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The Global Human Capital Study 2005

Human Capital Management

Preface

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The IBM Global Human Capital Study 2005 focuses on how organizations are leveraging their human capital to improve workforce effectiveness and organizational performance.

Over a period of many months, we engaged with Chief Human Resources Officers (CHROs) across the world in order to identify the key challenges facing them in today's business climate. We examined how the HR function can – and does – help organizations make the most of their employees and drive business goals.

More than 300 organizations were surveyed, representing a wide variety of sizes, sectors and geographies. This Study also included interviews with more than 100 CHROs. In addition, the insights were enhanced by a number of other recent IBM studies.

Some striking patterns have emerged. These are discussed at length in this Study. It is clear that companies that invest in human capital, work to develop and retain valued employees, and measure and hold people accountable for that investment, have a powerful competitive advantage. The Study indicates that CHROs play a pivotal role as strategic advisors to the business, adding value by leading the people aspects of transformation.

Like the CHROs we interviewed, IBM is on this journey. We are proud to have been recognized as one of the world's most "E-Savvy HR Organizations" by *Human Resource Executive* and as the top company in *Training* magazine's "Training Top 100" award.

Out in the global market, our Human Capital Management practice can leverage what we do internally as well as what we learn from our clients. IBM now has more than 3,000 consultants based in 34 countries, providing clients with an extensive range of offerings for assessing and managing their own human capital.

We would like to thank all of the CHROs for their time and insights that are stimulating further fresh thinking inside IBM, so that we can better help our clients innovate and grow in today's demanding business climate. We and our colleagues look forward to continuing this conversation – and journey – with you.

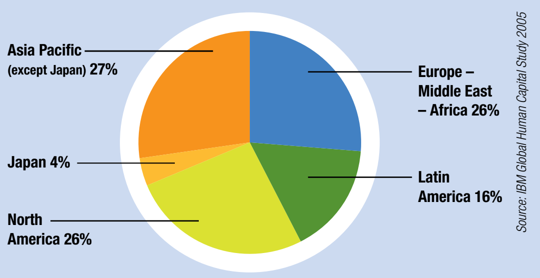
Randy   Mary Sue

Methodology and demographics

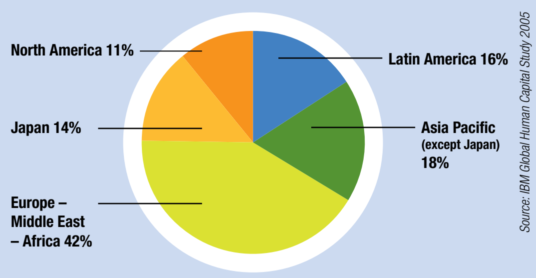
A total of 320 organizations participated in the Study, across the communications, distribution, financial, industrial and public sectors. Each sector had a similar breakdown of workforce in terms of number of staff, middle and senior management. One hundred and six CHROs were interviewed, based in Asia Pacific, Europe, North America and Latin America. Insights from a number of recent IBM studies were incorporated into our findings.

Organizations that provided results ranged in size from less than 1,200 employees to over 25,000. Their roles included headquarters for global operations, independent operations, manufacturing units and subsidiaries of parent companies operating in other countries. The Study was designed, executed and analysed by the IBM Global Business Services Human Capital Management Practice.

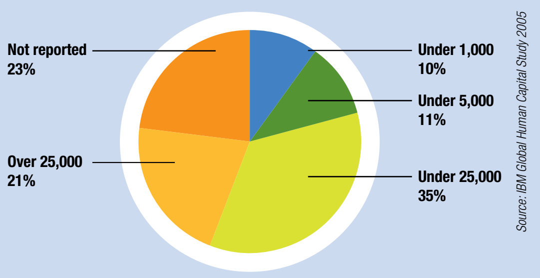
106 CHRO interviewees by region



320 Survey participants by region



106 CHRO interviewees by number of employees



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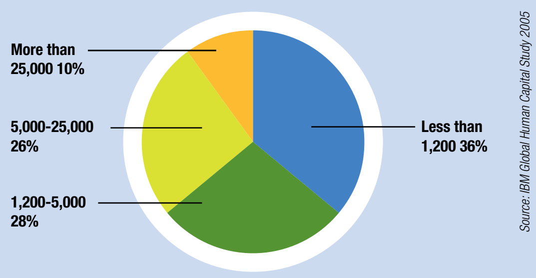
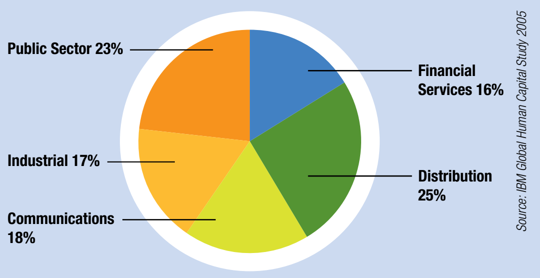
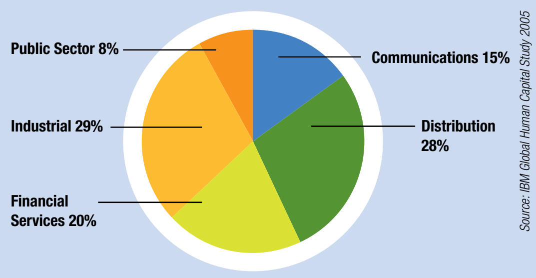


106 CHRO interviewees by sector



320 Survey participants by sector



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Executive summary

The Global Human Capital Study 2005 surveyed more than 300 organizations worldwide and included face-to-face interviews (carried out by our Human Capital consultants) with more than 100 Chief Human Resources Officers (CHROs). It provides a comprehensive assessment of the CHRO's agenda.

The Study confirms the findings of the IBM Global CEO Study 2004. CHROs share their CEOs' views about people. Fewer than half of the participants in this Study could confirm that their organization was adequately equipped to respond to the growth and responsiveness priorities set out by their CEOs.

Yet, it is also recognized that people are the competitive difference. The potential of people can be transformed. Organizations can respond successfully to the challenges of a volatile, ever-changing, global marketplace. But it requires an enterprise-wide commitment to the programs and services necessary to achieve these goals, with the CHRO being the key thought-leader and champion.

It is time for the CHRO to set out a new human capital agenda, because the tasks facing the CHRO are complex. What follows in this document are five important findings. When combined with the findings of our Global CEO Study, they make for compelling reading for executive leadership teams across the world.

Cycling downhill: the menace of maturity

As part of our Study, we asked companies to describe the market conditions in which their organization operates. More than 50 percent described their market as "maturing" or "declining." And it was these companies that consistently reported challenges in leveraging and managing their human capital.

Among many issues, CHROs in these companies said they were less able to implement staffing flexibility, used fewer management development programs and were less likely to measure employee satisfaction and retention. The numbers of HR staff required to run day-to-day programs grew as HR became more institutionalized and less aligned to business strategy.

The challenges facing CHROs vary according to market conditions. CHROs operating within growing or emerging market conditions must be vigilant to maintain their focus on people and productivity, rather than procedures. CHROs operating in mature market conditions have to introduce new HR practices that will drive future business success within their changed market conditions.

The quest for talent: the build-buy balance

CHROs said that improving competencies and skills within the workforce is one of their highest business objectives. A central issue, therefore, is whether organizations should focus their investment on building or buying these capabilities.

Our Study demonstrates an important correlation between management development and profitability: namely, that organizations with a higher percentage of middle managers and staff participating in management development programs report higher profits per full-time equivalent (FTE). However, many companies still do not have such programs in place. It is also evident that companies must target key employees; they must be selective rather than universal in their provision of management development.

Where an organization is buying talent, it must recognize that employee turnover levels can be higher if not managed appropriately. CHROs must also ask whether the organization will be able to deliver on its performance goals without investing in human capital. But whether an organization is building or buying talent, what really matters is the contribution to performance. CHROs must establish who is core to business strategy, and what skills need only be brought in as and when required in order for the organization to deliver on performance goals.

Holding on: retaining key people in a fast-moving world

Investment in good human capital practices does yield bottom-line benefits, as well as retaining talent and reducing levels of employee churn. Companies that are proactive in the implementation of family-friendly policies, that provide regular performance reviews and which tend to fill middle management positions from within, can also point to lower turnover rates.

The responsibility for identifying and deploying the optimal strategies to enhance loyalty, satisfaction and retention lies firmly with the CHRO. Our Study provides clear and compelling evidence of the benefits to workforce effectiveness and organizational profitability of a positive, proactive approach. It also shows that this approach is not being adopted by the majority of organizations.

Measuring up: where organizations fall short

If CEOs and CHROs believe that people and talent are crucial to address the growth and responsiveness priorities, they aren't showing it. Organizations do not measure or reward their executive leadership or their HR function by how they deliver on the talent agenda. It is recognized that companies must become more flexible, be growth-oriented and responsive; but our Study shows clearly that very few are measuring their people against these goals. By failing to look at their HR programs from end-to-end, CHROs are unable to determine precisely what needs to be measured and where the priorities for action lie.

Regional perspectives: a world of difference

A CHRO must have an innate understanding of the organization and its needs, as dictated by market conditions. Our Study shows that geographical location has a significant impact on human capital management, alongside sector and market maturity.

Each region displays its own characteristics in specific areas of HR management. North American organizations adopt practices associated with a highly mobile workforce; Asia Pacific firms tend to have a young, flexible and mobile workforce; Japanese organizations place a strong emphasis on workforce stability and personal relationships; and firms in Europe, Middle East and Africa are less likely to focus on measurement and use of human capital data.

There are also areas in which the practices adopted are uniformly different, ranging from compensation, performance measurement, workforce diversity to recruitment methods. The challenge for the CHRO is to embrace diversity while leveraging best practice across the regions.

Delivering growth and responsiveness

Growth. Responsiveness. People. The three top issues on the CEO's agenda. The challenge is, as CEOs told us in the IBM Global CEO Study 2004, they believe that issue number three is also the most significant constraint on their organizations' ability to tackle issues one and two.

Profitable growth is a clear business imperative. CHROs recognize their CEOs' commitment to growth. "Growth has always been on the top of the mind of the CEO," was how one Asian CHRO put it. CHROs also recognize the dilemma that faces their CEOs – how to balance revenue growth with cost containment. "In the long run, you will always need the revenue growth but in the daily business you have to contain costs," acknowledged one European CHRO.

The quest for flexibility and responsiveness is ongoing. CHROs share with CEOs the desire to create a more responsive organization. “Responsiveness is on everyone’s agenda,” said one CHRO, “from the front line to the boardroom.”

This concern affects public and private sector alike, around the world. “There is a gap between the [organization’s] current and future culture which needs to be reduced in order to achieve the company strategy,” commented one Latin American CHRO. “[The CEO’s agenda] cannot be achieved without significant culture change,” echoed an Asian CHRO, “we are not flexible, fast or aggressive enough.” One North American CHRO in the public sector noted: “[Our] ability to respond to rising citizen demands for service is put at risk by the current skill set of the workforce.”

The success in achieving a responsive and competitive organization lies in its people. People are required to adjust to new processes, learn new technology and skills, stay motivated in times of change and uncertainty, and stay focused on their jobs while taking care of their personal and family needs.

Yet the organization’s ability to mobilize its people and talent is also a very real constraint. Of the hundreds of CHROs whom we surveyed and interviewed, less than half could confirm that their organization was adequately equipped to respond to these growth and responsiveness priorities (see figure 1).

> *“[Our] ability to respond to rising citizen demands for service is put at risk by the current skill set of the workforce”*

People are the competitive difference. As one North American CHRO expressed it, “all the company has is our brand and our people to sell our products.” The same CHRO concluded: “it is imperative to raise the bar on skills.” A European CHRO stated that “recent and enormous changes in terms of strategies and stakeholders have formulated a new business model…this requires new skills and great involvement and motivation of the people.” Can the current leadership and HR processes deliver motivated, skilled people, organized and focused to achieve success?

It is time for the CHRO to set out a new human capital agenda, because the success of the company depends on it. The success of that agenda requires a holistic approach. Investing in your human capital pays, especially when human capital management initiatives are coordinated across the full range of the human capital supply chain. What follows in this document are five important findings, which share a consistent theme. When combined with the findings of our Global CEO Study, they provide vital new decision-making tools for executive leadership teams across the world.

Our Study indicates that the degree of maturity of the market sector in which an organization operates can have a significant influence. The first section starts thus with an interesting yet alarming finding: companies that are in emerging and growing sectors focus more on their human capital than firms in mature or declining ones, despite the fact that entrepreneurial companies are often viewed as not having the right HR structure to support that focus. It is easy to say, “So what? These companies can afford to invest because of their growth.” But companies in mature and declining markets should take note – because it just may be that it is the investment in human capital that creates the success of these emerging and growing firms.

