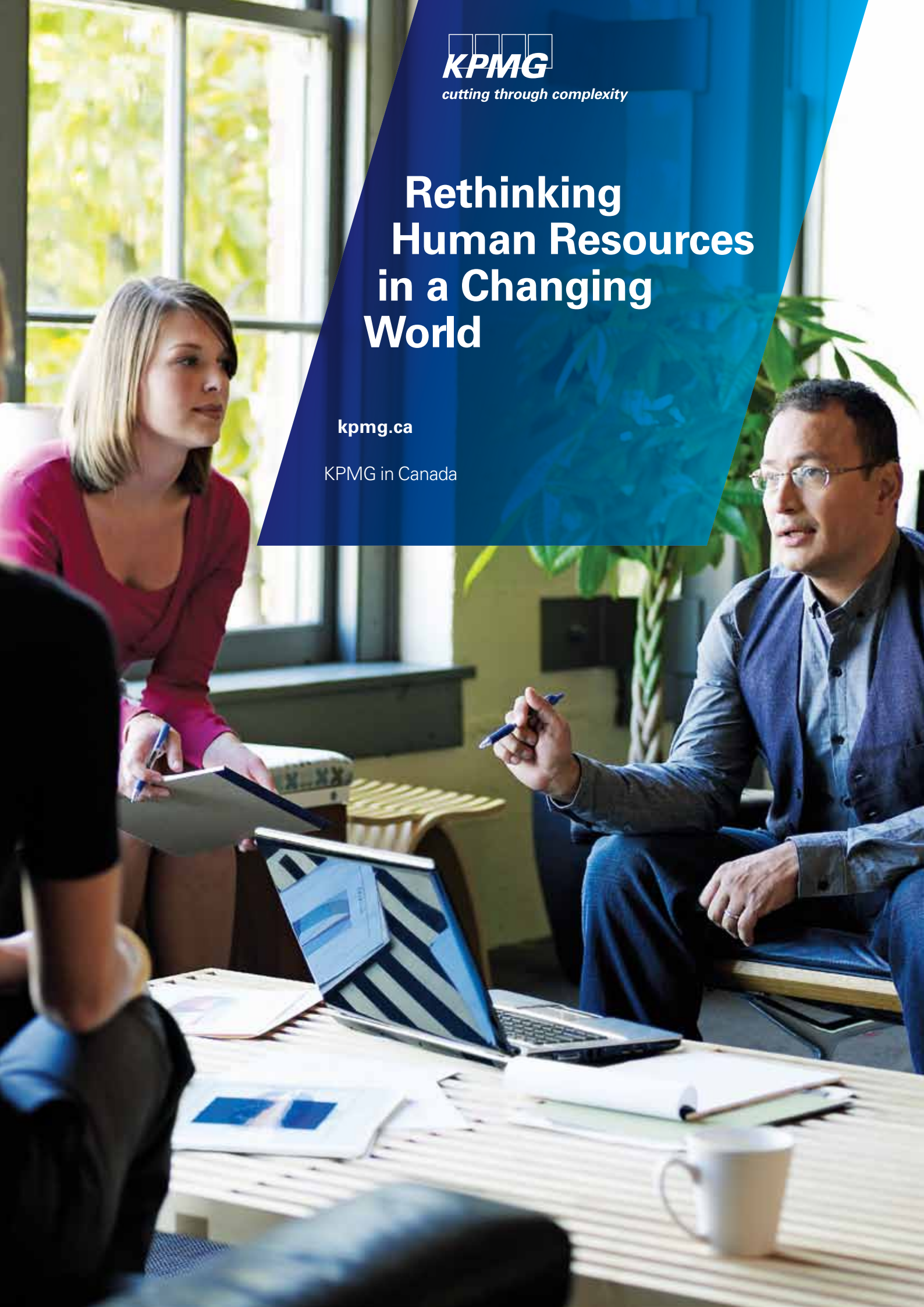


Rethinking Human Resources in a Changing World

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Preface

KPMG International commissioned the Economist Intelligence Unit to conduct a study to investigate the forces influencing the Human Resources (HR) function, how technology is shaping HR's response and what HR might look like a decade from now. *Rethinking Human Resources in a Changing World* is the report from that study.

We would like to thank all the executives who participated in the survey as well as the following individuals who contributed their time and insights in subsequent interviews:

Gabriella Giglio

Executive Vice President, Human Resources, American Express

Mark Huselid

Distinguished Professor, School of Management and Labor Relations, Rutgers University

Hugh Mitchell

Chief Human Resources Officer, Royal Dutch Shell

Kate Terrell

Vice President, Human Resources, Global Products Organization, Whirlpool Corporation

Dave Ulrich

Professor, Ross School of Business, University of Michigan

Athene van Mazijk

HR Leader

Mike Westcott

Global Human Resources Director, National Grid

About the study

Between May and June 2012, the Economist Intelligence Unit conducted a global study of 418 executives. More than one-third (37 percent) of respondents identified themselves as C-level executives; the remainder are at the management level up to senior vice-president. More than one-half of respondents (58 percent) primarily serve an HR function; the remainder (42 percent) represents a wide range of other functions.

The respondents are based in Asia-Pacific (32 percent), Europe (30 percent), North America (28 percent) and Latin America (10 percent). A wide range of industries is represented, including manufacturing and energy & natural resources (both at 12 percent), IT, financial services, and healthcare & pharmaceuticals (all at 11 percent). More than one-half of the companies surveyed (53 percent) boast more than 10,000 employees – 22 percent have over 50,000; the remaining 47 percent have between 1,000 and 10,000 employees.

Foreword



In the last 5 years, there has been a preoccupation with cost optimization, cost reduction, sustainable cost management ... all things 'cost'. This has required HR to play its part, largely through making the HR function more *efficient*, but not necessarily more *effective*.

No one expects this focus on costs to change in the short to medium term. What you will read in this report is that there is a clear case for HR functions to also generate *value* in the wider business and that there are some signs that this drive for value creation from HR will become increasingly important. The people agenda in most organizations contains some truly business-critical issues and the need for HR to rise to these challenges has never been more acute:

- the recruitment and retention of "top talent", particularly retention, in an environment where employee engagement has been and will be challenging
- matching the supply of talent to the geographies where the opportunities for growth are greatest
- the development of global career paths
- the need to create more innovative, agile and globally responsive organizations
- ensuring the people profile matches the value drivers of the business



- the smart use of technology to support both the business and its employees
- drawing predictive insights from multiple sources of data to ensure timely decision making on all aspects of the people agenda
- achieving an optimized workforce that has an appropriate mixture of employee types and employment policies.

