

IBM Global Business Services



*IBM Institute for Business Value*

# How Human Resources keeps its seat at the table

Insights from the  
2006 IBM Human  
Resources Summit

Human Capital  
Management



## **IBM Institute for Business Value**

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information.



# How Human Resources keeps its seat at the table

## *Insights from the 2006 IBM Human Resources Summit*

### The opportunity at hand

“Right now, globalization has created an absolutely screwed up, crazy world for an HR person – nothing has been more challenging.” – *Session participant*

The preceding quote reflects a common sentiment among HR professionals. Faced with new sources of competition and new opportunities for growth, organizations are looking to the human resources function to address two critical needs. First, the HR function must be able to deliver strategic insights to business units, enabling the organization to more effectively source, evaluate and motivate employees in an increasingly turbulent business environment. At the same time, HR needs to continue to provide administrative services that are reliable, cost-effective and responsive to the needs of business units around the globe. In today's business climate, it is no longer sufficient for the human resources function to excel in just one of these areas; HR must perform both roles effectively to contribute to the long-term success of the organization.

It is this perspective that shaped a series of discussions that took place in March 2006 with more than 25 senior HR executives from around the globe. Over four days, HR leaders from various industries, including utilities, financial services, retail and government – to name a few – engaged in a dialogue to share insights and best practices on a variety of topics. These included issues such as changing workforce demographics, the role of workforce analytics in developing strategic insights, and the structure and competencies of the HR function of the future.

Across industries, changing business conditions, demographics and globalization have raised the need to understand and manage the dynamics of talent, from sourcing to resource management to recognition systems. To allow HR to focus on these more strategic issues, the next generation HR organization must promote the use of shared services and employee self-service to move away from its traditional role of answering questions and resolving disputes. Further, the HR organization needs to work more effectively with other vendors in its extended enterprise, providing the tighter coordination that is needed to deliver administrative services. Finally, HR needs to look inwards at its own talent model, to ensure that its employees have the capabilities, skills and confidence to provide strategic guidance to the business.

### Talent: The focus of the next generation HR organization

The roundtable participants highlighted the clear need for the HR function to focus its limited time, energy and resources on four critical areas:

- Understanding the impact of both globalization and changing workforce demographics on the supply of talent
- Determining the drivers of employee retention and developing strategies for retaining top performers
- Engaging with the corporate strategy process to determine the need for critical skills and capabilities
- Balancing the supply and demand for talent on a dynamic basis within and across business units.

Each of the four critical areas is discussed in more detail below.

***Understanding the impact of both globalization and changing workforce demographics on the supply of talent***

One of the session leaders, Jeffrey Joerres, the Chairman and CEO of Manpower, Inc (a leading global employment services company) describes the following scenario:

*“Usually, when you walk into the office of someone in a large multinational corporation, you see a map of the world on the wall, with the company’s manufacturing plants or distribution centers clearly marked with pins... In today’s world, companies are going to need new pins to highlight the location of their talent.”*

His comments underscore a critical trend in today’s global economy: companies are no longer moving operations simply to benefit from labor arbitrage, but rather to take advantage of the increasing numbers of talented professionals located around the world. Not only are companies setting up back office or customer contact centers in India, China, Brazil, Russia and other emerging economies, but in those same places they are also setting up research and development centers, along with other types of high-value, knowledge-intensive capabilities. These new opportunities have led, in some cases, to a reverse migration of talent. For example, it is estimated that in Bangalore, the heart of India’s “Silicon Valley,” between 30,000 and 40,000 expatriates have returned to India in the last decade to work for both multinationals and Indian-based companies.<sup>1</sup> In short, the need to tap into resources from around the globe has dramatically changed the nature of the talent game.

At the same time, the changing workforce demographics in the developed world are also starting to place pressure on finding and holding on to key talent. As an example, a recent U.S. Census study estimates that between the years 2003 and 2010, the number of workers between the ages of 45-64 will grow by 76 million.<sup>2</sup> Similarly, in the European Union, the number of people between the ages of 50 and 64 will increase by 25 percent over the next two decades, while those in the 20-29 year bracket will decrease by 20 percent.<sup>3</sup> As the aging baby boomer generation continues to press toward retirement age, companies will find it more difficult to replace these

exiting workers with younger workers, who will be drawn from increasingly smaller labor pools. While increased levels of immigration could potentially mitigate some of these challenges, on the whole, companies with operations in the U.S., Western Europe and Japan will be looking for innovative ways of replacing the talent that will be leaving the organization and preserving critical knowledge before it walks out the door.