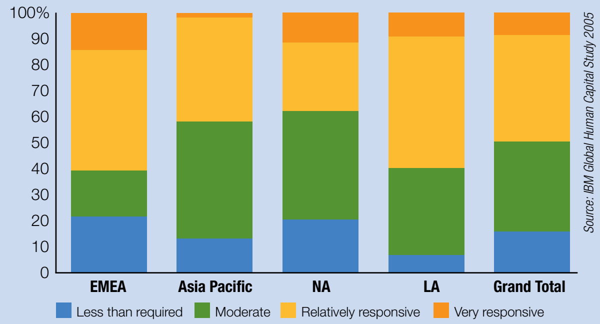
The next two sections demonstrate that investing in people does not have to be an act of faith, a decision where you can only hope and believe there will be a payback… sometime, somehow, eventually. The right kind of investments in your people will both increase profit and reduce the loss of your human capital. Such investments, however, need to be well directed. Our Study demonstrates that powerful – and previously relatively unexplored – effects can ripple through an organization as a result of its approach to recruitment, outsourcing and management development. Unintended consequences can flow as organizations seek to create greater flexibility and responsiveness.

The fourth section explores a contradiction. Despite recognizing the importance of human capital and admitting that people are the most significant constraint on their organization's ability to tackle growth and responsiveness issues, few companies hold their executives accountable for improving and retaining their human capital. The resulting danger is that human capital issues receive far too little attention from the executive team.

Geographical differences play a role in how human capital policies are built and executed. This subject is covered under section five.

Companies that invest in their human capital, work to retain valued employees and measure and hold people accountable for that investment have the keys to competitive advantage.

Figure 1: To what extent does your organization have the capacity to effectively respond to the CEO's priorities?



There is much being written about the move of jobs to low-paying countries. It is too easy and dismissive to say that the competitive advantage of companies in these countries lies only in their cheap but educated labor supply. Our Study clearly indicates that companies in these countries are developing a competitive position based not just on the cheaper cost of labor, but also on the flexible use of, and continued investment in, developing that labor force. Companies in more mature economies should take note.

In the role as champion of human capital and chief talent architect, the CHRO therefore has to make some honest appraisals: of the market conditions in which the organization is operating; of its current approach to recruiting, developing and retaining talent; of its approach to measuring the HR outcomes on the business; and of the cultural differences that have to be managed across various parts of the world. And it is to these critical factors that we now turn our attention.

Cycling downhill: the menace of maturity

External factors play a crucial and previously unacknowledged role in the CHRO's ability to deliver on the growth and responsiveness agenda.

As part of our Study, we asked companies to describe the market conditions in which their organization operated. More than 50 percent described their market either as "maturing" or "declining" (see figure 3). And it was these companies that consistently reported challenges in leveraging and managing their human capital.

Here's the cycle. Companies in emerging and growing markets gear up for growth; they put strategies in place that drive growth, including HR strategies. However, once a market becomes more established and mature, consolidation follows. HR becomes institutionalized: the HR budget is spent on the department itself; the focus shifts to the HR processes themselves. The HR agenda appears to become less relevant to the organization and its business strategy.

Gearing an organization for growth is hard; reversing, adjusting the strategy and the business model, and revitalizing for growth again is doubly so. Yet this is the challenge that faces a large number of CHROs worldwide.

The menace of maturity

First, let's consider the evidence.

CHROs of organizations operating in maturing markets are less able to implement staffing flexibility in response to fluctuations in market demand (see figure 4). "People don't know how to be responsive," complained one CHRO in North America, as "they still tend to be in the traditional plan/budget/execute approach while finding the market has moved in the meantime."

They also report decreased flexibility in staffing and using fewer measures in the area of recruitment (see figure 5). "The industry has evolved to one where product and service lifecycles are very short-term," observed another North American CHRO, so "we must move from a culture of long-term commitment to one where each employee earns his 'spot on the team every day'."

Many key talent management initiatives and practices reduce in companies that are operating in maturing markets. A pattern starts to emerge showing fewer management development programs (see study findings, page 52) and dwindling formal staff reviews. These organizations do not link performance and reward. Issues such as satisfaction are seen as less important, and no longer worth measuring (see figure 6). Absenteeism increases, possibly the result of increasing apathy or decreasing engagement (see study findings, page 53). They start to lose key employees due to lack of development opportunities or poor morale (see study findings, page 52).

Notably, there is an inverse relationship between the dynamism of the market sector in which an organization operates and the number of HR staff that it requires to run its day-to-day programs. Those companies that identified themselves in growing markets spent less on HR but did more to develop and measure program effectiveness and hold people accountable with fewer HR professionals. However, these companies paid their HR professionals more.

Losing focus on employees

We expected to find differences in human capital practices in different market conditions – in more mature markets, companies might be expected to have more robust formal mechanisms for listening to employees and measuring the performance of the HR function, for example. Mature companies have passed through the entrepreneurial phase where "just get it done" is often the order of the day. They could be expected to focus on the efficient and effective execution of what needs to get done well.

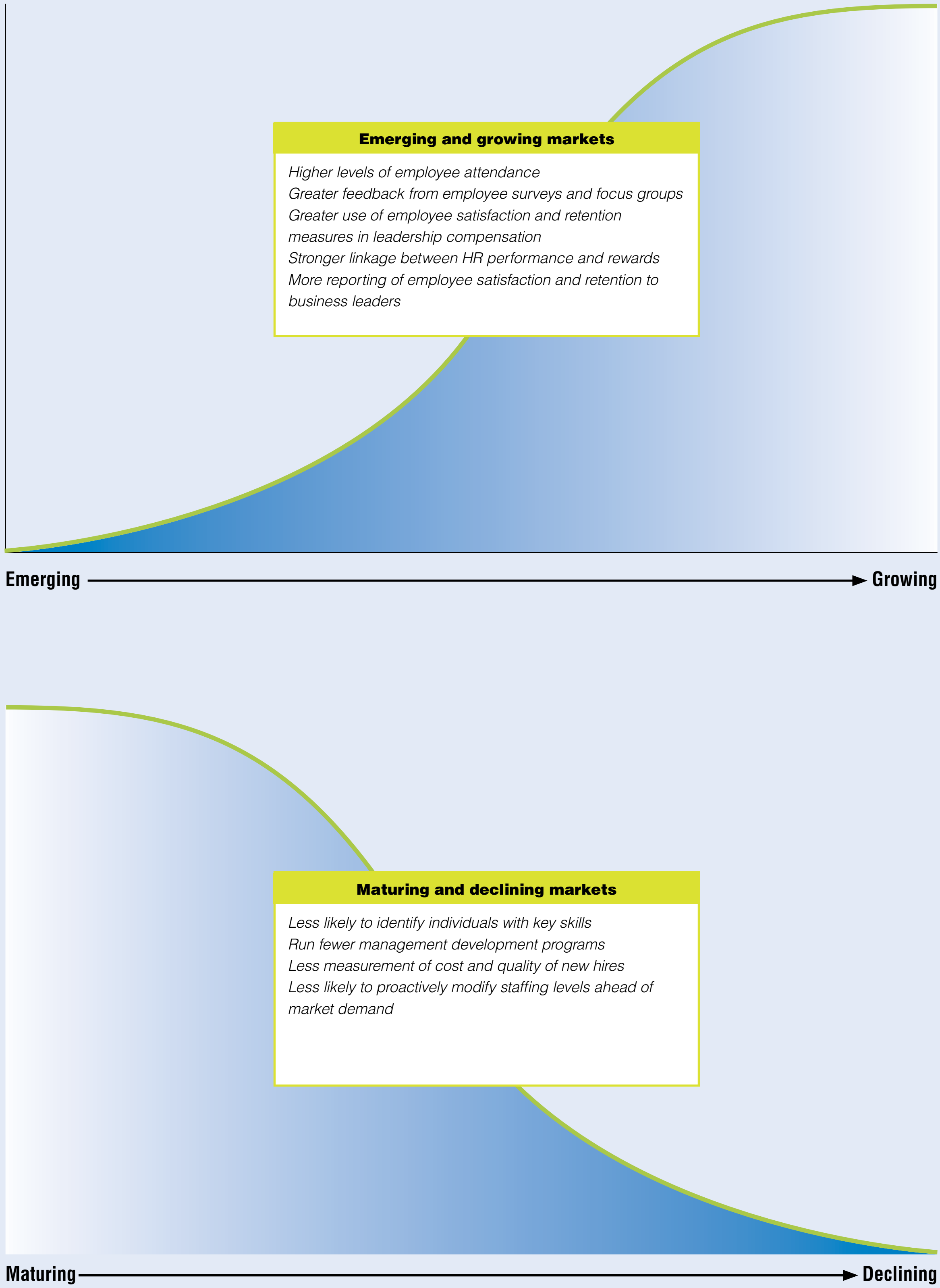
Companies that are in maturing markets might be expected to refocus their efforts on areas such as competency and knowledge management. They might be expected to emphasize better execution and engage in leadership development and performance management. But our Study found the opposite.

Mature companies deploy fewer HR activities, programs and initiatives. Furthermore, there is an indication that maturing organizations continue to measure and recognize patterns of behavior and outcomes that are increasingly misaligned with the business strategy. They become more taken with the process around the delivery of training, for example, rather than confirming it is the right training that is delivering the desired results for the enterprise.

> *"People don't know how to be responsive. They still tend to be in the traditional plan/budget/execute approach while finding the market has moved in the meantime"*

Figure 2

Companies in mature/declining markets are at risk from becoming unresponsive in how they manage their human capital



Perspective 1

The menace of maturity

Figure 3: The overwhelming number of survey respondents reported operating in either growing or mature markets

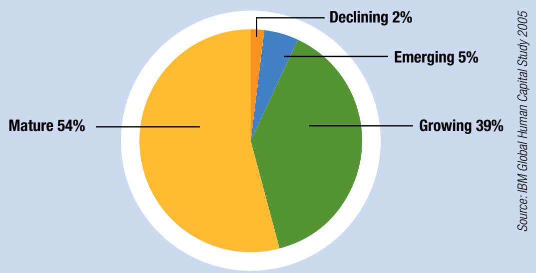
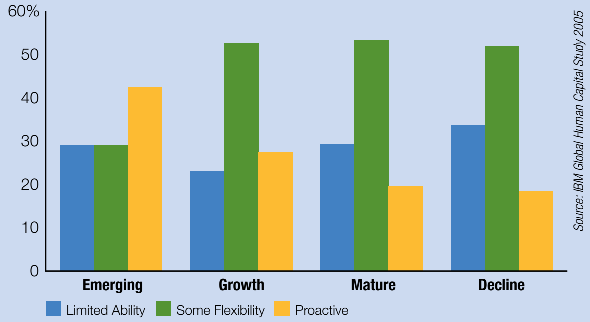


Figure 4: To what extent can you modify staffing levels by market demand?



The impact of these trends is clear. As organizations progress and mature, they become more set in their ways. A pattern emerges that appears to show them making less use of subcontractors and agencies and more use of their own fixed resources, probably in the belief that they already possess the requisite skills.

As a result of fewer staff surveys, measures and research being conducted, these organizations lose touch with employee attitudes and the key issues that affect them. A belief that "we know what we are doing" can percolate through the organization, leading to less critical self-analysis. In some, an entitlement mentality begins to take hold. Enthusiasm wanes. "A guaranteed position in the company (as per Italian law) can be one of the factors for lack of motivation and proactivity," noted one European CHRO.

These organizations become increasingly unable to identify and build the skills that are critical for adapting to market change. They fail to provide the necessary feedback to employees in order for the workforce to improve its performance. These factors lead to the organization's inability to respond either to market or employee demands, making it extremely difficult to revitalize for growth.

It is also worth asking at this point whether an element of self-fulfilling prophecy might not be at work here: do the organizations themselves change in a way that leads their market to mature and, once that cycle is under way, can it be broken? As one Asian CHRO commented, "a lot of successful change initiatives are dependent upon growth being maintained." But can growth be maintained without focused and measured investment in human capital? It may just be that investment in human capital is an intrinsic part of a market that is emerging and growing.

> *"A lot of successful change initiatives are dependent upon growth being maintained"*

Figure 5: How do you evaluate your recruitment and selection process?