KPMG International commissioned this study of executives across the globe to probe more deeply into the challenges the HR function is facing and to gain a deeper understanding of the opportunities that lie ahead. We sought to gain new insights into how the HR function can transform itself in order to deliver against the long awaited promise of becoming a strategic partner to the business.

Rethinking Human Resources in a Changing World has provided us with a fresh view of the path ahead for leaders of the HR function. We believe that a number of areas such as workforce analytics, talent management and technology will reinforce the need for HR to make the people agenda as important to business leaders as the balance sheet and P&L statement.

KPMG professionals' recent work with clients suggests that there is a route for HR to deliver sustained and

differentiated performance improvement to business. This is a route that requires deep insight into the business value chain and the development of a highly differentiated HR operating model. This is not, however, the path that many in HR have been following over the last 15 years. This study gives us some insight into this as well as some clues as to the way through the maze of challenges that HR now faces.

The HR function must rise to the challenge. It can, and must, push beyond the basics to enhance its reputation and fully exploit its critical role in securing return of investment on the people agenda.

We value *your* insights on these topics and encourage you to join the conversation by following us on Twitter.



Mark Spears
KPMG Global Head of
People & Change



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Fifty-five percent of survey respondents believe the metrics that define success in HR today will fundamentally change over the next 3 years. ”

Executive summary

The value of the Human Resources (HR) function elicits sharply contradictory views within organizations. On the one hand, in today's competitive global markets, the “war for talent” is understood to be crucial to almost every business. On the other hand, the HR function is often dismissed as non-essential or ineffective. Respondents to the study commissioned by KPMG International, give similarly mixed messages. About eight in ten (81 percent) respondents say that putting in place the most effective talent management strategy will be key to competitive success. Some six in ten (59 percent) believe that HR will grow in strategic importance. But just 17 percent maintain that HR does a good job of demonstrating its value to the business.

Meanwhile, the forces of globalization, talent constraints and new technology are driving rapid change to the HR function. Fifty-five percent of survey respondents believe the metrics that define success in HR today will fundamentally change over the next 3 years. *Rethinking Human Resources in a Changing World* examines the nature of the challenges facing the HR function and its future direction. The report's main findings include the following:

- **HR is struggling with the challenges of managing a global, flexible workforce.** The global workforce has become increasingly integrated across borders while simultaneously growing more virtual and flexible. These developments have made the retention of key talent and building workforces in new markets the top priorities of HR departments over the last 3 years. Survey respondents expect little change in the next 3 years. Yet only about one in four respondents say that HR at their company excels at core issues such as sourcing and retaining key talent globally; supporting a virtual and flexible workforce; and supporting the greater globalization of the business.
- **Finding ways to engage with workers will help address the challenges of this global, flexible and remote workforce.** Insights from interviewees for this report point toward improved employee engagement as the way to address many of these problems. This will involve creative solutions, such as the development of HR policies and approaches that have global application but can be made relevant to local conditions. It will also require new ways to engage meaningfully with a workforce that is less committed to the organization.
- **Technology has already transformed HR and the application of data analytics will foster even more profound change.** Sixty-nine percent of companies surveyed say it is more common for the HR function to provide web-based and/or mobile HR platforms (e.g. benefits, payroll) than it was 3 years ago; only 3 percent of respondents have cut back on these technology enhancements. These have already enabled HR to do its basic, administrative work faster and more efficiently. They have also provided employees with more flexible and tailored training opportunities while creating a positive culture for communication.



The advent of data analytics – the most commonly cited area by respondents for IT investment in the next 3 years – will lead to the next technological quantum leap for HR. Interviewees explain that the application of analytics, if done properly, will enable a more robust understanding of employee-related needs and opportunities. For example, already 57 percent of respondents say that data analytics is helping to identify future talent gaps.

- **Technology and economy: twin catalysts for HR transformation.** Powerful technologies, emerging in times of heightened financial constraints, present a rare opportunity for HR to enact long-overdue reinvention. Looking ahead, HR needs to:

- develop greater confidence, leadership and credibility, so that HR heads can deservedly insist on a place in strategic conversations at the highest levels

- develop closer partnerships within the company, especially with line managers who will inevitably use technology-driven HR services to play a greater role in employee management
- recast its strategy so that it begins from a whole-business perspective and is aligned with the needs of the entire company, not just the HR function.



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Part 1

'The Big Three' challenges to HR's new growth agenda

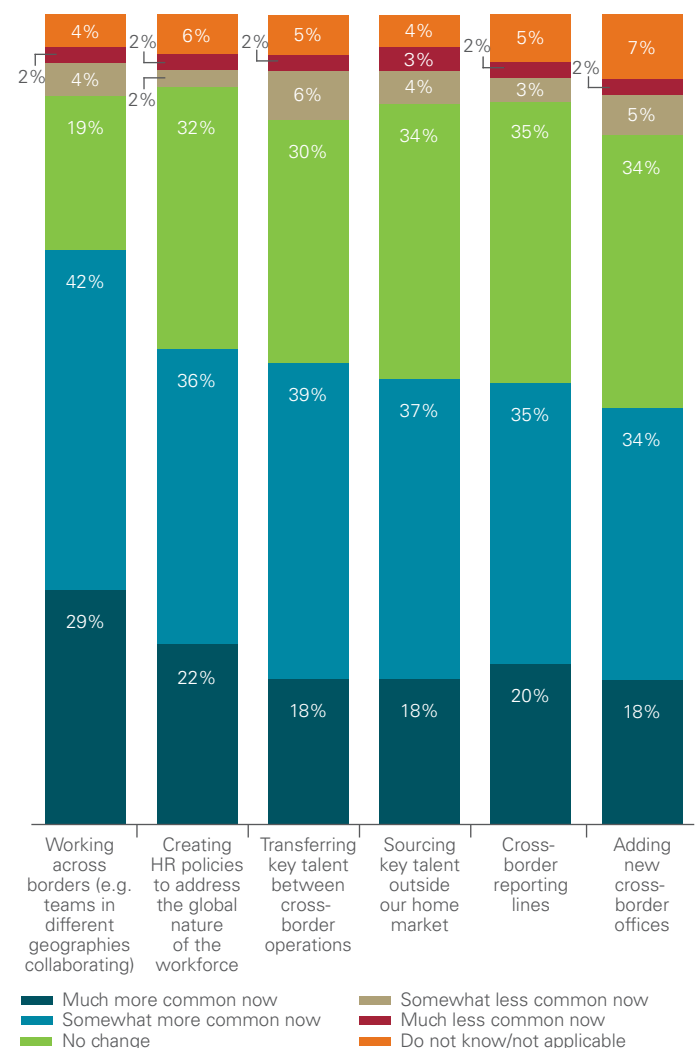
Amid current worldwide economic difficulties, the globalization of business continues apace. Companies from developed countries are seeking greener pastures, while those from emerging markets have acquired sufficient scale to start taking on the world. At the same time, cost-conscious businesses are turning to technology to become increasingly flexible and virtual. As a result of these forces, HR executives are focusing on the following core challenges:

- (1) **balancing the global and the local** – managing, hiring and identifying talent globally while retaining important local insights
- (2) **managing a flexible and virtual workforce** – but not at the cost of loyalty and career development
- (3) **retaining the best talent** – maintaining employee engagement in the face of a less committed, more flexible workforce.

Balancing the global and the local

Unsurprisingly, globalization is affecting today's workforce. According to the survey, 71 percent of respondents believe that working across borders (e.g. collaboration among teams in different geographies) has increased over the past 3 years, while at over half of companies polled, international reporting lines and talent flows have also become more common.

How has your company's workforce evolved geographically over the past 3 years? Indicate whether each activity is more or less common at your company now than before.



Source: Economist Intelligence Unit study as commissioned by KPMG International: Rethinking Human Resources in a Changing World, 2012



Survey respondents believe that expanding workforces in new markets – including the identification and hiring of talent across borders – has been the second-biggest concern for HR departments (after talent retention) in recent years and they expect it to remain so. Nevertheless, only one-quarter of respondents say that their HR departments excel at sourcing key talent globally and 24 percent say the same of their ability to support the company’s globalization strategies.

One of the ways in which HR executives can better manage a globalizing workforce is to devote more attention to issues such as coaching, training and staff development, and by changing remuneration and incentive schemes. But in so doing, companies need to work out just how globally consistent or locally customized these strategies should be. Dave Ulrich, a professor at the University of Michigan’s Ross School of Business, has led the largest global study on HR competencies¹, surveying over 20,000 executives, half of whom work in HR. He says his research indicates that “HR has truly become a global profession with global standards for HR competencies.” He adds that efforts to develop purely local HR solutions should be framed in the context of these global standards.

Our survey results support this finding. Sixty-three percent of respondents agree that HR functions are likely to become more globalized, centralized and uniform in the next 3 years. This suggests that HR policy and strategy should be global. Yet companies need to remember that local knowledge will remain essential to staff at an individual level. Mike Westcott, Global HR Director at National Grid, an electricity and gas

company, says, “There has been an idea for some time that you could standardize the HR function globally. Many markets today, though, are so distinct that HR needs to focus on understanding local needs.”

Finding a balance between a global and local focus is therefore essential. Gabriella Giglio, executive vice president for Human Resources at American Express, says that companies “need to ensure that HR programs and systems meet the local needs of employees. But everything we do is global, then locally cultivated. We never create programs that are specific just to one population.”

Managing a flexible and virtual workforce

Survey respondents are embracing the concept of a wider range of flexible work arrangements, which can reduce labour costs and allow greater access to talent.

- Sixty percent of businesses have increased their use of virtual workspaces while 48 percent reduced their reliance on physical office premises, shifting to hot-desking.
- Fifty-five percent of respondents have hired more contractual or temporary workers in the last 3 years; 41 percent are even using former employees as contractors.

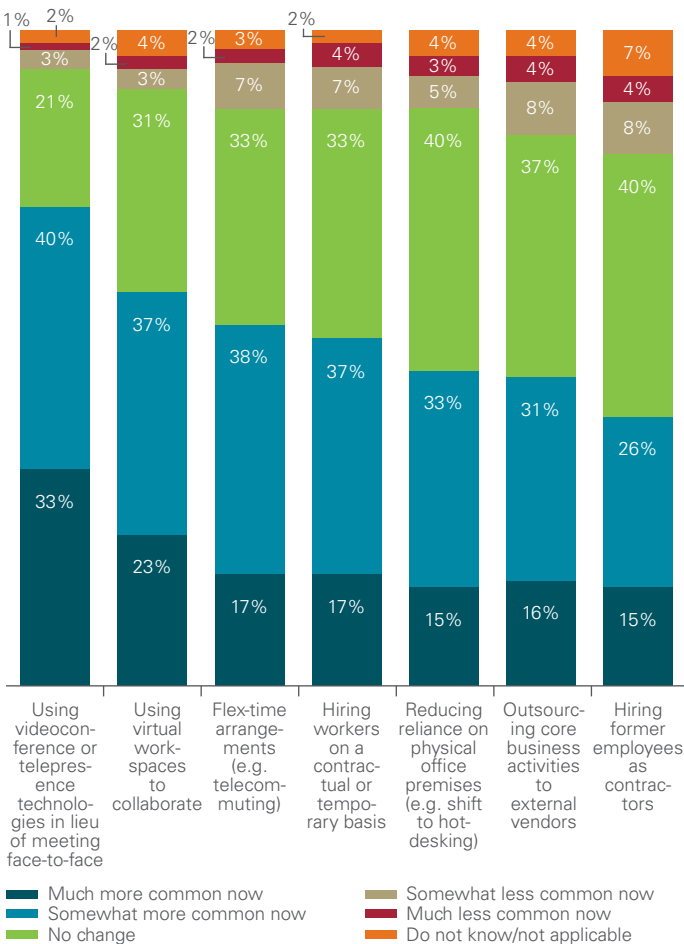
These trends are set to continue, according to our respondents, with 72 percent maintaining that their companies should increase the use of both virtual and flexible workers.