Companies have begun to investigate a range of options for managing this shrinking talent base. Some are focused on developing alternative arrangements that enable individuals to work on a more flexible basis, in terms of the number of hours worked or the locations from which they work. Others are exploring how to attract and retain women and individuals from minority groups that have been more difficult to hold onto in previous years. In all of these examples, companies are expanding their horizons in terms of where, and how, to tap into new sources of talent.

Changing workforce demographics and globalization will not only have an impact on traditional HR activities such as recruiting and learning, but will also require an increased focus on work design. Issues related to collaboration across time zones and cultures, and job sharing will start to take priority in organizations. HR professionals will need to focus their time and attention on how work gets accomplished in an environment where individuals can no longer get answers by walking across the hall. These types of issues require a deeper understanding of the organization’s operations and a stronger ability to provide consultative and organizational development capabilities to the internal business customer.

- To what extent is your organization able to tap into sources of talent from emerging areas around the globe?
- How have changing workforce demographics impacted your organization?
- How can your organization’s workforce collaborate more effectively across time zones, languages and cultures?

### **Determining the drivers of employee retention and developing strategies for retaining top performers**

While the supply of talent is strongly influenced by external factors, it is also driven by the ability to retain high performers. Given the changes in workforce demographics, employee mobility and globalization, holding on to valuable employees continues to be a significant concern of HR executives. This is particularly true in developing parts of the world where high economic growth rates, coupled with limited pools of experienced workers, have caused high levels of turnover similar to those experienced by companies during the late 1990s in North America. The 2005 IBM Global Human Capital study indicated that there are three practices that are closely tied to lower employee turnover: opportunities for advancement, the need for feedback and the existence of child-friendly policies.<sup>4</sup>

David Ulrich, a professor of business at the University of Michigan and one of the session leaders at the roundtable, described seven factors that should be evaluated when looking to retain high performers, several of which closely align to the dimensions highlighted in the 2005 Global Human Capital Study (see Figure 1).<sup>5</sup>

**Figure 1. Factors impacting retention of high performing employees.**

<b>Vision</b>	Do individuals see a purpose in what they are doing?
<b>Opportunity</b>	Do individuals see the opportunity to advance and be recognized for their work?
<b>Incentive</b>	Do individuals believe they receive equitable financial and non-financial rewards?
<b>Impact</b>	Do individuals see how their work affects the organization?
<b>Community</b>	Do individuals have a social connection to others in the work environment?
<b>Communication</b>	Do individuals have access to information to do their jobs more effectively?
<b>Work flexibility</b>	Do individuals have flexibility in terms of how, where and when they perform their jobs?

Source: Ulrich, David and Wayne Brockbank. *The HR Value Proposition*. Harvard Business School Press. Cambridge, 2005, p. 116.

One interesting angle from the discussion on the retention issue was a renewed interest in re-recruiting individuals who had previously left the organization. In situations where companies are unable to retain top-tier employees, it was suggested that companies stay close to recently-departed high performers. In many cases, they find that their new positions do not meet expectations. As an example, one financial services company participating in the session noted that when it interviewed 100 high performing women one year after they had left the organization, approximately 70 percent indicated that they would consider returning, given the right opportunity.

- To what extent does your organization understand the drivers of employee retention and engagement among different employee populations?
- What does your organization need to do to better hold onto top performers?
- To what extent is your organization reaching out to company alumni and other networks to identify talent?

### **Engaging with the corporate strategy process to determine the need for critical skills and capabilities**

While the supply of available talent influences the choices an organization makes in terms of where and how to source and retain talent, the demand for talent is primarily driven by the organization's strategic direction. One of the core capabilities deemed critical to the success of HR's mission is the ability to derive the human capital requirements from the organization's strategic plan. Yet, many HR organizations often find themselves passive participants in the strategy process, if they are engaged at all.