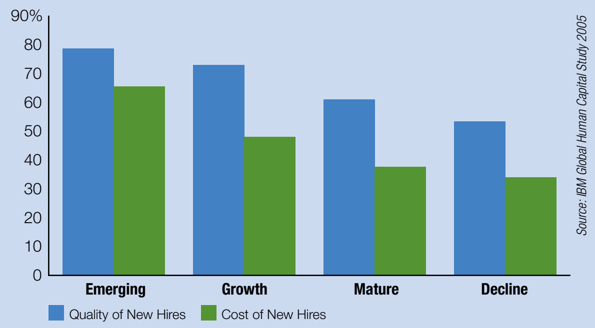
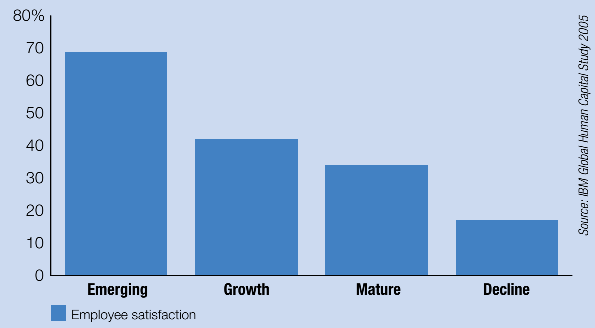


Figure 6: Do you report measures of employee satisfaction to the business?



In maturing companies, there is a greater risk of under-investment or of misdirected investment in people. As the focus on employees dwindles, this, in turn, creates a greater risk of the organization's culture being characterized by limitations in collaboration, reductions in innovation, and increased resistance to change.

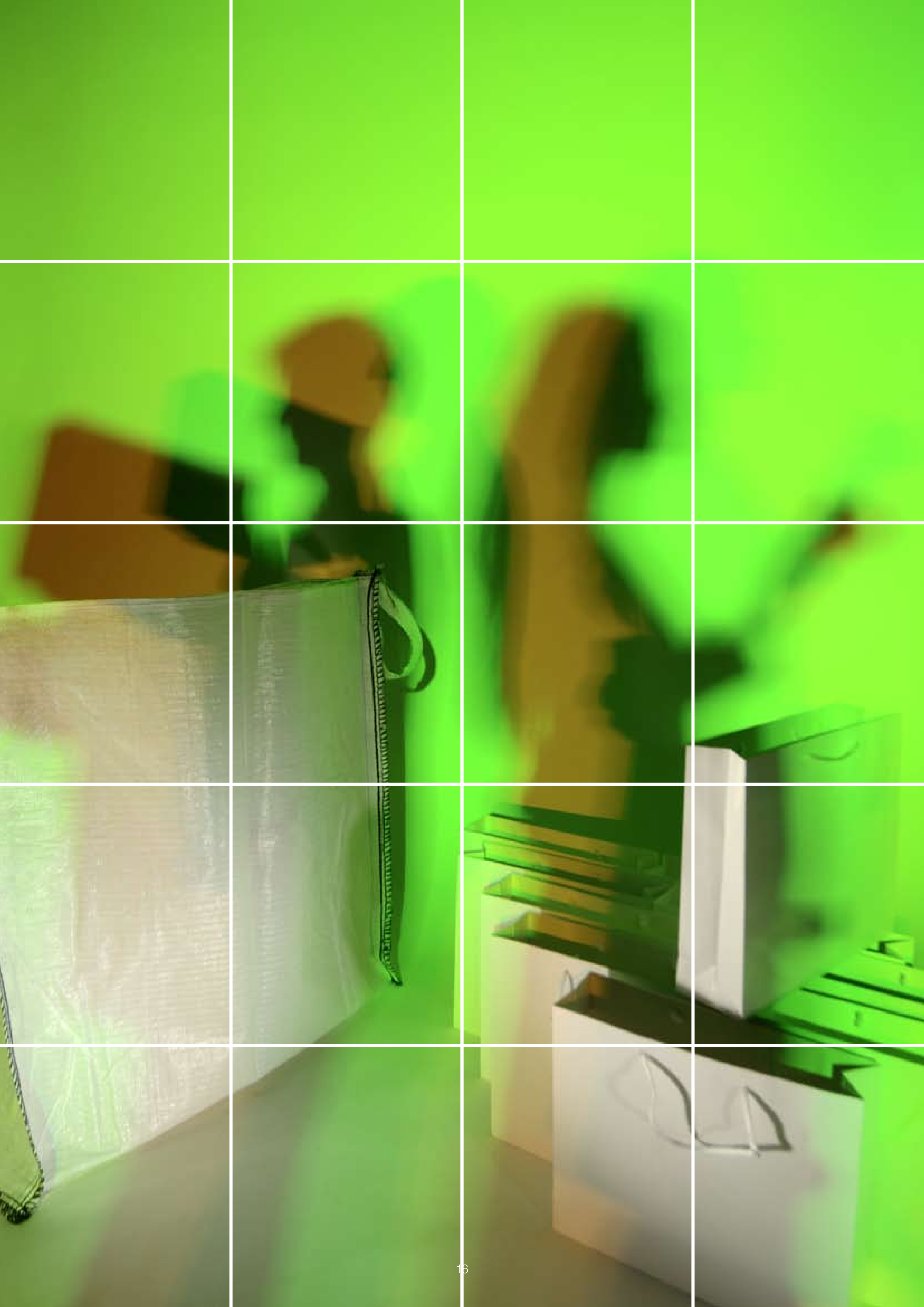
The case for transformation

It is critical, therefore, for CHROs to identify and understand the larger dynamics that affect their organization. Providing this context can help to guide and direct fellow executives. The end of growth does not need to spell the end of HR strategy. More likely, it is the time for introducing new human capital practices that will underpin future business success within the changed market conditions.

Remaining employee-focused in a maturing market is clearly a rare capability. A CHRO in such a fortunate position should acknowledge the advantages that this position affords and ensure that the organization maintains its edge.

Many companies will be in mature market conditions and will have lost their focus on employees. Here, the CHRO has to build a business case for organizational transformation. Refocusing and realigning existing resources will yield results – the costs of bureaucracy can be channeled towards funding such a transformation.

There is no reason for weary fatalism. There is much that can be done. New human capital practices can be introduced, efforts and investments can be redirected, fresh skills and capabilities can be infused – but will this come from within, or outside of the organization?



The quest for talent: the build-buy balance

Increasing the skills base of the company is imperative for fulfilling the CEO's growth and responsiveness agenda. CHROs recognize this; they said that improving competencies and skills within the workforce and increasing flexibility are two of their highest business objectives. Providing managers with a workforce that has the right skills, at the right time and at the right price, is a major goal for the CHRO.

But, how to proceed? With the battle for talent now being fought on a global scale, should CHROs build from within or recruit from outside? How do CHROs most effectively close the talent and labor gaps that exist within their organizations? And how does that strategy affect the bottom line?

The build-buy balance

Building talent can yield significant benefits. Our Study demonstrates an important correlation between management development and profitability; namely, organizations with a higher percentage of middle managers and the appropriate percentage of staff participating in management development report higher profits per FTE (see figure 7). Companies that put all, or nearly all, of their managers through such programs obtain high levels of efficiency and contribution.

But at the level of operational staff, our Study suggests that there is a risk of over-investment. In this area, it literally pays for companies to stick to a “middle is more” approach. Organizations that had over 40 percent of operational staff attending management development programs reported less profits per FTE than those offering development programs to 21 to 40 percent of staff (see study findings, page 57).

Companies that had over 80 percent of their middle managers in such programs enjoyed three times the profitability of those companies that had less than 60 percent of managers on development programs. Yet while the evidence is there that concentrating on the development of middle management and, to an extent, operational staff has a positive impact on profits per FTE (see study findings, page 57), half of CHROs said that they did not have such programs in place (see figure 8).

Higher profits per FTE were also reported by those companies that provided a greater number of senior management learning days, and by those that delivered e-learning (see figure 7).

However, organizations that invest in management development of staff also run the risk of higher voluntary turnover at that level (see study findings, page 57).

Buying talent, on the other hand, can often provide more immediate solutions and it’s an approach upon which many organizations depend. “Fifty percent of top leadership in the organization are hired from outside for a key leadership role or a particular function where we did not have the rights skills and competencies,” admitted one Asian CHRO in the electronics sector.

CHROs also recognize that the buy strategy carries substantial risks if it is not implemented properly. As one North American media CHRO acknowledged: “We have been buying talent at huge prices but have poorly assimilated them.”

But our Study indicates that the potential pitfalls of a talent-buying approach are deeper than many CHROs might suspect. Organizations that look externally for leaders are less satisfied with their ability to bring in new leadership (see figure 9). We found that companies that rely more on flexible sourcing methods and have a larger percentage of externally-hired middle managers witnessed greater levels of voluntary turnover and absenteeism (see figure 10).

“Fifty percent of top leadership in the organization are hired from outside for a key leadership role or a particular function where we did not have the rights skills and competencies”

Figure 7: Building talent – key findings

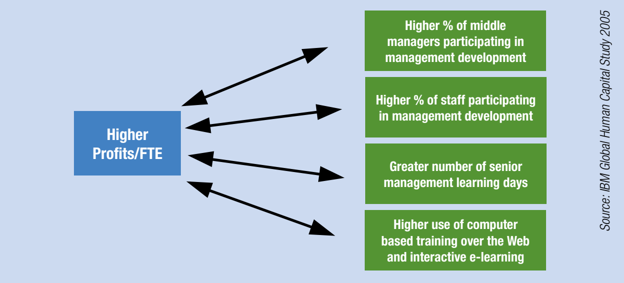


Figure 8: Does you organization have management/leadership development programs in place?

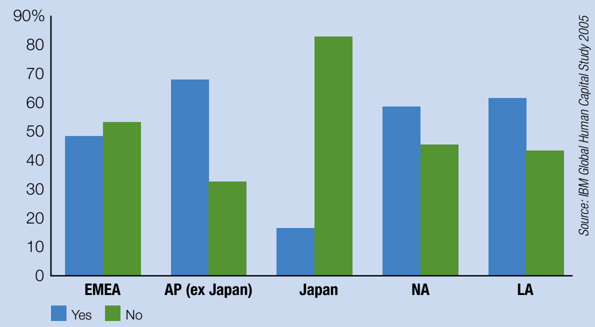


Figure 9: How satisfied are you with your ability to acquire leadership?

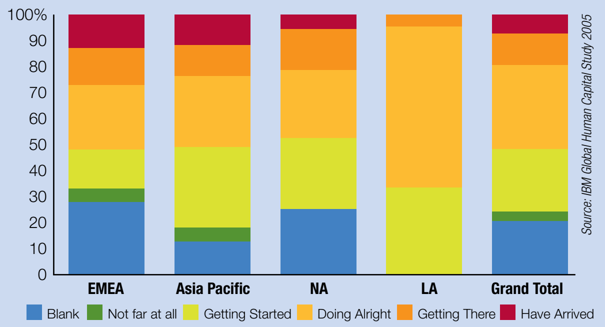
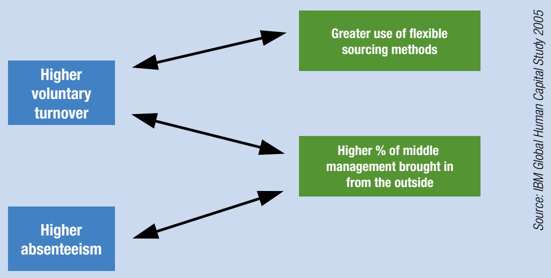


Figure 10: Buying talent – key findings



The longer-term impacts

These are significant issues for CHROs.

Both buying and building talent have potentially mid- and longer-term effects that need to be understood and managed in order to put in place an effective HR strategy.

Where there is a greater reliance on buying in talent, employees may become fearful of being replaced by temporary or external staff. The result: they leave for opportunities elsewhere, believing that they have run out of growth opportunities within the organization. In pursuit of external solutions, internal talent can be overlooked to the ultimate detriment of the business.

Does the answer lie in building talent? While there appear to be clear and measurable bottom-line benefits from investing in management development and more overall learning days for executives, organizations need to invest significantly to earn them. Companies that do invest in talent development, however, run the risk of losing that talent to competitors should their people not find more challenging roles internally. However, they also have the opportunity to keep the best that they have developed and use the vacancies created to provide further opportunities for developing workers to grow.

An organization that is focusing on building its talent from within must recognize that it can invest too much – and risk higher levels of voluntary turnover. A talent-building approach ought not to be universal; it must be selective. CHROs that are emphasizing talent-building approaches must connect the investment in human capital firmly with performance outcomes.

What really matters is performance

The means by which organizations secure their talent vary, and not just according to their particular requirements. Market conditions and regional differences can play critical parts.

Here's the important message that the CHRO has to communicate to the rest of the executive leadership team: whether we build or buy, what really matters is the contribution to performance.