1. The 2012 Human Resource Competency Study, conducted by The RBL Group and the Ross School of Business at the University of Michigan, 2012



Employee engagement measures from virtual teams typically are lower than those for on-site teams that work close to each other.

How has your company's workforce evolved in these areas over the past 3 years? Indicate whether each activity is more or less common at your company now than before.



Source: Economist Intelligence Unit study as commissioned by KPMG International: Rethinking Human Resources in a Changing World, 2012

Contingent workers, remote workers, temporary workers and part-time workers – the growing array of employee types – present HR with a challenge. “No matter what contractual or work relationship,” says Mark Huselid, Distinguished Professor of HR Strategy at Rutgers University’s School of Management and Labor Relations, “all these workers have careers and interests. They need to feel like they’re part of the team.”

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This is more complex than it might appear. As Hugh Mitchell, Chief Human Resources Officer at Royal Dutch Shell, an oil and gas giant, puts it, “The flexibility that you get from virtual working does have a consequence in terms of engagement.” He explains that employee engagement measures from virtual teams typically are lower than those for on-site teams that work close to each other. Survey respondents are less than satisfied with how well they are doing in meeting such challenges: only 24 percent of respondents believe their HR department excels at supporting an increasingly virtual/flexible workforce.

“Even something as fundamental as performance management requires rethinking,” says Mr. Westcott. “The challenge with virtual working environments is trying to work out where people have really made a difference,” he says. “We need a sharper focus on basic things like objective setting, roles and capabilities and metrics and measurements.” Athene van Mazijk, an HR leader, adds, “We’ve found that we need to put a lot of effort into how we get people aligned behind common work agendas in remote locations.”

The solution is often to balance the use of traditional tools, like in-person meetings and mentoring, with technological tools, such as instant messaging and videoconferencing. “You have to invest money and face-time with people initially,” says Mr. Westcott. “But once you’ve got the basic working relationships in place, it’s easy to use the technology to build connectivity and deeper relationships.”

The HR function also needs to determine which workforce roles are appropriate to work remotely and which are not. Mr. Mitchell is not convinced of the advantages of creating large communities working on a constantly virtual basis because we are not getting the benefits [from them] in terms of collaboration, innovation and their personal development.

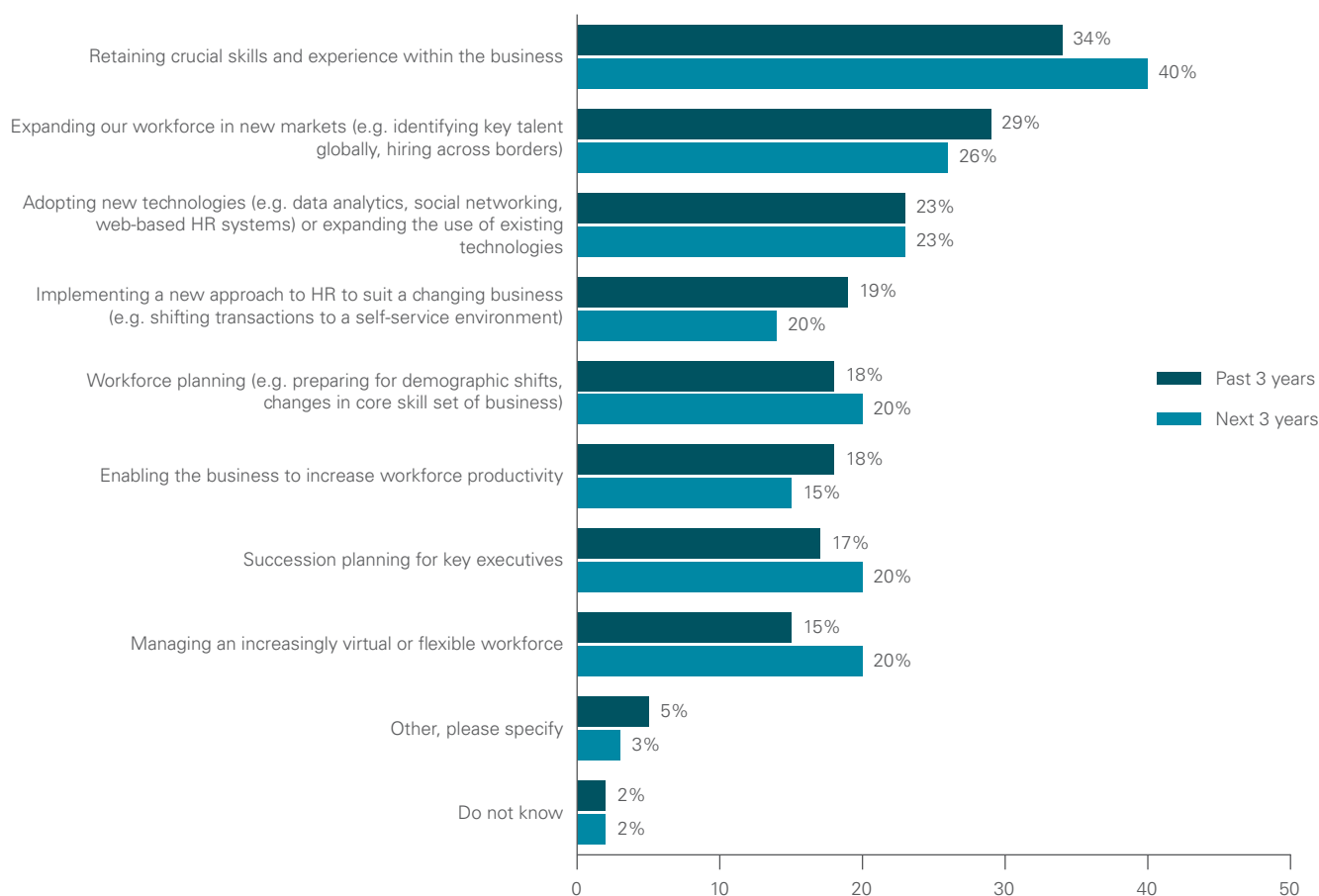
Retaining the best talent

Retaining talent remains HR’s biggest concern, according to survey respondents. If anything, its importance will increase: 34 percent of respondents cite retaining crucial skills as HR’s leading focus in the last 3 years and 40 percent say it will remain so over the next 3 years.