An HR executive from a major telecommunications company discussed their recent experience in playing a more significant role in the corporation's strategy process. In previous years, HR planning was done in parallel with the overall strategy development cycle. During this year, however, the HR function in the company worked closely with line executives and the corporate strategy group to clearly articulate and address the human capital

components of long-term directives. Each effort was evaluated on three dimensions:

- *Capacity* – Could the new product/service/initiative be developed and implemented entirely in-house, or would it require the use of partners, subcontractors or other forms of outside labor?
- *Capability* – Did the organization have the right knowledge, skills and competencies to execute this new product/service/initiative?
- *Culture* – Did the current organizational norms and values support a high-performance work environment?

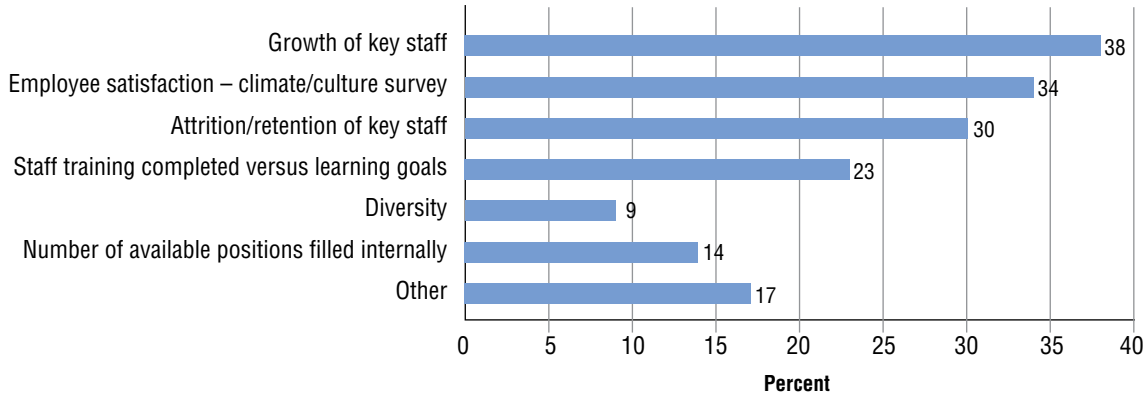
Perhaps the most important component of success for this integrated strategic approach was the development of human capital measures that were tied to the execution of the strategic plan. Further, these measures were incorporated into the key performance indicators of the senior executives responsible for the different initiatives. This level of integration between human capital measures and senior leadership compensation is not typically found in organizations; the IBM 2005 Human Capital study indicated that less than 40 percent of companies had any human capital measures tied to rewards of senior executives (see Figure 2).<sup>6</sup>

- What role does the HR function play in your organization's corporate strategy process?
- How are the human capital implications of corporate strategy addressed within your organization?
- How are executives held accountable for addressing these human capital challenges?

**Balancing the supply and demand for talent on a dynamic basis within and across business units**

Once the HR function has worked with the organization to determine the overall supply and demand for talent at a global level, it must play a role in balancing the needs of the business with an ever-shifting supply of resources. Organizations that have large percentages of employees in call centers and retail operations have been looking for ways to balance labor costs with customer satisfaction. Indeed, a whole breed of labor management tools and practices has reduced the cost and effort associated with managing part-time and contingent workforces to improve customer and employee satisfaction, lowering costs and increasing revenue.<sup>7</sup>

**Figure 2. People metrics in compensation plan for leadership team.**



Source: "The capability within: The 2005 IBM Global Human Capital Management Study." IBM Corporation.

However, these same types of considerations now need to be delivered to the domain of knowledge work. For example, how does an organization most effectively match its cadre of 1000 software engineers located in seven development centers around the globe with over 50 projects at various points in their lifecycles? How does it manage the portfolio of skills and capabilities, and allocate them depending on changing market conditions and priorities? How does it know when to tap into subcontractors and other marketplace partners during times of peak demand? All of these issues fall squarely into the realm of the strategic HR professional. The HR practitioner of the future will need the tools and experience to anticipate changes in demand for certain skills, bring on-demand learning tools to enable individuals to shift among related projects, and scour the outside world for additional sources of full- and part-time talent.