The questions raised by balancing build-and-buy strategies go to the heart of achieving organizational flexibility. Companies continue to struggle with adjusting their workforce to meet shifting market demand. CHROs must ask themselves what will ultimately enable their organization to deliver on its performance goals. In a world of constant change, how do they determine who is core to their company's strategy – and in whom they should invest? What skills need only be brought in as and when required? These are important questions, particularly in Europe and Japan where regulations and culture make such choices crucial. CHROs have to know what skills and competencies need to be bought, owned, outsourced, or developed: they face the challenge of developing visibility and insight around the future demand for skills and people within their organization.

> *"We have been buying talent at huge prices but have poorly assimilated them"*

And while CHROs have had the historical remit to adjust sourcing strategies, true organizational flexibility is only achieved when the CHRO's sourcing strategies are combined with the CEO's business insight and with predictive modeling of future labor markets. So in truth, the required performance and business results can only be achieved by a partnership between the CHRO, operations, strategic planning and IT.

There is no simple answer to this question. To build or to buy talent is not a mutually exclusive issue. It's the balance that is key – between flexibility and long-term development, between investing in people against the cost of that investment, between owning resources and outsourcing.

Investing in people has the desired effects of increasing operating profits and limiting the losses of human capital. But that investment must be specifically targeted. It is the high achievers who will provide the greatest return on investment. The CHRO must be ruthless in this respect. Then, as our Study illuminates, the wider effects on an organization's current and potential performance will be felt.

But the challenges don't stop once the right talent has been accumulated. The real test comes in the development and retention of that talent. As one Asian CHRO put it, "while we are able to attract talent, retaining talent is still a challenge." You have got them there; now you have to keep them.

North America on a buying binge

While this Study discusses the geographical differences elsewhere (see Perspective 5), it is important to note one highly relevant factor within the context of buy-or-build human capital strategies.

North American companies, above all, appear to have taken the "buy" message to heart, and have adopted human capital practices to support a highly mobile, "free agent" workforce.

Our Study also highlighted that the North American region had the highest percentage of organizations reporting that cost reduction was one of their top objectives, together with the highest percentage of performance-based pay schemes.

Organizations in this region were most likely not to have a learning strategy and least likely to have a succession plan for staff. People development and retention were low priorities, supported by the fact that these companies also reported the greatest skepticism about the competitive advantage of people development. North American companies also had the highest level of voluntary turnover of staff – four times the equivalent rate in Japan.

If the key to success lies in getting the right balance between building and buying talent, then one might ask how the future performance of North American companies could be affected by this outspoken preference for buying talent.

Holding on: retaining key people in a fast-moving world

Putting the right skills and capabilities in place is essential if organizations are going to fulfill their CEOs' desire for increased growth and responsiveness. So, too, is the management and retention of that talent. "We are thin in skills," admitted one North American CHRO, "so turnover is a risk because the bench is not strong enough. The critical issue is, can we increase employee loyalty before the labor market tightens?"

Successful retention strategies, though, can have even more powerful effects. Our Study demonstrates that there are some clear linkages between high-performance organizations and particular retention practices, but also that the majority of organizations are not yet deploying them.

What are the human capital practices that will make a difference? There is no "one size fits all" solution. It is also clear that the answers are not confined to the traditional HR agenda.

Perspective 3

Retaining key people

Many organizations regard the retention of the right people as pivotal to competitive advantage. "[Our key focus] is improving and maintaining the skills and motivation of the brightest people and committing them to the company's success in the marketplace," commented the CHRO of a European consumer products company.

In the Study, more than 50 percent of CHROs believed that their organizations were "doing alright" or were "getting there" in terms of retaining employees against competitors (see figure 11). As one area of focus for retention, organizations are investing in a range of work/life programs that enable employees to juggle work and family commitments; almost two-thirds implemented flexible hours (particularly European firms, large organizations and the public sector) and just fewer than 50 percent have adopted a relaxed dress code (see figure 12). Child-friendly policies, the third most common practice, were implemented by 30 percent of organizations.

And the reality is that these policies can reduce management churn. Companies being proactive in the implementation of family-friendly policies, that provide regular performance reviews and which tend to fill middle management positions from within, can also point to lower turnover rates (see figures 13 & 14).

Significantly, there are bottom-line benefits that accrue to companies that invest in these human capital practices. Higher profits per FTE can be found among organizations that offer telecommuting and options that reduce company travel time (see figure 14). The problem is, only 24 percent of organizations indicated that they offer telecommuting and just 7 percent have reduced company travel.

Knowing the people

Organizations may be keen to retain and develop their talent but the after effects of repeated waves of layoffs combined with increased workloads have severely dented feelings of company loyalty. In order to retain employees, organizations have to be in tune with their employees, their needs and priorities. As one European executive said, "our employees are more productive because they feel they are in an organization that values the complexity of their entire life, and tried to do something about making it a little easier for them to balance all the conflicting demands." But are all organizations in tune? Some admitted to knowing "very little" about their people.

Figure 11: How do you rate your ability to retain employees vs competitors?

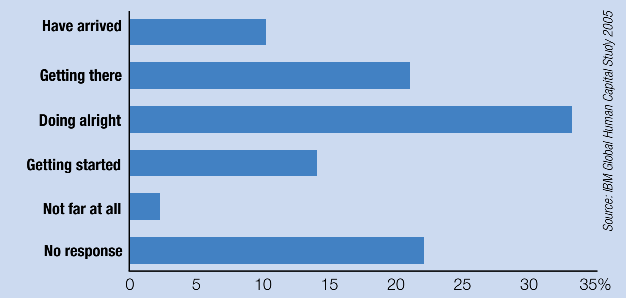


Figure 12: What work/life balance programs are offered by your organization?

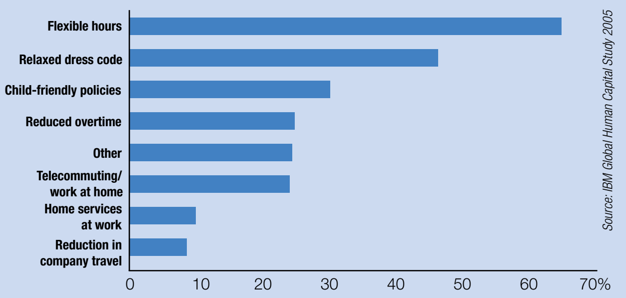
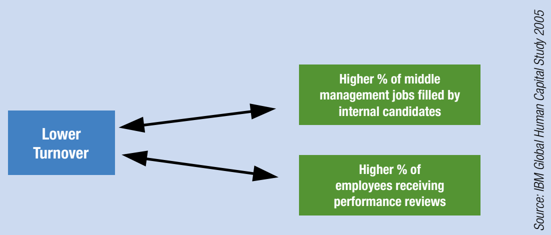


Figure 13: Relationship between turnover and selected human capital practices



Perspective 3

Retaining key people

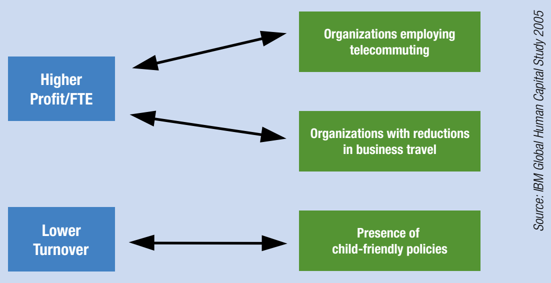
A greater understanding of the workforce will help the development of well-targeted and effective policies. For instance, most CHROs will have targets for managed attrition, making projections for levels of employee turnover at each level of the organization. The key is to have the insight to adjust those targets appropriately for market conditions, to identify those employee groups who are critical to the organization, whose attrition levels are outside expectations, and to take corrective action as and when required. It's a hard skill, having a finely tuned understanding of the workforce motivations and drivers for each segment.

Investment in good human capital practices does yield bottom-line benefits, as well as retaining talent and reducing levels of employee churn. But they are not being used as widely or as effectively as they might.

In order to derive the fullest benefits, as well as to continue managing the balance of talent, the CHRO must have a retention strategy that is aligned with employee needs and business objectives.

This strategy can draw from a variety of measures and initiatives. Such measures are programs for the organization rather than being pure, or traditional, HR programs. Work/life policies, performance reviews, growth and the creation of internal job opportunities; put in place and executed well, they will have a positive impact upon the organization as well as the bottom line.

Figure 14: Relationship between selected outcomes and work/life practices



The CHRO as chief talent architect

Talent can be identified. Appropriate policies and procedures can be put in place to create a loyal and productive workforce.

The responsibility for identifying and deploying the optimal strategies to engage employees and drive loyalty, satisfaction and retention lies firmly with the CHRO. Our Study provides clear and compelling evidence of the benefits to workforce effectiveness and organizational profitability of a positive, proactive approach.

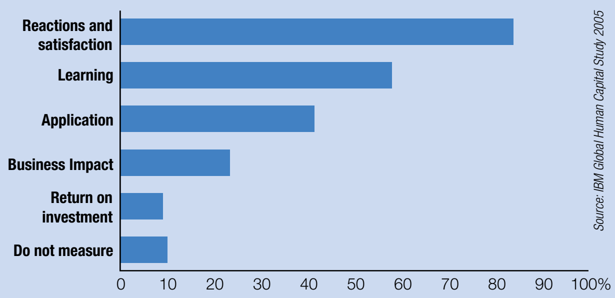
> *"Our key focus is improving and maintaining the skills and motivation of the brightest people and committing them to the company's success in the marketplace"*

But where is the proof? Where is the return on investment that the CEO demands? The key is in measurement. The provision of a flexible work/life balance – within an organization that both reviews its employees' performance and has plenty of opportunities – delivers results in key people retention and also in operating profits. Organizations that are achieving such results need to maintain the momentum, by measuring and justifying their approach but also by seeking new ways to improve them.

As chief talent architect, the CHRO stands accountable. The CHRO must be part of the business, not outside of it. What these findings show is that the policies and procedures led by the CHRO can have a powerful effect upon the enterprise. That means that clear ROI and measurement techniques need to be put in place. And, as we shall see, that is not yet fully developed in many organizations.

The evaluation of training

Figure 15: What measures does your organization employ to evaluate learning effectiveness?



Training is another critical area where investment can be linked to higher profitability per FTE. Companies that support their employees to devote more time to learning are able to demonstrate higher profits per FTE. Those organizations that provided a greater number of learning days were also more likely to measure the business impact of their training efforts, from senior management through to junior staff. However, most companies still evaluate learning activities on individual reactions as opposed to business impact or ROI (see figure 15). Companies that used e-learning also reported higher profits per FTE.

Not only can training have a positive impact upon profitability, but some companies also see it as a means of keeping costs in check. “If done effectively, [training] could contribute to a lowering of eight points on our cost structure,” commented one Latin American CHRO.

Measuring up: where organizations fall short

CEOs believe that people and talent are the real constraints on growth and responsiveness. CHROs agree with them. The people agenda counts. But you would not guess this from the lack of measurement of the human capital agenda in most organizations. There's a clue here for CHROs.

Organizations are not looking at their HR programs from end-to-end. Therefore they are unable to determine precisely which areas need to be measured, and what the real priorities are for action.

Where organizations fall short

Less than half of CHROs have access to measures that demonstrate the effectiveness of their human capital programs by their business impact – just over 25 percent measure the return on investment (see figure 16). More than 75 percent measured effectiveness based upon employee satisfaction. One North American CHRO summed it up thus: "We need data, not anecdotes."

Only a small number of companies have incorporated human capital measures into their leadership rewards. When they were applied, the main factors incorporated into the leadership team compensation plans were the growth of key staff, employee satisfaction and the attrition/retention of key staff (see study findings, page 62). However, even the most highly-ranked of these factors – growth of key staff – was only being linked by one-third of companies to leadership rewards.

Almost two-thirds of companies surveyed reported that the rewards of their HR employees were not tied with the overall HR performance (see figure 17). This was particularly the case in the public and distribution sectors. The HR function has some shortcomings of its own to address.

Some results are positive. There were some popular people-based metrics on which the HR function reports to business, notably headcount, training and staff turnover (see figure 18). Two-thirds of organizations evaluate the effectiveness of their recruitment and selection processes by assessing the quality of new hires (see figure 19). However if new talent acquisition is such a top priority, one would expect a much richer measurement in this area and thus a widespread use of performance measures such as offer acceptance rates and new hire retention levels. Only in larger companies did these and other criteria play more of a role.

> *"Investment in technology and in the organization is nothing if we lose the ability to manage every employee at any level of the organization"*

Figure 16: How do you assess the effectiveness of your human capital programs/ initiatives?