Retaining talent remains HR's biggest concern.”

Which of these activities has your company's HR function focused on most in the past 3 years – and which will it focus on most over the coming 3 years? Select up to two for each timeframe.



Source: Economist Intelligence Unit study as commissioned by KPMG International: Rethinking Human Resources in a Changing World, 2012

With alarmingly high jobless rates in many countries, it seems paradoxical that talent retention would be challenging. But the reasons are clear. Workforces are increasingly uncommitted. For example, a 2011 online survey of North American employees by Right Management, a workforce

consultancy, found that as many as 84 percent of employees plan to look for a new job at some point in 2012 – up from 60 percent in a corresponding survey in 2010. Among Economist Intelligence Unit survey respondents, only 26 percent say that their company excels at retaining the key talent it requires.

The key to improving these figures is employee engagement – increasing the commitment of the workforce to the organization. A recent study by the Corporate Executive Board² found that employees who are most committed to their organizations expend 57 percent more effort and are 87 percent less likely to resign than those who are disengaged. Ms. van Mazijk says that although the economic climate has helped with employee retention, the problem is still growing: “When it comes to retaining employees, employee engagement is crucial. It’s probably two-thirds of the equation.”

The key question is, will the greater virtualization of work undermine employee loyalty to the organization and clash with the need to retain top talent? The risk exists, but the result is not certain, says Professor Ulrich: “People are motivated by different factors. Some enjoy the social setting of work and find face-to-face interactions a critical part of the work experience. But more employees want to do work that is meaningful. If remote work is meaningful, people will stay.”



2. Source: Corporate Executive Board, “The Role of Employee Engagement in the Return to Growth,” Bloomberg Businessweek, August 2010



Tim Payne
KPMG
HR Transformation
Center of Excellence

I believe... talent management should be the top priority for HR, but many business leaders don't feel that HR is delivering for them. I believe that is because talent management is so often anchored in the present rather than focusing on the unique roles, capabilities and skills the organization needs to succeed in the future.

The “war for talent” has not let up, despite global economic conditions. In addition, it is a more sophisticated and complex war – the increasing global nature of the workforce, virtualization, and disaffection of the workforce – are all making it harder to secure the talent a business needs to succeed.

Senior executives seem to agree – with eight out of ten in the study seeing talent strategy as their primary source of competitive advantage. It is easy to assert then that talent management should be the top priority for HR departments. But what does it really mean in practice, and why are leaders not satisfied with their HR teams?

I believe there is often a gap between the ambition and rhetoric of talent management and the practice on the ground. Many talent processes have unfortunately become annual

form-filling exercises where business managers comply and HR departments are disappointed with the outcomes.

HR can re-define talent management by thinking ‘outside-in’, or put another way, beginning with the talent they need rather than their current talent.

This is important because many organizations are sitting on workforces that are not aligned to their futures. Those in growth markets are still lacking the right talent. Those in depressed markets are staffed with skills that are no longer needed. Both need to transform their workforces.

So talent management should focus on understanding the unique critical roles, skills and capabilities that a business will need to win in the future and then acquiring, developing and retaining them.

Paradoxically, I think HR must give away accountability for talent management in order to increase engagement and retention. Business unit and executive teams must own their talent and be held accountable for keeping the best employees. But HR can and should help prepare them for that responsibility.

Finally, I believe that HR teams must expect to be treated as any other core business function – they should help leaders to manage risk – in this case, to manage talent risks such as critical skill gaps, key person dependency and succession risk – and they should be able to demonstrate the return on the investment made in managing talent.

Can HR help their businesses get battle-ready for the war on talent? Absolutely. There has never been a greater need or a better time to start.

“The advantages of the HR self-service function are undeniable.”

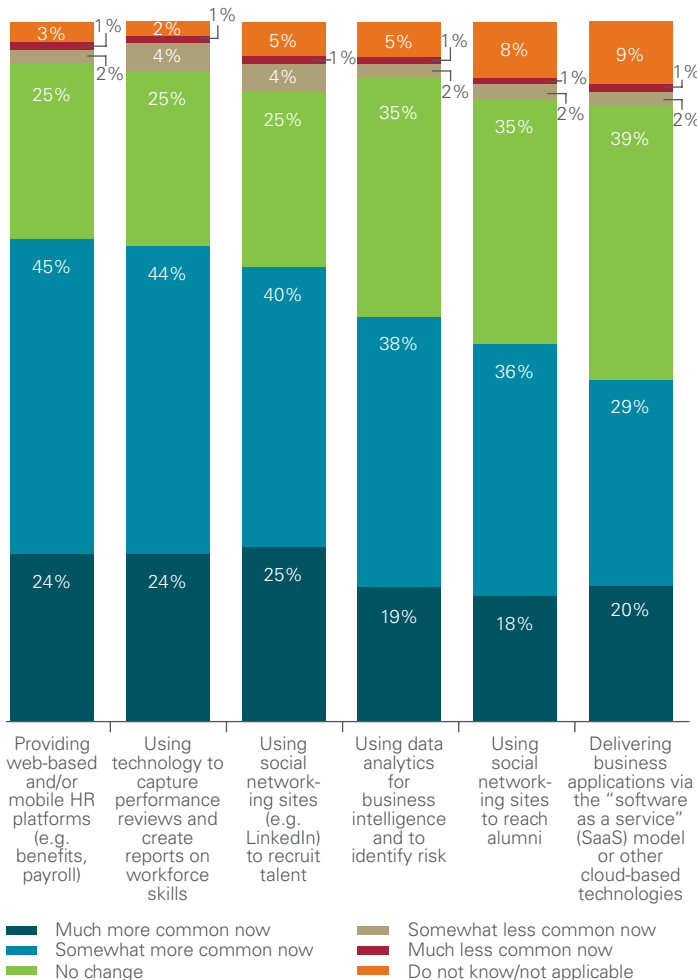
Part 2

Technology with the power to transform HR

A mobile, online, self-service HR function

HR has gone mobile in an effort to provide employees and their managers with a range of self-service functions.

