value that HR can contribute⁸.

The State of the Profession

There are a number of other trends that also suggest a positive future ahead for HR. The launch of the Human Capital

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Management Institute along with Jackie Orme, CEO of the CIPD speaking of “the headroom to grow our role as a function” and that “this gives us tremendous opportunity” suggests the profession is looking to develop itself. Further to the rhetoric, PwC’s research shows that between 2002 and 2006, the HR function has increased its HR staff to FTE ratio from 105 to 90, while raising the number of managers and professionals as a proportion of total staff in the department by 5.9% to 65.7%⁹. Such improvements have been realised alongside an increasingly efficient HR department. HR departments are now 14.8% more efficient, costing £1,110 to run per FTE in 2006 as against £1,275 in 2002.

The Case for Bust

While there are four factors that contribute to the ‘boom’ of HR, there are three factors that point towards the ‘bust’ side of the equation.

HR’s opinion of HR

Both formally and informally, there are a number of diverging opinions as to the current state of HR. While the CIPD speak of “opportunity” and “headroom to grow”, PwC suggests that “the future of the profession remains a matter for speculation”¹⁰. Perhaps the most telling comment comes from the CIPD website where someone asks “I would so dearly love to work for an organisation that can see the connection between HR and day to day business running. Do these organisations exist?”¹¹ Such opinions become more stark when seen in light of practitioners views of the CIPD. An August 2008 survey found that 61% of people don’t

believe the CIPD is relevant to modern business leaders while Barry Hoffman, branch secretary for central London said “The structure, constitution and operation of the institute should be reviewed, there can be no sacred cows.”

The Verdict on Business Partnering

While Dave Ulrich’s work on Business Partnering has been historically well received within HR, more recent opinion suggests a questionable legacy. Research from Roffey Park has found that half of 479 managers found that business partnering was less than successful in their organisations¹². Opinion on the practice ranges from “if you re-badge people without giving them training and awareness, you are setting them up for failure” to “I consider my role to be about adding value to the business and understanding the business model”. While the debate about business partnering goes on, Ulrich defended his work by saying “HR has been woeful at knowing the business well enough. We still have people in HR that cannot talk to board members when they start talking about cashflow or numbers. Equally, partnering was not about how HR can get into the boardroom, but what it does once it’s there.”

HR’s Capabilities

With opinion divided about the state of the profession and (arguably) its modus operandi suffering from a lack of wholesale acceptance, it is worth turning our attention back to the research. McKinsey report that 58% of line managers agree that HR lacks the capability to develop talent strategies, while

only 25% of HR practitioners hold the same view¹³. Also, in a similar vein to the thoughts above, 60% of managers and 51% of practitioners view HR as an administrative department. Meanwhile, PwC report on the top 10 barriers to change, of which 6 (as indicated by the *) are arguably the remit of HR.

Top Ten Barriers	% of Firms
Competing resources	48%
Functional boundaries *	44%
Change skills *	42%
Middle management	38%
Long IT lead times	35%
Communication *	34%
Employee opposition *	33%
People issues *	32%
Initiative fatigue *	32%
Unrealistic timetables	31%

What is the cause?

While people may debate the merits and likely outcome of the ‘Boom’ or ‘Bust’ scenarios, it is useful to understand some of the causes and contributing factors.

A Macro Perspective

There are a number of macro factors that go towards creating today’s circumstances and these are most simply distilled via the PESTLE framework.

- Political factors, similar to legal, outline the political will of the state that has seen the championing of individual rights. For example, the human rights act, corporate manslaughter legislation and reaction to migrant workers.
- Economic influences include compensation and benefits strategy, costs of

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acquiring and developing talent, business model success and the impact of economic forces on an organisation's objectives.

- Social elements include demographics, changes in lifestyle and living arrangements, the need to account for multiple generations of people in the workforce and changes in society that impact the workplace.

- Technological changes include greater availability of computing power and software, the increased sophistication and appetite for talent management software, greater efficiencies through systems, the relative maturity of the IT industry, innovations and R&D activities.