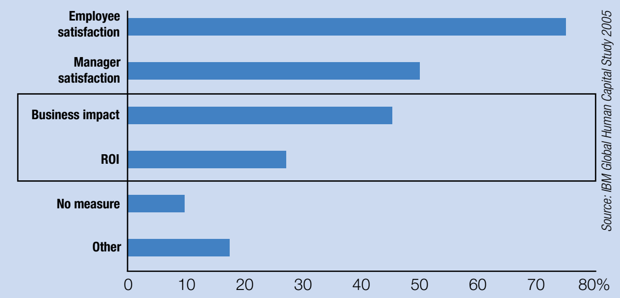


Figure 17: Is HR performance linked to the rewards received by HR employees (as measured by your customer satisfaction survey)?

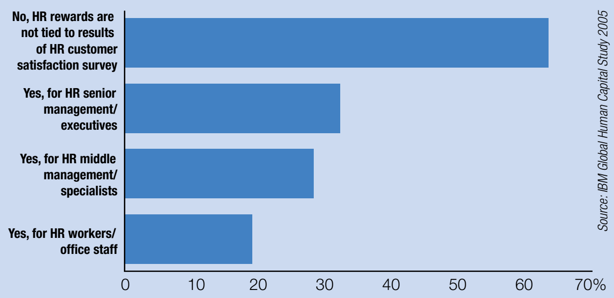


Figure 18: Which people metrics does HR report to the business?

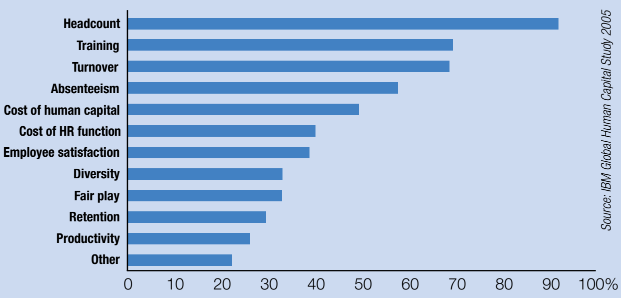
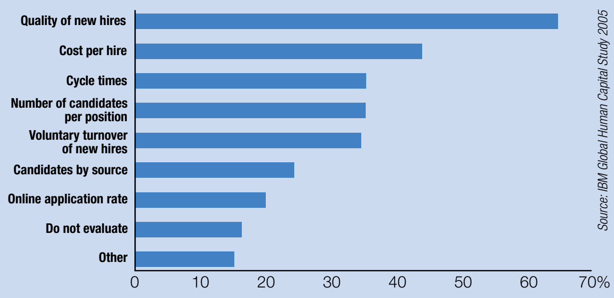


Figure 19: How do you assess the effectiveness of your recruitment and selection process?



Where organizations fall short

Making a difference

If the things that get measured are the things that get done, then the lack of measurement of human capital performance is quite alarming.

Organizations – and CHROs specifically – are having a difficult time balancing their investments in people against competing business challenges. They differ widely in their ability to implement corrective measures because all too often they don't understand what the problems really are. The real danger is that a lack of measurement of human capital performance ultimately results in the leadership team not giving people issues the time and attention they deserve.

There appears to be a gap between the expressed belief – that people are extremely important – and the way in which this area is being managed and measured, particularly when compared to other business indicators.

It is clear that CHROs need to assess their HR programs with greater rigor and business focus – "do they make a difference?" rather than the usual "do you like our programs?"

CHROs should not avoid this challenge, because our research and market knowledge indicate strong correlations between human capital metrics and enterprise-wide performance.

The task for CHROs is to ensure that the impact of human capital management on business results becomes tangible and visible and that the executive leadership of their organization start to focus much more upon these correlations.

> *"Getting metrics on the 'cost of this and that' or turnover is easy, what I want are good measures of employee engagement and attitude, ability to change, willingness to take on new skills and trust in colleagues"*

Building a business case

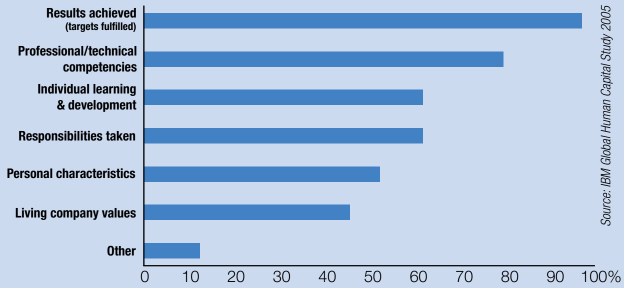
This Study provides CHROs with a valuable business case for human capital investment – and many really do need one. Despite the importance of human capital, few companies appear to hold their executives accountable for improving and retaining it.

People are still viewed as the cost of doing business, despite clear evidence to the contrary. A clear manifestation of this view is the much-publicized shift of jobs to low-paying countries. It is easy to say that the competitive advantage of companies in these countries is their cheaper labor. But our Study clearly indicates that these companies are developing a competitive position based not just on the cheaper cost of labor, but also on the flexible use of, and continued investment in that laborforce. Is it time for measures to be put in place around not only cost but also flexibility?

As we shall see, CHROs need to refine their organization's human capital strategy according to the geographies in which they operate. And the differences are more than just about the cost of labor.

The unbearable lightness of performance management

Figure 20: Which employee aspects are reviewed during employee performance assessment?



Performance management and measurement fall short when it comes to measuring how well the people agenda is being delivered. But this is not the only area – measurement challenges appear to be a general pain point in organizations.

Sometimes there is a lack of clear direction, too little accuracy and effort in the measuring of results. As one European CHRO put it, "investment in technology and in the organization is nothing if we lose the ability to manage every employee at any level of the organization."

What is easy to measure is not always most relevant. Or as one North American CHRO said: "Getting metrics on the 'cost of this and that' or turnover is easy, what I want are good measures of employee engagement and attitude, ability to change, willingness to take on new skills and trust in colleagues."

In general it appears to be difficult to put in place a performance management system that drives the expected behavior patterns and that really affects company results. Our Study established that organizations reviewed "results achieved" and "professional/technical competencies" far more than any other factor during employee performance assessment (see figure 20). However, although organizations reviewed "results achieved" at an individual level, there does not appear to be a correlation between these achieved individual results and an organization's profit or revenue growth.

Regional perspectives: a world of difference

Geography matters. It is not just factors such as market conditions or human capital practices – important though they are – that CHROs must understand and communicate to their executive leadership colleagues. Cultural differences, differing levels of market maturity, and diverse corporate styles can all lead to significant differences between regions on a wide variety of vital issues.

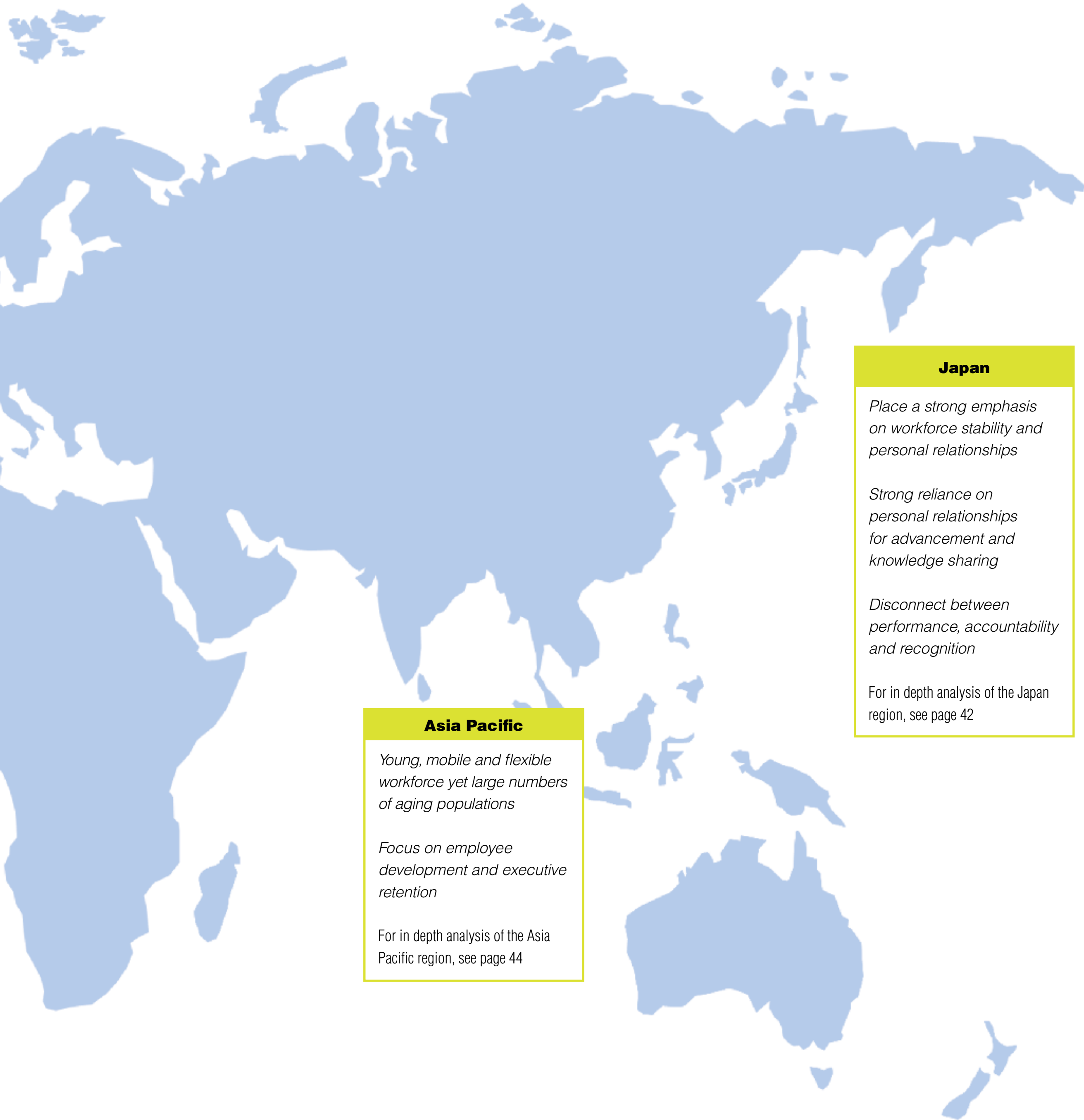
In our Study, we found that these ranged from compensation, performance measurement, management development, the emphasis on workforce diversity and recruitment methods. The effectiveness or otherwise of a global organization can be profoundly impacted by recognition and understanding of these differences.

The key challenge facing CHROs of multinationals is how to incorporate global and regional differences in culture into a unified corporate culture. And for CHROs of companies in Japan, EMEA and North America, the challenge lies in competing with Asian companies' advantages of cheap labor, investment in human capital and flexibility of using that human capital in a growing global market.

Perspective 5

A world of difference: While the Study results apply to organizations around the globe, these findings can also (in bullet point format) with our own experiences in working with clients in a variety of regions, highlighting

be interpreted from a regional perspective. In this section, we have combined the insights from the Study some of the specific local challenges and potential solutions these organizations confront.



Perspective 5

A world of difference: North America

North American organizations have the highest:

- *level of voluntary turnover, particularly at the staff level*
- *percentage of employees with access to employee and managerial self-service*
- *overall workforce age.*

They are most likely to:

- *report diversity measures to their business units*
- *focus on individual learning and development*
- *have succession plans for senior executives, but not for middle managers and staff*
- *incorporate diversity into their leadership's compensation plans.*

They are more likely to:

- *require a return on investment metric to justify their human capital programs*

Pragmatism best summarizes the survey responses from organizations in North America. However, it is short-sighted pragmatism that may ultimately prove costly. Two-thirds of respondents cited cost reduction as their primary objective, while the rest of the world placed increased profitability and customer responsiveness and service at the top of their agendas.

When reading the key findings from North America, it is easy to reach the following conclusion: North American companies are primarily focused on short-term cost reduction and return on investment. This focus may be derived, in part, from the continually increasing cost of health and retirement benefits borne by American companies. While countries in EMEA, Japan and even China face similar aging population challenges, in the US, a relatively higher burden of costs is assumed by corporations.

The higher percentage of older workers in the US workforce may be a result of the lack of generous state healthcare and pension benefits that allow European workers to leave the workforce at an earlier age. North American respondents appear to look at people primarily as costs to be reduced, rather than assets to be invested in.