Compared to 3 years ago, how is technology being used by your company’s HR function? Indicate whether each activity is more or less common at your company now than before.



Sixty-nine percent of survey respondents say that in the last 3 years, their companies have increased the use of mobile or web-based platforms. Nearly half (49 percent) are making greater use of the cloud to power these.

Web-based and mobile apps have enabled many employees to handle their own HR services, including benefits, payroll and performance evaluations. The shift to mobile and web-based platforms has not always been easy, though. “The story of HR ERPs is a fairly bloody one in most organizations,” says Professor Huselid. “They cost a fortune and you see many big companies that can have difficulties just giving the payroll out.”

Yet the advantages of the HR self-service function are undeniable. Mr. Westcott cites the following HR improvements experienced at National Grid.

- **Doing the basics better and more efficiently** – Moving toward a more self-service model has improved basic HR service efficiency while freeing up HR to focus on delivering more strategic services that add value to the core priorities of the business.
- **Better training** – National Grid has moved away from classroom training toward a more interactive, demonstrative approach. “This has been a very positive development and had a very powerful impact,” notes Mr. Westcott. “It enables employees to learn in more bite-sized chunks and in a much more visual manner.”
- **Creating a positive culture and brand for current employees and potential hires** – “New technologies are playing an important role in how we connect people in the organization and how we create a culture that is a medium for people,” says Mr. Westcott. “We are exploring how we use the technology to create a company brand that is attractive to people joining it.”

Source: Economist Intelligence Unit study as commissioned by KPMG International: Rethinking Human Resources in a Changing World, 2012

Rethinking Human Resources in a Changing World



Data analytics gives HR departments the long-overdue chance to become more empirical, to provide hard evidence for their opinions, thereby gaining much-needed credibility at the highest levels of the business.”

The next step: data-driven HR

Data analytics is the most commonly cited area (selected by 31 percent of respondents) for planned HR technology investment in the next 3 years. Analytics will allow HR to not only be involved in managing talent, but to also collect clearer information on its supply chain of talent and where the most demand for particular skills lies. Rather than acting on instinct alone, the HR function will be able to provide a far more granular roadmap of how the organization’s people resources need to be reshaped to deliver on the corporate strategy.

Data analytics gives HR departments the long-overdue chance to become more empirical, to provide hard evidence for their opinions, thereby gaining much-needed credibility at the highest levels of the business. Kate Terrell, vice president, Human Resources, Global Products Organization, at Whirlpool Corporation, a household appliance manufacturer, explains: “When you arm a business partner of the future with analytics, and they can share the facts with their teams to help drive better decision-making, it allows you to be much more strategic, much more insightful, and potentially, much more laser-focused on where you should be spending your time.”



Paulette Welsing
KPMG
HR Transformation
Center of Excellence

I believe...well thought-out predictive workforce analytics could become as important to the CEO as the balance sheet and P&L statement. Technology and workforce analytics could really shake up HR as we currently know it.

While it is encouraging that the topic of workforce analytics may be in vogue, I question how many organizations have been able to move any further than the most basic set of measurements.

At this level, workforce analytics does little more than provide a record of the HR department’s activities (number of recruits or training days in any given time period for example). It is a purely historic exercise that is fuelled by the vast array of data that emerges from any typical ERP program.

I think that true insight into the business begins to emerge at the second level, when HR is able to

consider measures around workforce sentiment and how complex the line of sight is from an individual’s role right through to overall corporate strategy.

This level of workforce analytics moves away from HR performance to the use of qualitative and quantitative measures to hold a mirror up to the organization.

I think there is a third level of workforce analytics, but this is real holy grail stuff. This is the stage at which we will be able to demonstrate the return on the human capital employed.

It’s the ultimate killer metric; benchmarking people in terms of the revenue and profitability associated with their efforts. It would allow us

to strip away even the benefits of the technology around them and hone in on what people actually deliver.

I don’t think the idea of ‘return on human capital’ or ‘profit per employee’ has yet taken a firm hold in most HR teams’ thinking, but I believe it represents the future for workforce analytics.

It should be what helps secure HR a place at the strategic top table and should be the next big thing as far as the CEO is concerned – not just the HR Director. That’s because, well-designed, predictive workforce analytics could become as important to the CEO as the balance sheet and P&L statement.



You have got to see social media as an opportunity: the idea that you can keep it somewhere outside the door is not going to be an effective strategy.”

That laser focus is important with increasingly scarce resources in HR departments. Mr. Westcott says, “HR professionals need to have measures and data because without them you are managing with gut instinct. You need to have facts and you need to be able to interpret the trends and benchmarks so that you can ensure better decision-making.” All this is particularly important when HR engages with other leaders within the business. Shell’s Mr. Mitchell points to the ability of such analysis to help the company as a whole. “You now have access to data that you never had historically,” he explains. “If you’re having a strategic debate about overall health, capacity and depth of skills in the company, you have so much data that you can do modeling with it. Good HR people are starting to do that in a much more structured way. That’s when you can really add value to the business.”

Fifty-seven percent of survey respondents say that data analytics are helping to identify future talent gaps. For example, BMW, a giant automobile manufacturer, has used data analytics to identify where the biggest skills gaps will emerge in its workforce over the coming decade as a wave of retirees exit the company.

Taking full advantage of such information will take time. First, HR needs to develop its abilities in a data-centric environment. Although companies are submerged in data, transforming data into intelligent insight and disseminating the information across the organization is more of a challenge. As Mr. Mitchell warns, “there is a real skill issue for HR about getting comfortable with using data in an effective way.” And this is no slight against HR professionals – after all, statistical analysis has not been in the job description for very long.

Operating in a transparent world: the promise and peril of social media

The rise of data analytics is accompanied by new sources of information. Traditional data sources – such as engagement scores, productivity data or labour market trends – have now been joined by less-structured sources like crowdsourcing and social media channels. This is difficult information to capture efficiently, but enlightened companies are harnessing software

that can track and manage their presence on social networks. These new data can be blended with traditional sources to reveal a new level of predictive insight.

Social media is changing HR across a range of areas, from recruitment to performance and career management. The implications can be both positive and negative. Forty-nine percent of survey respondents, for example, say that social networking sites have provided access to new sources of talent. About two-thirds (65 percent) are using social networking sites to recruit employees. Yet 51 percent of respondents believe that these sites have made it easier for competitors to poach their best people. A similar number (49 percent) report that social media makes it harder to control the company’s message and image and one in four (24 percent) admit that sensitive information has been leaked to the public through such sites.