- How effective is your organization in dynamically balancing the supply and demand for talent?
- What tools does your organization have in place to help ensure that human capital is allocated efficiently and effectively across the organization?

### Switching hats: Implications for the next generation HR organization

For the HR organization to take on these new responsibilities, it must be able to shed some of its more routine tasks and revamp its internal capability. Many organizations have moved to using outsourcing vendors to perform routine administrative tasks, while others have continued to retain these activities in a shared services environment. In either case, session participants were clear that for the profession to move forward, some of the current roles, responsibilities and capabilities need to be relinquished.

### ***Getting out of the business of “answering questions”***

For HR to make the shift to dealing with issues that are more strategic, session participants were clear that the HR function as a whole had to spend less time in managing the routine transactions and interactions that too often fill the days of HR professionals. For many participating companies, moving administrative activities and employee inquiries to a shared service center environment was an important starting point. By placing the nexus of addressing administrative issues in one place (either physical or virtual), it was more likely that individuals would be able to get a consistent response to their inquiries, and less likely for employees to go “answer shopping.” Further, through tracking employee inquiries, organizations can obtain valuable data as to whether their HR policies and procedures were easy to understand and apply, and how they could be improved in the future.

At the same time, employing the use of employee and managerial self-service was also seen as a critical capability for a host of reasons. Rather than take up the time and attention of HR professionals who have more pressing tasks on their plates, employee and manager self-service can enable individuals to obtain answers to their questions with greater speed, ease and functionality. Further, as individuals are able to manage basic changes to their own HR profiles, and are able to use more robust decision support tools, self-service technologies also can promote a sense of greater individual accountability and ownership.

### ***Developing relationships across organizational boundaries***

Many of the organizations in the session use outsourcing vendors to handle many of the non-core tasks of the HR function, such as payroll and benefits administration. Others have extended the outsourcing model to include employee service center management, recruiting, compensation administration and HR data management.

As more and more companies look to external organizations to take over additional administrative components of the HR function, it is increasingly important to view these companies as part of a larger extended enterprise.

One financial services company that has outsourced most of its administrative HR activities talked about the need to set up a rigorous governance process with its outsourcing partner to help ensure a smooth initial transition, and to handle ongoing issues quickly with minimal disruption to the company's operations. This includes not only a clear set of roles, responsibilities and escalation channels but also a common set of operating values and standards that holds both parties accountable for successes and failures. Co-location of senior leaders from both sides in a "war room" makes it easier for the financial services company and its partner to more rapidly solve problems and develop working relationships that facilitate open dialogue and trust among both parties.

At the same time, this company stressed the need for significant change management during the integration process. Key stakeholders within the provider organization, the HR function and the ultimate business client need to be involved in the redefinition of new operating processes and the development of the overall rollout schedule. Education for employee service center personnel on new tools and call center procedures, as well as end-user training on employee and managerial self-service tools, needs to be available not only prior to the transition, but also to individuals while they are performing their tasks. Further, consistent communications that stress not only the project progress, but also the rationale for change and the specific impact of changes in HR practices need to be repeated through a variety of channels and venues to secure commitment and buy-in.

### ***Building capability in the HR talent pool***

Getting out of the business of processing documents and answering inquiries seems logical for HR executives as they look to focus on more pertinent and pressing issues. Unfortunately, for many individuals, simply walking away from the administrative side of the HR responsibilities

is not that simple. For many HR personnel, "providing service" to their internal customers is defined by the speed of answers they can deliver to their business counterparts, and by the kudos they receive for knowing the answers to complex questions. While personally satisfying to the HR professional, and oftentimes meeting the expectation of business unit leaders, focusing on the transactional side leaves little time for more value-added work by the HR function.