One finds little investment in developing a learning strategy, high turnover and a tenuous linkage between human capital measures and leadership compensation. Organizations tend to focus on the cost of HR processes, such as recruitment, but not on outcomes in terms of the quality of people they hire. Flexibility of the workforce in terms of size and skills is stressed. Relaxed dress codes and telecommuting are used as retention mechanisms, perhaps because they are relatively inexpensive to implement and add to reductions in office space and equipment.

- *offer a relaxed dress code and telecommuting as key work/life benefits*
- *have cost reduction as one of the organization's top objectives*
- *use focus groups and large group meetings than their worldwide counterparts to gather employee feedback*
- *place a high emphasis on measuring ROI in HR programs*
- *have greater mobility at the middle manager and staff levels*
- *focus on the recruitment process rather than outcomes.*

They are less likely to:

- *include growth of key staff and staff training goals into their leadership team's compensation plans*
- *have a learning strategy.*

In North American organizations, performance feedback and broad-based succession plans are generally not used at the middle management and staff levels; companies seem to focus on the chosen few at the top when it comes to succession planning. Manager and employee self-service are used as important HR service delivery channels to reduce the costs of the HR function.

While cost reductions can, in the short-term, increase profits, they cannot grow a company. Investment is required to train people and develop a broad base of skills among a core group of operational staff and middle level managers.

These are investments that few North American companies are making. This is troubling, given that North America isn't producing the engineers, scientists or systems experts it needs. How will these companies develop the leaders and experts it needs to remain dominant in a global economy? How will they compete against other areas of the world where their competitors have lower labor costs, are more flexible in their staffing models and are placing greater investment in the development of their human capital?

The answer may lie in North American companies' focus on return on investment and in the technology of manager self-service. Today, North American companies may be more advanced in their ability to link HR programs to the bottom line. Right now, the return on investment is often measured in terms of cost reduction, but this same discipline could easily be applied to increases in productivity and profitability.

So there is hope that North America could lead the world in developing programs linked to a growth agenda. This would be accomplished by defining effective HR programs and policies, linking those policies and programs to a balanced agenda of growth, productivity, quality of products and services and innovation. It would require better integration of human capital management with line operations, coupled with more effective learning strategies and delivery. Our Study shows that companies across the globe have found clear associations between performance measures, human resource development, workforce planning and increased profitability. Better design and delivery of HR services and learning will be required, as well as technology that leverages improved communications, collaborative platforms and knowledge management tools in the workplace

Perspective 5

A world of difference: Europe, Middle East and Africa

EMEA organizations have the highest:

- *perception of being able to deliver formal and informal learning objects and experiences to meet specific job needs.*

They are most likely to:

- *have an aligned learning strategy*
- *use individual arrangements and fixed salary scales.*

They are more likely to:

- *report absenteeism.*

EMEA is closer to Japan than you might think.

In some very specific dimensions, EMEA and Japan are very similar. Next to Japan, EMEA organizations:

- are the most limited in their ability to achieve flexible staffing levels
- are the least likely to consider diversity in their leaders' compensation plans
- have limited or no tools to plan and deploy human capital
- are less likely to evaluate personal characteristics as part of the performance appraisal process
- have a similar age profile of their workforce.

Could it be that each of these regions has a history of the "apprentice" program? Hiring people at a younger age, training them and having a more "employment for life" perspective could be considered a common trait between the two regions. When driving the growth agenda within an organization, this may not be the best future strategy.

Although countries are different, many are facing a common challenge. Over 60 percent of the EMEA CHROs said that their market was "mature or declining." As discussed earlier in this report, the trend we see in this market environment is one where the HR function is focused on "the activities of HR," rather than ensuring that those activities are adding value to the people agenda of their organization.

CHROs in EMEA need to shift their focus from "managing the function" to dynamic people management. As a CHRO in the consumer products industry stated, "(our key focus is) improving and maintaining the skill and motivation of the brightest people and committing them to the company's success in the marketplace." To help with this shift, the EMEA CHROs need to review their strategies on sourcing, workforce planning and talent management.

They are less likely to:

- *have employee or managerial self-service*
- *report the cost of human capital to the organization*
- *use agencies to source employees*
- *be able to deliver formal and informal learning objects and experiences to meet specific job needs*
- *evaluate personal characteristics*
- *evaluate recruiting and selection metrics.*

There's some good news regarding sourcing. EMEA has the highest percentage of part-time workers as compared to other regions and a significant percentage of contract workers. There is a great need to determine the appropriate strategies, within the known European constraints, to build more flexible workforces.

Over the next 25 years, the number of people in the 50-64 age group will increase by 25 percent, while those in the 20-29 age group will decrease by 20 per cent.* A very similar profile change will also happen in Japan. As one CHRO in the public sector stated, "The challenge is with the pyramid of age; one generation is about to retire...there is a risk of losing critical skills."

With the dynamics of an aging workforce, the changing needs of the Y generation just entering the workforce, and the overall scarcity of some skills and competencies – to mention just a few factors – EMEA CHROs will have to focus on workforce and talent management. They will need to be the forecasters of what skills and competencies will be required; how many people with what skills and what will be the sourcing strategy for those skills? This will need to include a strategy around retaining older workers longer, through re-skilling, flexible work patterns and other initiatives. The CHRO will need to be able to forecast, plan and manage the workforce in a much more dynamic way than is happening today.

Once workforce planning strategies are in place, the next area to tackle is talent management. "How to build the right talent in the organization?" is the key question. With less than 50 percent of the EMEA CHROs saying that they have leadership and management development programs in place, there is room to grow.

The good news is that at least 50 percent of the EMEA participants in the survey do have succession plans in place for senior leadership, but only around 30 percent have them for middle management. EMEA and Japan both have the lowest percentage of organizations with formal succession plans at these two levels. A strategy for building and retaining the right talent for the future leadership of the organization will be essential to achieve the overall dynamic people management agenda.

Are Japan and EMEA a world apart? The results of our Study show that they have more in common than one might initially think. Like Japan, the challenge lies in the "how." How to create responsive and dynamic people management to drive growth?

**Source: Fritz Von Nordheim, "EU policies in support of Member States efforts to retain, reinforce and re-integrate older workers in employment," in Buck, Hartmut and Bernd Dworschak, eds., Ageing and Work in Europe, Stuttgart 2003*

Perspective 5

A world of difference: Japan

Japanese organizations have the highest:

- *use of evaluation of the quality of new hires*
- *total sourcing time*
- *operating profit costs/FTE.*

But the lowest:

- *voluntary and involuntary turnover at the middle manager level*
- *job acceptance rate for senior- and middle-management positions*
- *use of management/leadership development programs*
- *use of performance-based pay*
- *number of learning days for all staff levels.*

For Japan, one of the world's largest economies with extended influence across the region, people are high on the agenda. The world is watching its economic and organizational restructuring efforts closely. This is because of the impact that the country can make in this growth region, its own long-term growth curve (not yet in a sustained upward direction), and its traditional role as an internationally competitive player.

The challenge for Japan lies in the "how." How will it use its people as one of the potential key levers to overcome responsiveness constraints? How will it use its people to drive growth?

Three principal points emerge from the Study that distinguish the difference in Japan's people practices.Japanese organizations have traditionally placed a strong emphasis on workforce stability and personal relationships. Our Study confirms this and provides some insight into the very particular challenges that face CHROs operating in this country.

Japan has the lowest levels of voluntary and involuntary turnover at all organizational levels. It is also the least flexible in modifying staffing levels – 70 percent of Japanese CHROs said that they had only a "limited ability" to do this. Executives in Japan are reluctant to move to another organizational paradigm: job acceptance rates for senior- and middle-management positions are low. Japanese companies are the least likely to measure the hiring cycle time, while the process of sourcing an employee takes considerably longer than in any other region.

Another manifestation of this traditional emphasis can be seen in the strong reliance placed upon personal relationships for advancement and knowledge sharing. Japanese companies are the least likely to have succession plans at the senior- and middle-management levels. They are also the lowest users of formal management/leadership development programs. Furthermore, they are the least likely to have tools with which to plan and deploy their human capital or to help identify expertise.

They are least likely to:

- *be flexible in modifying staffing levels*
- *measure hiring cycle time*
- *have succession plans at the senior- and middle-management levels*
- *have tools to plan and deploy human capital*
- *use tools to help identify expertise*
- *hold their business leadership accountable for HR program results*
- *indicate that HR performance was linked closely with rewards to HR personnel*
- *place emphasis on measuring aspects of HR program success.*

The country's organizations rank lowest in the development and alignment of their learning strategy. As a result, the lack of transparency in evaluation and advancement decisions can decrease employee trust in the organization. Further, the lack of clarity in career paths leads employees to be uncertain about the levels of competencies required in order to gain promotion.

There is also a marked disconnection between performance, accountability and recognition in the formal Western sense. In terms of formal Western measures, Japanese companies appear least likely to hold their business leadership accountable for HR program results. Japanese CHROs are also the least likely to indicate that HR performance is linked closely with rewards to HR personnel. In addition, there is low recorded use of performance-based pay and less formal evaluation of individual training and development.

The implications are clear. There is strong cultural emphasis on workforce stability – a core of the Japanese system. To regenerate sustainable growth, we believe Japanese companies must develop an enhanced set of people management practices – otherwise known as work style innovation. New approaches to collaboration, fresh thinking about the physical working environment, and changes to business practices and processes must all be assessed and introduced.

Taking a new approach to work style innovation, in turn, requires leadership. It will require leaders to embrace new ideas, convince others of the value of these new approaches, and guide and coach individuals on how they need to be successful in the new world. Yet, the Study found that half of the organizations consulted reported that they do not have a management/leadership development program. Japanese organizations may well need to place greater emphasis on formal leadership training in order to accelerate the rate of "work style innovation."

As the CHRO of one Japanese multinational company attested: "We have begun an aggressive effort to be a highly competitive international player. To meet the needs of business diversification, we need to transform our HR portfolio. We position HR as a key for growth. It is very important to give the right training of leadership skills to people elected at an early stage." We too believe that redefined leadership is a critical component to making and managing the changes necessary for Japanese companies to remain competitive.

Perspective 5

A world of difference: Asia Pacific (excluding Japan)

Asia Pacific organizations (excluding Japan) have the highest:

- *voluntary turnover at the senior- and middle-management levels*
- *use of reporting number of candidates per position for new hires*
- *percentage of companies offering management development programs*
- *percentage of companies with a learning strategy*
- *flexibility in proactively staffing prior to market demand*
- *use of measures of employee satisfaction, attraction/retention of key staff and growth of key staff in leadership compensation.*

They are more likely to:

- *evaluate the quality of new joiners as part of the performance measures of recruitment*
- *evaluate employee performance on the responsibilities of the role*

Perspective 1 described the challenges for CHROs operating in maturing or declining markets. Companies operating in Asia Pacific outside of Japan, however, face a different challenge: how to manage human capital in growing, as well as maturing, markets.

In the Asia Pacific region, there are three types of organization that are particularly impacted by the findings of our Study: domestic organizations that are facing rapid growth, multinational companies that are looking to revitalise in the face of market maturity, and government owned/linked companies that need to prepare for the dynamics of the competitive marketplace.

Ambitious high-growth domestic or regional companies may learn from the experience of others, introducing human capital infrastructures early in their lifecycle to enable their structure to keep pace with growth. “We are interested in growth, not for growth’s sake, but for productivity,” observed the CHRO of one airline in the region. “People are the enabler of our first two priorities of high performance and high productivity,” was the view of one Indian CHRO.

- *have individual pay arrangements*
- *have learning strategy aligned with business objectives.*

They are less likely to

- *have a management leadership development programme*
- *retain the people they want as compared to their competitors.*

They *have the lowest*

- *involuntary turn over (e.g. layoffs).*

They also:

- *have the youngest workforce of all the regions*
- *place the strongest emphasis on "results achieved" when reviewing the performance of employees, scoring it more highly than professional/technical competencies.*

Multinational corporations – often mature and needing revitalization – are compelled to localize their structures to be flexible to the cultural and philosophical demands of this market, as well as adapting to the growth conditions. Their global reach requires a local touch.

Large state-owned, or state-linked, organizations – transforming, in emerging markets – need to build greater flexibility in order to protect themselves from nimbler competitors. "Skills deficiencies will slow down the growth of an organization entering global/regional markets," noted one regional health provider. The story is similar for traditional family-owned enterprises.

For all these organizations, integrated people strategies and practices are critical within a strong growth environment. Flexibility in resourcing, along with talent and knowledge management, count. Organizations in those parts of Asia Pacific that have been the recipients of the boom in outsourcing are now finding that they must look at the best sources for delivery of processes within their own organization. Organizations faced with high levels of employee churn have to develop practices – such as performance feedback, clearer career opportunities, and management/leadership development programs – in order to contribute toward workforce stability and employee commitment. Knowledge management systems that provide information to help new staff quickly be more effective are required.