Do you agree or disagree with these statements about the use of technology at your company?

The perils of social networking sites may arise from the newness of the medium. Companies are still figuring out what to do with social media and its implications. Social media makes business more transparent than ever before, with missteps more easily highlighted. “We’re apprehensive about social media because we don’t really understand it,” says Ms. van Mazijk. “Social media can be as damaging as it can be productive, and we’re constantly being surprised by the power of it. Invariably, there are some unintended consequences.”

National Grid’s Mr. Westcott believes the benefits of social media far outweigh the risks. However, he maintains that flexibility is essential. “In essence you are asking people to experiment and try different things, so you need to be open as well,” he says. “We have pursued that approach, adjusting all the time, killing the things that don’t work, finding new things that do.” Ultimately, says Shell’s Mr. Mitchell, social media needs to be managed because it is not going away. “You have got to see it as an opportunity: the idea that you can keep it somewhere outside the door is not going to be an effective strategy,” he says.



Executive Q&A: Shell's CHRO on technology and HR

Hugh Mitchell is the Chief Human Resources Officer (CHRO) at energy giant Royal Dutch Shell. Here he offers his views on how technology has affected HR in the energy business.

To what extent does technology support flexible working conditions at Shell?

Technology allows us to move work to people rather than having to move people to work. It also allows more flexibility and enables knowledge transfer and new levels of collaboration. However, it is not a substitute for having people directly connect and engage with our customers and key stakeholders. We have expatriates from something like 70 different countries operating in 80 different host locations, reflecting the value of having a globally experienced, professional and leadership cadre. However, technology allows us to run, manage and deploy this capability through one set of policies, one algorithm. Technology enables the introduction of a much more common approach to policies globally on everything that supports the free movement of people around our system. If there is a downside, it is that I think the visible face of HR to employees is more remote now than it has been.

How effective has technology been in reducing your cost base?

From about 2007 to 2011, we took some 40 percent from the cost base of HR, predominantly on the back of technology, like big IT systems, global process off-shoring to the Philippines, Poland and Malaysia, and a lot on the transactions side of HR. There has been a big efficiency play.

How important is social media at Shell?

Social media is a powerful tool. We use it in recruitment and more broadly in our engagement with customers and society at large. We use it more and more to link up all the employees into developments inside and outside of the company. It also allows us to connect directly with the public rather than working through intermediaries such as the media or NGOs. In a sense, we can even see our own employees as another large stakeholder community with whom you would wish to engage in the same way.



There clearly remains a vast gulf between the perceived importance and the perceived effectiveness of HR today.”

Part 3

The future of HR: Eradicating the stigma

It is practically a business truism that the HR function is not well respected at many organizations. Whether deserved or not, this stigma is clearly evident in our survey results.

- Only 15 percent of our survey respondents see HR as able to provide insightful and predictive workforce analytics.
- Only 17 percent view it as able to demonstrate measurably its value to the business.

In which of these areas do you think your company's HR function excels? Select all that apply.



Source: Economist Intelligence Unit study as commissioned by KPMG International: Rethinking Human Resources in a Changing World, 2012



HR executives have to be courageous leaders, able to force an argument on what is good business.”

Strikingly though, 81 percent of respondents see talent management as a key competitive advantage over the coming 3 years. There clearly remains a vast gulf between the perceived importance and the perceived effectiveness of HR today.

At the very least, HR has a perception problem. In many cases it may have actually failed to deliver real value. As the shifting challenges of globalization and virtualization combine with the new technological tools available to enable a reshaping of the HR function, executives should take a number of steps to improve the function’s contribution and its image.

Make the value of HR more prominent and understood.

Perceptions about HR in the wider company may arise from the very nature of its role. As the HR function works behind the scenes, many in the organization may not be aware of the good things that it is doing. “This is an inevitable part of being a staff support role where HR is the architect and the line managers are owners of the work,” says Professor Ulrich.

HR executives need to make sure the company knows and understands the value they can deliver, in part by insisting on being included in strategic conversations. “However you are organized, HR has to make sure it sits where power sits in an organization. Otherwise you are in a reactive mode and are not making the right proactive contribution,” says Mr. Mitchell. This is not a one-way street: it also involves understanding the needs of the whole business better in order to make that contribution. “Learning to listen deeply is one of the skills that HR functions need to develop, not only in terms of the context of their role but in terms of continually improving the organization,” says Ms. van Mazijk.

Being heard requires leadership, as well as the ability to provide valuable input. Professor Huselid notes that HR executives “have to be courageous leaders, able to force an argument on what is good business.” Although such leadership certainly would help the profile of HR, its real benefit comes from what it can offer the business.

Think, understand and communicate in the language of business.

HR needs to eliminate the jargon of its specialization (the same challenge IT continues to face) and begin to link its work more explicitly to business value. The right business language helps to open the door, but it is also important to provide a robust business case for projects. It entails thinking more carefully about the specific business outcomes of the actions that HR recommends. What is the impact on customer service, or the reduction in costs, or the increase in staff loyalty, or other metrics that are more specifically relevant to the line managers and departments being supported? Importantly, it is also about taking a fuller perspective of the whole business, including both internal factors as well as external business conditions, and creating HR strategies to fit. In turn, this requires a far deeper grasp of the organization’s core business model and strategy and the implications this holds for the rest of the business – to date, something that far too few HR practitioners have mastered. To put this in context, a business that fundamentally focuses on providing low-cost goods will require a fundamentally different HR strategy than one that is focused on delivering leading-edge innovation.

Move from administration to higher-value-added activities.

A technology-enabled HR function will allow professionals to avoid being immersed in the minutiae of record-keeping, transactions and life-cycle processes. But it will also likely reduce the number of HR staff that companies require. These slimmed-down departments will then be able to focus on providing more strategic, higher-order services.

Some of HR’s traditional administrative work will almost inevitably find another functional home, a shift that 45 percent of respondents expect to occur in the next 3 years. There is no compelling reason for HR to manage the transactional administration of payroll, benefits, pensions or mobility (transfer administration), particularly where managed on a contractual outsourcing basis. Of course, HR would remain the architect of these systems. But once the desired model is established, there is no reason why HR needs to pedal the wheels.