The HR professional of the future, while requiring the basic functional knowledge of the HR discipline, will need to be equipped with the skills, tools and temperament to work from a different service paradigm. Rather than a provider of answers, the HR professional will need to proactively produce solutions to strategic business issues facing the organization. This need for a greater strategic orientation is reinforced in research by Dave Ulrich and Wayne Brockbank at the University of Michigan's Business School. Their findings highlight that strategic contribution and personal credibility are the two competencies of HR professionals that have the greatest impact on overall business performance.<sup>8</sup>

This shift in attention will require a number of skills that are often difficult to find in many of today's HR organizations. First is a strong analytic orientation that starts with hypothesis development and ends with the ability to use data to influence stakeholders and more importantly, generate action. This includes accessing data from data warehouses and other information sources, structuring analyses to identify gaps and opportunities, and communicating the results in a way that is convincing to others.

While there are HR professionals who have these skill sets, there are others who have not had the opportunity to gain the necessary experience in these analytic approaches. In fact, many session participants suggested that only 20-30 percent of their organizations have reached the level of expertise needed to provide the strategic guidance their companies require. For organizations that find themselves running short of these capabilities, there are four options:

- Bring in professionals from outside the company
- Attract existing employees from outside the HR function to join the HR team
- Provide education to existing HR professionals
- Foster opportunities for outside development.

While recruiting experienced talent from the outside can bring instant skills and capability, a lag time is typical when finding talent in the outside market and getting them up to speed in their new positions and environment.

Many firms find that the talent they need often exists within the organization, but in functions outside of HR. In fact, over three-quarters of the senior executives participating in the session had either come from, or spent significant amounts of time, outside of the HR function. This point is reinforced by Dr. Peter Cappelli, professor and director of the Center for Human Resources at the University of Pennsylvania's Wharton School, who in a recent article stated that, "...it is already the case that people taking higher level HR jobs are coming from other functional areas where they have a more financial orientation."<sup>9</sup> Given their knowledge of the business and their comfort with analytics, financial and audit personnel were identified as potential candidates for HR advisory positions. As one HR executive from a financial services company indicated, "More of our HR people are starting to come from metrics and systems backgrounds where people are more facile with technology." However, participants recognized the need for individuals from outside the function to rapidly come up to speed on the fundamentals of HR management to be effective in their new roles.

Continuing education for HR professionals was also viewed as critical to taking the HR discipline to the next level. This education can take several forms. In one organization, a structured set of distance learning modules was developed, addressing business skills, global resourcing strategies, industrial relations and analytic decision making. This organization required that all HR staff at a certain level complete each of these modules and pass certification exams. Other companies used outside training courses to improve the ability of their HR staff to think strategically and provide consulting services to their internal business unit clients.

Finally, also considered an important development step was identifying opportunities for HR professionals to broaden their skill bases beyond the classroom. In one organization, HR professionals were required to spend a set amount of time with external customers to better understand the company's overall business challenges and the specific issues faced by field personnel. The value of sitting on the boards of not-for-profit and community organizations was seen as another important way of obtaining business acumen.

Whether developed through education, mentoring, or trial-by-fire, it is critical to communicate the expectations for HR professionals in the future. Many participants highlighted the importance of clearly articulating such goals, how these goals differed from those set in the past and what services they were expected to deliver to their internal clients. Without a clear understanding of what is expected of HR professionals in their new roles, and without methods for tracking both their actions and accomplishments, it is unlikely that companies will enact the changes necessary to bring HR to a new level of capability.

## Conclusion

Changes in business conditions, demographics and globalization have created new opportunities for the HR function. These changes have raised the need to understand and manage the dynamics of talent, from sourcing to resource management to recognition systems. To prosper in this new environment, HR professionals need to take a more strategic perspective on their services and capabilities. Simply being effective in dealing with administrative issues is no longer the yardstick by which the value of the HR function will be evaluated. Rather, value will lie in using a fact-based, analytic approach to solve business problems, while also providing a longer, more futuristic viewpoint regarding how the business needs to adjust to environmental changes. The window for evolving into a more strategic HR organization is now – miss it, and more than the power and prestige of the HR function will be at stake.

## About the author

Eric Lesser is an Associate Partner with the IBM Institute for Business Value. He is responsible for conducting research and developing thought leadership on a variety of human capital management topics. Eric is based in Cambridge, MA and can be reached at [elesser@us.ibm.com](mailto:elesser@us.ibm.com).

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Somers, NY 10589  
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04-06  
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