A world of difference: Asia Pacific (excluding Japan)

The second major challenge concerns executive retention. Asia Pacific has the highest incidence of voluntary turnover at the senior executive and mid-management level. This is of particular concern in a region that counts leadership as a key organizational focus. "To become successful the right kind of leadership and competency is important," commented one multinational in the energy industry. "Leadership is a key issue… we need to develop leaders," agreed another major enterprise. Holding onto your executives is crucial for Asia Pacific's companies to achieve sustainable levels of performance.

As our Study highlights in Perspective 2, there are clear linkages between higher profits per full-time equivalent (FTE) and factors such as the levels of middle managers participating in management development, the number of senior learning days and the use of e-learning.

It was also noted that companies that invest in developing talent internally must create opportunities for individuals or risk losing them to the outside market. At present, however, many organizations in Asia Pacific believe that they are behind the curve when it comes to developing their people – one in four described themselves as "just getting started."

Our Study shows that human capital measures and outcomes are generally not well woven into the fabric of organizations. But in Asia Pacific, people measures are being built into executive compensation plans, demonstrating an underlying commitment to, and investment in, people. Employee satisfaction, growth and retention of key staff are the metrics most commonly inserted into compensation plans – the former in almost two out of three Asia Pacific organizations.

Technological innovation is critical for the next generation of human capital management in Asia Pacific. For example, there is clearly significant room for the adoption of employee and manager self-service, where the region lags behind North America. While today's low cost labor may be able to substitute for HR technology, the rising cost of employees, coupled with the need to better integrate with, and obtain information from, global HR systems will require companies to reconsider their self-service investments.

However, along with their global counterparts, the region's organizations are finding that the adoption of tools to plan and deploy human capital has stalled. One in four organizations do not deploy any tools to assist in their management of human capital, while only 22 percent can demonstrate the benefits from the tools they use. Tools and processes may be the underlying investment for people and profits: mining and capturing knowledge, retaining and sharing it within the organization. As one major enterprise in Asia Pacific said: "Workforce management is something important to us. What will the workforce look like, to have an enterprise-wide thinking, and to leverage the whole. The whole is more powerful than our individual parts."

And so the search for sustained growth in Asia Pacific plays out in the search for high organizational performance in people strategies and management practices. The CHRO of an India-based multinational attested: "High performance, high productivity is happily driven by our organization's mantra. To make a person deliver performance happily, they need to be engaged to the organization." With the fastest-growing population coupled with a large graying population, "next generation HR" may well unfold in Asia Pacific.

Perspective 5

A world of difference: Latin America

Latin American organizations have the highest:

- *level of layoffs, though not as high as in 2002*
- *number of overall learning days.*

They are most likely to have:

- *succession plans for middle management and staff*
- *differentiated labor sourcing by function*
- *reviews of individuals by their professional/technical competence.*

They are more likely to have:

- *a younger workforce*
- *a high job offer acceptance rate.*

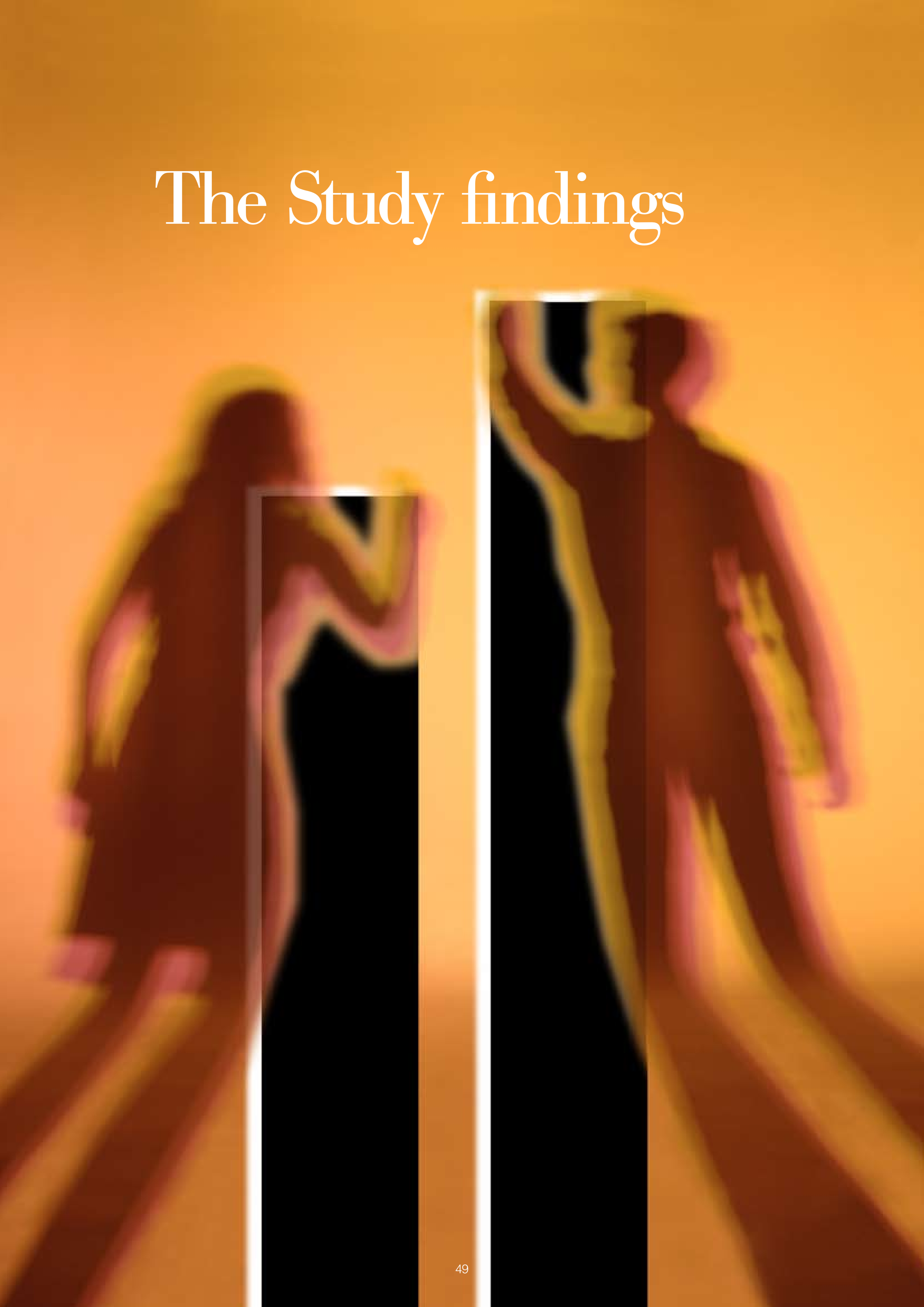
They are less likely to have:

- *employee or managerial self-service.*

Latin American companies appear to be in recovery mode from the economic upheavals of the last few years while investing in their human capital to compete effectively on a global scale. Though lower than two years ago, they still have the highest level of layoffs and the highest level of job offer acceptances. On the other hand, these companies stress technical competence. They have the highest number of learning days and a relatively young workforce. They are also focused on developing succession plans for their staff and middle level managers, indicating the depth in the organization that they are developing. The same profile could well have occurred in Asia after the economic crisis of 1997.

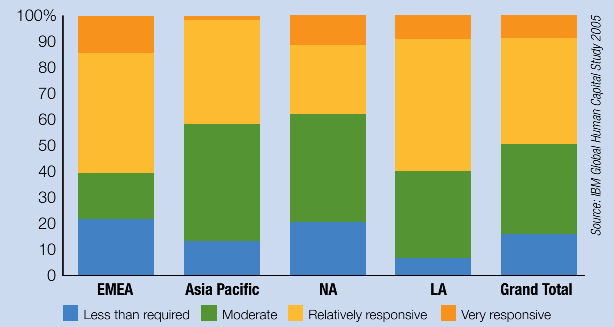
Organizations in Latin America do not yet rely on technologies such as managerial and employee self-service, perhaps because of the capital costs associated with this investment. However, given their position in the global labor market, they may seek to increase their investment in human capital and improve their workforce's effectiveness and efficiency. They have many of the same advantages that Asian economies have, but a geographical and language advantage that could allow them to develop quite rapidly. Focus on more effective and efficient delivery of HR services will place them high in the global marketplace.

The Study findings



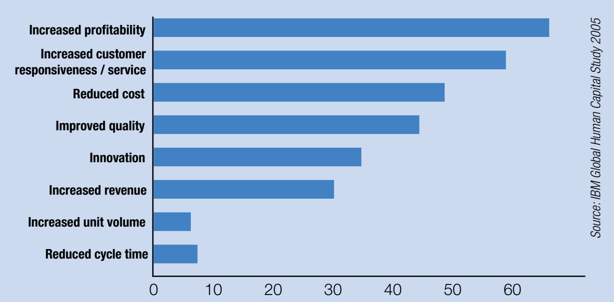
Most CHROs feel that their organizations are ill-equipped to meet their CEO's goals today

To what extent does your organization have the capacity to effectively respond to the CEO's priorities?

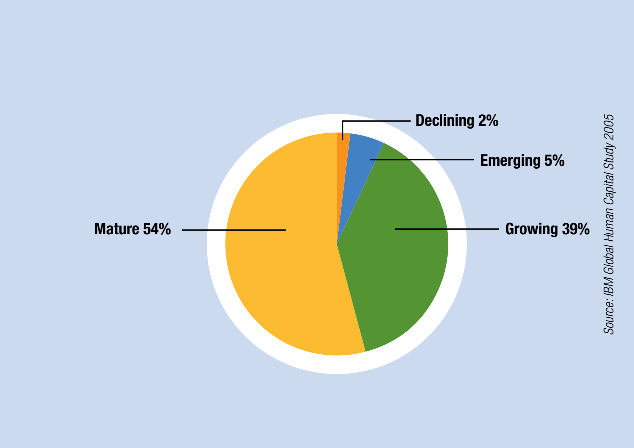


According to CHROs, their companies' primary business objectives include increasing profitability, improving customer responsiveness and reducing costs

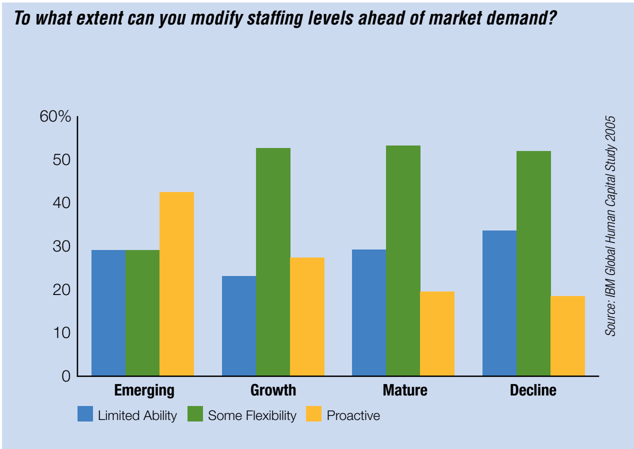
Which of the following does your company regard as its top three business objectives?



The overwhelming number of survey respondents reported operating in either growing or maturing markets

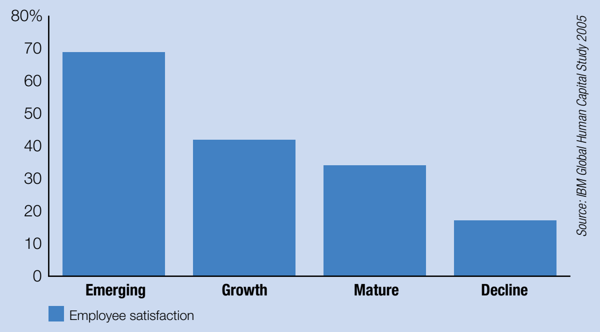


As organizations move through different market conditions, they report a decreased flexibility in modifying their staffing levels and are less likely to measure the cost and quality of new hires



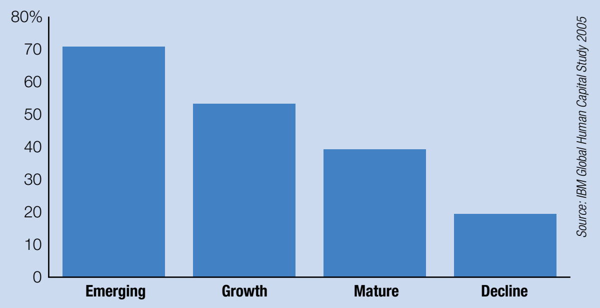
As organizations move through different market conditions, they indicate that their HR departments are less likely to report employee satisfaction to business

Do you report measures of employee satisfaction to the business?