American Express' Ms. Giglio says there is "no doubt" that HR will shift to a much more strategic role in the business. "We have been doing that more and more and we see the trend happening in all other organizations," she says. "We are not personnel. We have hired people from the business like me to go into HR. We will have an opinion not just about how to implement something in HR, but really about what it should look like, the strategic direction."

To get there, Ms. Terrell of Whirlpool believes HR needs to exercise confident self-promotion and prove to the business the value it is capable of delivering. "A lot of it is about HR demonstrating what they can do, stepping up and advising and coaching, bringing solutions that will enable the business to achieve its objectives," she says. "The more HR is able to

do that with their business partners, the more credibility they gain, the more value they bring to the organization."

Transfer appropriate responsibilities to line managers.

Constrained budgets and improved technology are also leading to a shift in direct responsibility for employees away from HR and back to line managers as the latter become empowered to handle their own HR transactions. Cloud-based solutions are making this more user friendly than ever before. Professor Huselid sees self-service as the biggest push in talent management at the moment and notes that "it will force HR into more of a partnership role."

An academic perspective on the changing HR function

Professor Mark Huselid of the School of Management and Labor Relations at Rutgers University is a leading academic in the field of HR.

Where do companies need their top talent?

Companies always say, 'We need top talent everywhere,' but in truth, you can't afford best-in-the-world talent everywhere. There are strategic roles critical to the business, and you better have top talent in those. All companies have a strategy. Enacting it requires a set of strategic capabilities and you need to have top talent in the roles that support these capabilities.

What are the implications for HR?

Most organizations invest horizontally, not vertically: all the vice presidents get this much pay and so on. In the new world of strategic jobs, hierarchy matters, but you really need to invest strategically in the jobs that matter. That's a big challenge because when you invest in talent you're looking for investment opportunities, you're looking for variability. And this also affects training. HR used to say, 'Let's figure out the one best way and roll it out to everybody.' Now we're saying that training has become much more à la carte.

Perhaps counter-intuitively, this can be a positive development. "If we are building great leadership as a cornerstone of a great, engaged culture," says Ms. van Mazijk. "The employee's direct manager has to be central to the relationship with an employee. In order to have an impactful relationship, there has to be accountability for many transactions. So a number of the transactions that

previously were held and executed by HR need to be held and executed by managers." As a result, she adds, HR has to find a different value proposition. "The function can no longer be surrogate managers or leaders," she says. "It will shift from being the deciders of a particular outcome to the advisors of the direction of strategy."





Robert Bolton
KPMG
HR Transformation
Center of Excellence

I believe ... that HR functions have tried for the past 15 years to transform themselves into strategic players and earn a place at the leadership table. But they've done so with limited success because they have focused on rolling out generic HR models and universal best practice, rather than customized solutions that support the value drivers of the business. Now they're caught in what I call the 'doom loop'.

This study suggests that HR perceives its biggest current challenge to be seizing the opportunity to transform itself into a strategic player. I should be encouraged by this but can't help feeling I've heard it all before – for pretty much each of the past 15 years. That's how long I reckon that HR has been stuck in what I term its current "doom loop". Fifteen years of pursuing generic best practice and benchmarks in the hope of pinning down a position of influence at the top table. Fifteen years in which this goal has been pursued at the expense of actually driving specific value in organizations. Fifteen years in which the status of HR has not been advanced.

Quite simply, the problem is that there is a perceived lack of credibility within HR and an inability to deliver value. In an effort to rectify this problem,

symptomatic fixes are pursued, often via the latest generic best practice models.

The net result is a diversion of attention away from where the real value lies – in pursuing solutions tailored to the unique circumstances and requirements of any given business. What makes the situation worse are the inevitable delays that typically follow when such fixes are delivered in a business of any meaningful size.

At the conclusion of all that, strategic involvement and influence is actually diminished and so the cycle repeats.

That's the doom loop; that's the vicious cycle from which HR finds itself unable to break free. Little wonder, then, that HR professionals admit to the stigma attached to their profession.

Instead, what if in the future much of HR was consolidated into a shared services organization reporting to a Chief Administrative Officer? A much smaller team of "people agenda architects" could then report into someone such as a Chief Change Officer.

Some businesses could go even further and have leadership taking direct charge of their people programs with support at the strategic level from external specialists and consultants.

Whatever the future may hold, I believe that HR leaders need to consciously break clear of this doom loop. Another 15 years of pursuing generic best practice will simply not add value to the business or the reputation of the profession.

Conclusion

Many of the challenges identified in this report are long standing. But they are no less urgent for that. Indeed, there is no escaping the prospect of a shrinking and weakened HR function in the coming years. Quite simply, HR has to break out of the trap it has been stuck in for far too long.

Unfortunately, there are no simple solutions, no generic approaches or best practices that will suddenly enable the HR function to become more effective and respected. HR needs to focus on delivering unique talent solutions tailored to each company's circumstances and requirements.

To do this, HR must develop a deep understanding of the business – in the same way, and using the same “language,” as other managers. The measures it proposes must be tied to business outcomes: the impact on customer service, the reduction in costs, the support of a specific new growth area, the increase in staff loyalty and so on.

While communication has a role to play, particularly when it comes to managing expectations – after all, HR needs time to do its work – the required antidote is a relentless focus on

identifying ways of adding value to the rest of the business, and proactively meeting the needs of HR's customers.

For many HR functions, data analytics is an ingredient that has long been missing, for example, it is a way of providing hard evidence about employee-related needs and opportunities and the impact of HR. The insights that can be gleaned from rigorously collecting and analyzing data, and creating insightful forecasts on the back of it, is a key tool in enabling HR to shape the organization's people resources to deliver on its underlying corporate strategy.

But this is not just about employing the latest technologies or tools. It is about the HR function using an empirical approach to deliver a unique and differentiated people management strategy that is closely aligned with the company's goals – and in the process of doing so, restoring HR's much-needed credibility at the highest levels of the business.

This study suggests that HR perceives its biggest current challenge to be seizing the opportunity to transform itself into a strategic player.

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