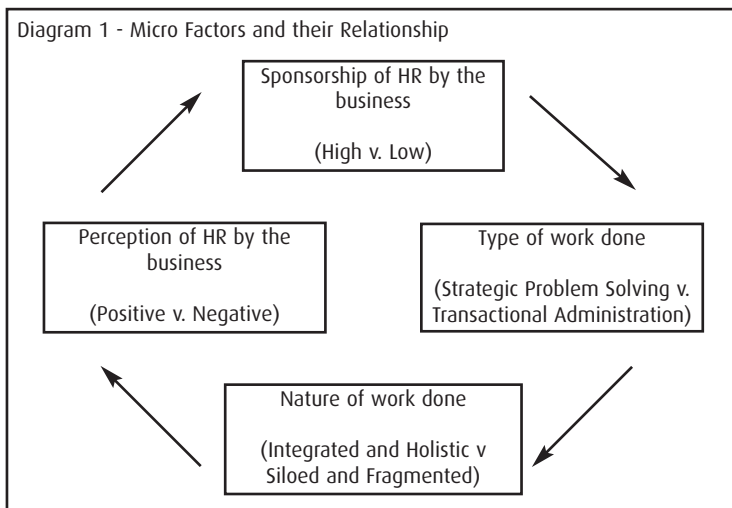
- Legal issues include employment law, health and safety legislation, discrimination, competition law and related Acts of Parliament.

- Environmental factors consist of sustainability, impact on the environment, an organisation's carbon footprint, corporate social responsibility and the perception of the organisation in the eyes of its stakeholders.

While this overview is brief, it is designed to introduce some of the external factors which have contributed towards the rise of the talent management agenda. For a more detailed analysis and a view of long term drivers, PwC's report "Managing tomorrow's people: The future of work to 2020" may be of further interest¹⁵.

A Micro Perspective

While macro factors impact industries, economies and society in terms of raising awareness of HR and in particular the talent management agenda, micro factors concentrate on internal issues,



creating a resource based view of the organisation in the process. Diagram 1 illustrates a number of micro factors and their impact on one another.

While diagram 1 shows the relationships between the micro factors that impact on HR, table 2 explores how the polarity of each factor plays out.

High Sponsorship of HR	Low Sponsorship of HR
Annual salary surveys from Robert Walters suggest that HR salaries are comparable to and sometimes higher than finance ¹⁶	According to the CIPD, training budgets have fallen 2.5 times between 2004 and 2008, from £756 per employee to £297 while the number of training days has remained steady at 5 days per employee per year ¹⁸
According to CEO Eric Schmidt, Google's famed 20% rule is as much about encouraging line managers to take ownership of talent management as it is about creating new products ¹⁷	There are just 5 HR Directors who serve on the boards of FTSE 100 companies ¹⁹
Strategic Work	Transactional Work
PwC state that "maximising the value of organisational resources has never been more challenging. Now, more than ever is the time for innovation and creativity. Keeping a watchful eye on the turbulent world economy and responding effectively is critical to sustainable business success." ²⁰	Chris Bones, Dean of Henley Business School has argued that "many organisations have applied the business partner model to enable HR to achieve its aims, when it doesn't fit them. By relegating the transactional to the back office, we have devalued the one thing that employees care about. HR needs to restore the value of transactions the personnel function." ²¹
Integrated Work	Fragmented Work
HP VP of Learning and Development talks about the silos in HR organically disappearing ²²	Dave Lefkow comments "There are so many silos and disparate processes in HR that the sum of its parts are often greater than the whole. Which brings us back to at least the spirit of the original question - who will step up and tie this all together?" ²⁴
In terms of a shift towards integration, Systematic HR writes "I think we've reached a point where functionality is becoming much less important. As we focus ourselves on the customer rather than internally on HR,	McKinsey builds on this when they write "silo thinking - focusing on the

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Table 2 - Perspectives on Micro Factors (contrinuted)	
Integrated Work	Fragmented Work
the shift is going towards integration and customer usability ²³	interests of one part of the organization rather than the whole - not only hinders the mobility of talent within a company but also undermines the sharing of knowledge and the development of interpersonal networks (or "social capital") across the organization. ²⁵
Positive Perception of HR	Negative Perception of HR
Harvard Business School graduate Daisy Wademan Dowling writes "in business school, we were trained to seek out underappreciated investment opportunities and to create value in surprising places. Unlike our peers searching for bargains in private equity or at hedge funds, though, we see the deepest discounts in the complex task of identifying, attracting, developing, and deploying people" ²⁶ Research from Deloitte finds that 82% of executives believe HR will be seen as a strategic, value adding function within 3 - 5 years ²⁷ .	Only 23% of executives believe HR currently plays a crucial role in strategy formulation and operational results, as reported by Deloitte ²⁸ . Fast Company writer Keith Hammonds states that "in a knowledge economy, companies with the best talent win. And finding, nurturing, and developing that talent should be one of the most important tasks in a corporation. So why does human resources do such a bad job and how can we fix it?" ²⁹

As can be seen from the information in table 2, there is a wide spread of outcomes, opinions and research as to what influences and impacts HR's role within a business, the type of work that is done and the level of sponsorship afforded the function.

Human Capital Metrics

While influences on HR are many and varied, making the most of the opportunity is likely to be of greatest interest to practitioners. While there is no shortage of focus in the profession on metrics and human capital, it is worth remembering that;

- Better measurement of something does not necessarily improve it or solve any problems
- While human capital efforts are to be applauded and encouraged, some have warned against placing too many eggs

in this particular basket

Human Capital efforts clearly move HR forward and help with talking the language of business. While we shouldn't throw the baby out with the bathwater, it is useful to recall Jeffrey Pfeffer who wrote the following in 1997³⁰.

"Equipping human resource managers with additional analytic tools and language is all to the good, as far as it goes. In the end, however, all one accomplishes is being a more skilled player at someone else's game. By so doing, one buys into the ultimate sensibility and reasonableness of the basic measures and ideas in the first place; this is often a mistake. Being skilled at the wrong game is not a very promising strategy for either the company or the human resources function. It is unlikely that human resources will ever be able to win playing the number

games against those with much more experience who also get to set the rules. Even if they do win, the victory may have extracted a large cost in terms of losing the distinct perspective and competence of human resources in the process of becoming like other staff functions... If all human resources becomes is finance with a different set of measures and topic domains, then its future indeed is likely to be grim."

Rather than trying to beat finance at their own game, as Pfeffer implies, focusing on the unique abilities of HR is likely to progress the agenda much further, more quickly. With this in mind, it is interesting to read of the stories in IT^{31,32} and Marketing^{33,34} and their chosen methods in advancing their own agendas. It will come as no surprise that 'sticking to the knitting' and exploiting your own competencies and skills, rather than trying to beat someone at their own game is the key message!

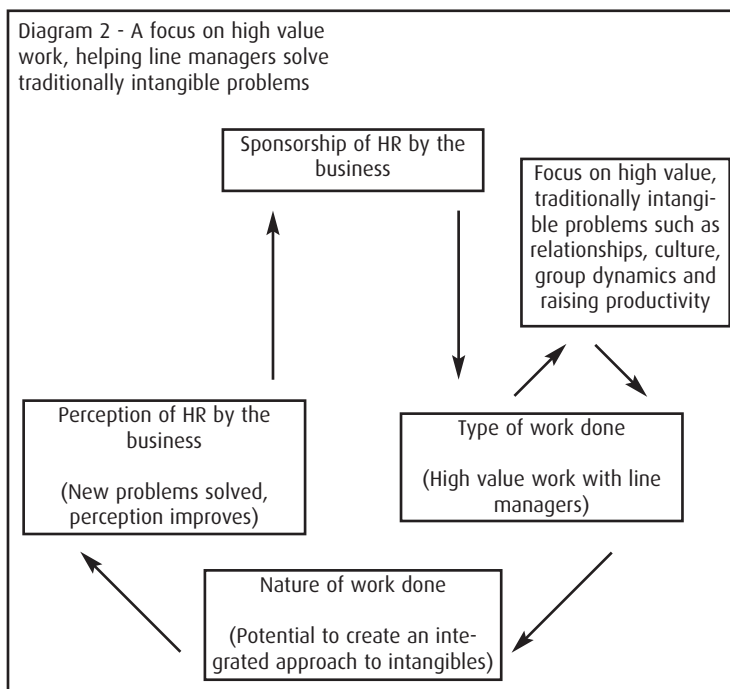
In terms of adding value and making HR indispensable, this is no simple task. There are statutory and legal obligations to fulfil along with balancing transactional and strategic efforts. Equally, recognising who owns and then facilitating talent management is par for the course. Even more significant perhaps is the notion that there is no industry wide best practice model or framework to follow, each organisation's HR and human capital values, processes and resources are likely to be unique. Even models such as Accenture's Human Capital Development Framework or Watson Wyatt's Human Capital Index are far from a one size fits all approach. More encouraging is the fact that HR and in

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particular, Learning and Development professionals are willing to try new and different approaches to advance their cause. The proliferation of tools, techniques and approaches cannot be understated, while a quick glance at the CIPD's annual Learning and Development survey for 2008 details a list of 14 different techniques with 'most effective' scores ranging from 53% to 1% with an average of 20.7%³⁵. This in itself is clear evidence of the fragmentation and unique needs of organisations.

Solving Problems and Leveraging the Opportunity

While experimentation is a good thing and the apparent fragmentation of approaches arguably being evidence of the silos seen in diagram 1 and table 2, focussing on solving problems that are specific to line managers and their teams is likely to yield the best results. Efforts in this direction have already begun with attempts to develop line managers being reported by 72% of respondents to the CIPD L&D survey³⁶. Similarly, 86% of line managers are involved in determining L&D activities and 49% of practitioners believe that line managers will have more responsibility. Such an approach, while perhaps in contrast to the more traditional focus on the development of 'management populations' is likely to see greater



value being provided by HR and its perceptions amongst colleagues rising as a result. Diagram 2 illustrates this sequence of events.

While the focus on high value work with line managers may need some education time in terms of acknowledging the difference between transactions and more strategic input³⁷, this type of work ultimately benefits both HR and the business. By equipping line managers with the skills and information to proactively manage their own teams and reports, the HR function permeates and extends throughout the organisation in a far more meaningful

and practical way.

Taking this as a starting point, it is intriguing to see Emily Lawson of McKinsey talk of the fact that while talent management has changed much over 10 years, there are currently no definitive answers for organisations³⁶. Given McKinsey's reach and resources, this arguably legitimises the existence of the boom scenario while leaving unanswered the means of fulfilling its potential. For those who like to rise to a challenge, has there ever been a better time to be a HR practitioner?

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Footnotes and references

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| <p>1. At the time of writing, October 2008, the effects of the credit crunch, potential recession and the need for governments to provide financial support to banks makes it difficult to be optimistic about future economic conditions. That said, the trends and observations within this article are likely to endure and in some circumstances, increase in significance.</p> <p>2. Managing People in a Changing World, Key Trends in Human Capital, A Global Perspective. Price Waterhouse Coopers, 2008</p> <p>3. The organizational challenges of global trends: A McKinsey Global Survey, December 2007</p> <p>4. Talent Management Application Suites Can Enhance Workforce Effectiveness, Gartner, June 2005</p> <p>5. CAGR – Compound Annual Growth Rate</p> <p>6. http://tinyurl.com/3nm2h2</p> <p>7. http://tinyurl.com/47movd</p> <p>8. While salary rises and market growth is undoubtedly positive, it is unknown how much of this for the development of HR practice and how much is due to companies needing to reduce headcount. Given that GDP growth in 2007 was 3.1% and is currently at 1.4% for 2008, assuming the former would not be unreasonable.</p> <p>9. Managing People in a Changing World, Key Trends in Human Capital, A Global Perspective. Price Waterhouse</p> | <p>Coopers, 2008</p> <p>10. <i>ibid</i></p> <p>11. http://tinyurl.com/4h8xzm - Registration required</p> <p>12. http://tinyurl.com/442wo3</p> <p>13. Making talent a strategic priority, McKinsey Quarterly, January 2008</p> <p>14. Managing tomorrow's people: The future of work to 2020. Price Waterhouse Coopers, 2008</p> <p>15. <i>ibid</i></p> <p>16. http://tinyurl.com/4tu2r9</p> <p>17. http://tinyurl.com/5g8l4e - Start the video from 47:05 for relevant segment</p> <p>18. http://tinyurl.com/3rstnn</p> <p>19. Managing People in a Changing World, Key Trends in Human Capital, A Global Perspective. Price Waterhouse Coopers, 2008</p> <p>20. Managing People in a Changing World, Key Trends in Human Capital, A Global Perspective. Price Waterhouse Coopers, 2008</p> <p>21. http://tinyurl.com/4bmknl</p> <p>22. http://tinyurl.com/3sz45b - Start the audio from 18:19 for the relevant segment</p> <p>23. http://tinyurl.com/3evgt8</p> <p>24. http://tinyurl.com/45vt2u</p> | <p>25. The people problem in talent management, McKinsey Quarterly, May 2006</p> <p>26. http://tinyurl.com/3kybfv</p> <p>27. Aligned at the Top. How business and HR executives view today's most significant people challenges - and what they're doing about it, Deloitte Touche Tohmatsu, May 2007</p> <p>28. <i>ibid</i></p> <p>29. http://tinyurl.com/477e7a</p> <p>30. Jeffrey Pfeffer, 1997. Pitfalls on the road to measurement: The dangerous liaison of human resources with the ideas of accounting and finance. Human Resource Management, Volume 36 Issue 3, Pages 357 - 365</p> <p>31. http://tinyurl.com/4wzgn8</p> <p>32. http://tinyurl.com/3nzhua</p> <p>33. http://tinyurl.com/4rfo4r</p> <p>34. http://tinyurl.com/43judx</p> <p>35. CIPD Learning and Development Survey, April 2008</p> <p>36. <i>ibid</i></p> <p>37. http://tinyurl.com/4lfl35</p> |
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