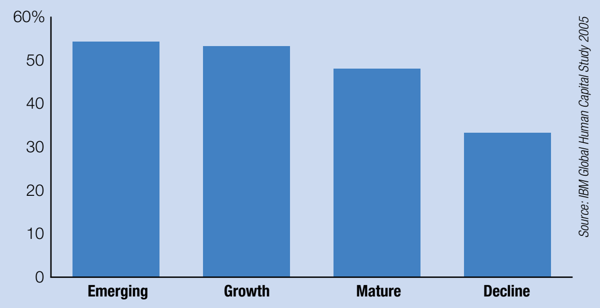


As organizations move through different market conditions, they are less likely to (1) be able to identify and retain individuals with key capabilities and (2) offer management/leadership development programs

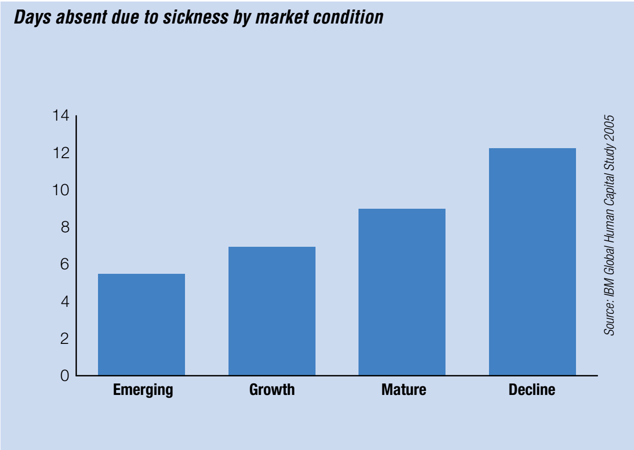
Identification and retention of individuals with key capabilities by market condition



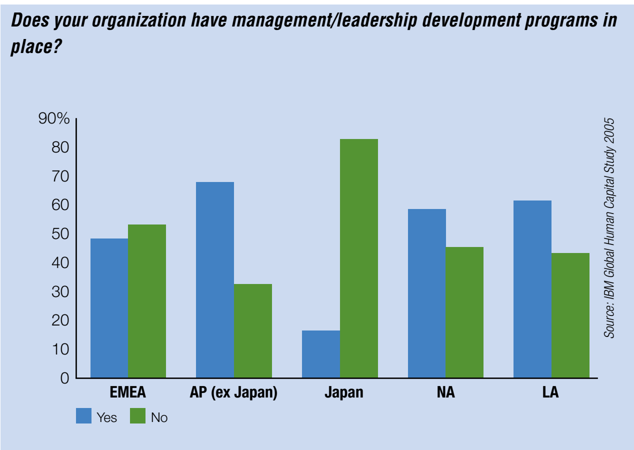
Management/leadership development program by market condition



As organizations move through different market conditions, they report higher levels of absenteeism

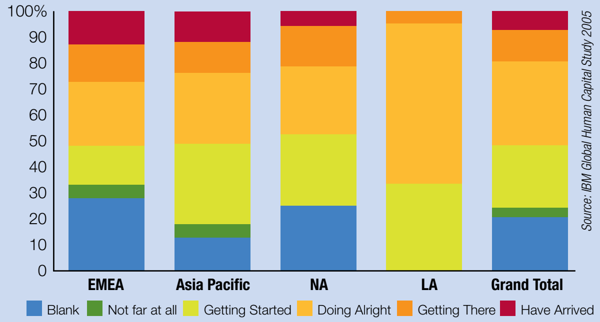


Half of the organizations reported that they do not have a management/leadership development program

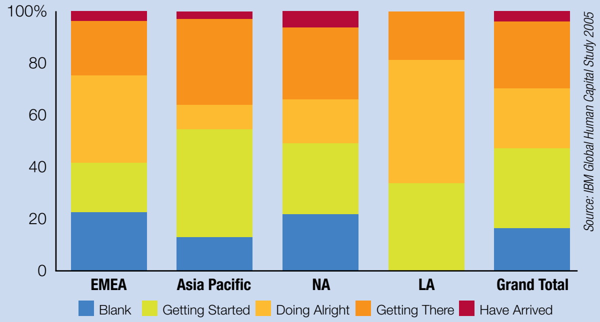


Those organizations that look externally for leaders are even less satisfied with their ability to bring new leadership into the organization. Those that do develop leaders internally report only doing a fair job

How satisfied are you with your ability to acquire leadership?

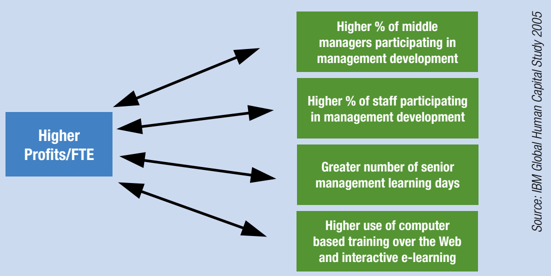


Ability to build leadership by region

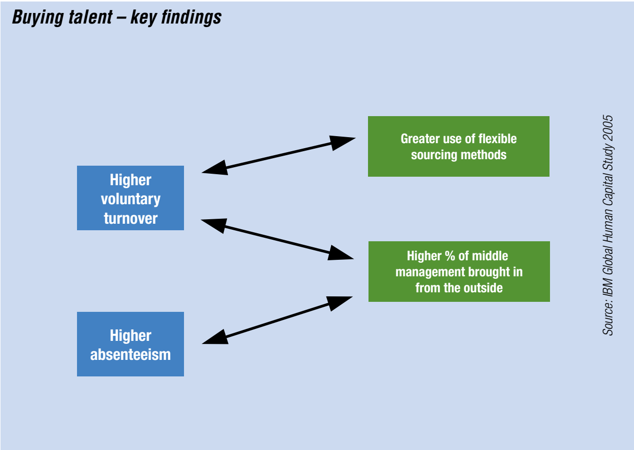


Organizations that invest in building talent appear to have higher profits per FTE but also need to create opportunities for individuals to advance

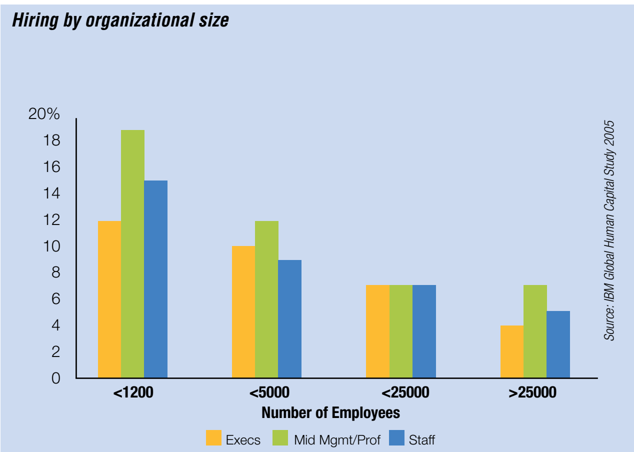
Building talent – key findings



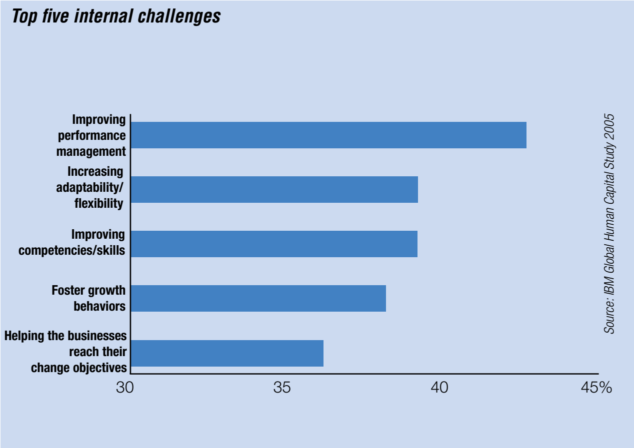
Organizations that buy talent from the outside potentially risk alienating their existing workforce and losing talented employees



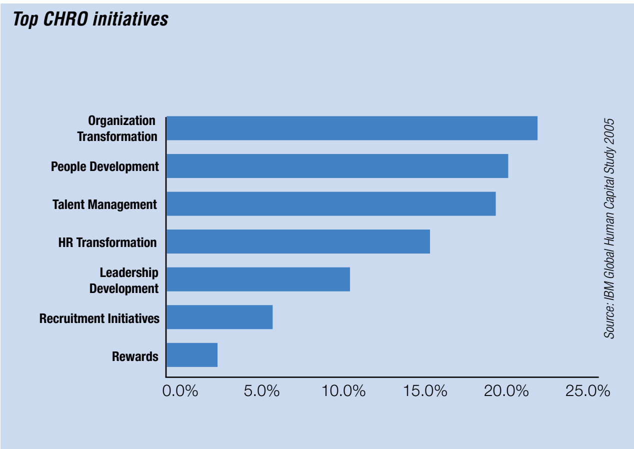
Hiring seems directly related to organizational size, with the smallest companies outpacing large by nearly three to one



CHROs believe that they will need to overcome major internal challenges to address the gap in meeting CEOs' expectations



CHROs are planning the following initiatives to respond to the CEO's priorities



Unlike the profit per FTE for managers, which increases with investment in management development programs, the profit per FTE for operational staff tends to decrease as it reaches a certain limit

Relationship between management development and profit/FTE

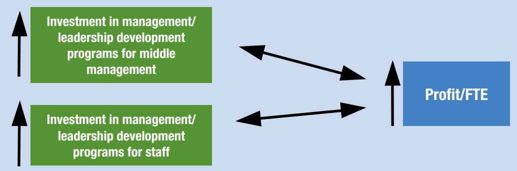
	% of Managers Who Attended Management Development Programs		
Percentage	0 – 60%	61 – 80%	81 – 100%
Mean profit/FTE	$43,484	$76,002	$134,121

	% of Staff Who Attended Management Development Programs		
Percentage	0 – 20%	21 – 40%	41 – 100%
Mean profit/FTE	$46,114	$171,253	$141,482

Source: IBM Global Human Capital Study 2005

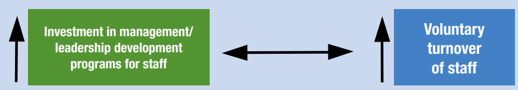
Organizations that invested in employee management development programs, particularly for middle management and operational staff, were found to have a higher profit per FTE. However, for operational staff, these programs appeared to increase the risk of losing these individuals

Relationship between management development and profit/FTE



Source: IBM Global Human Capital Study 2005

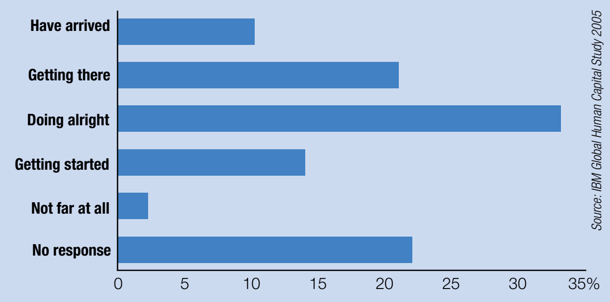
Relationship between management development and profit/FTE



Source: IBM Global Human Capital Study 2005

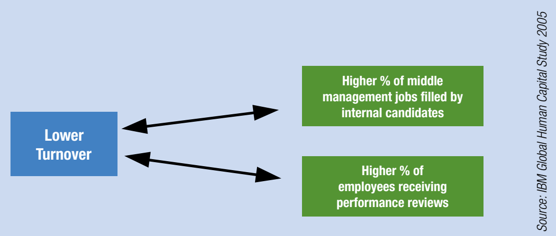
In the face of changing demographics and competition, organizations from all regions recognize the importance of retaining key employees

How do you rate your ability to retain employees vs competitors?

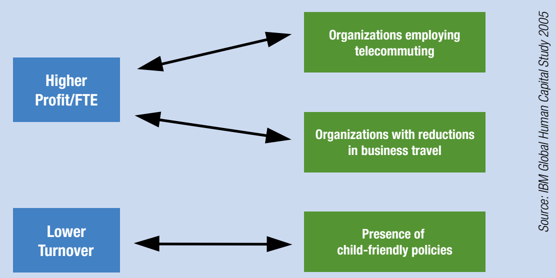


Providing opportunities for promotion and performance feedback appears to be closely linked to lower levels of organizational turnover. Organizations that offer telecommuting and reduced business travel are linked to higher profits per FTE, while child-friendly policies are linked to lower staff turnover

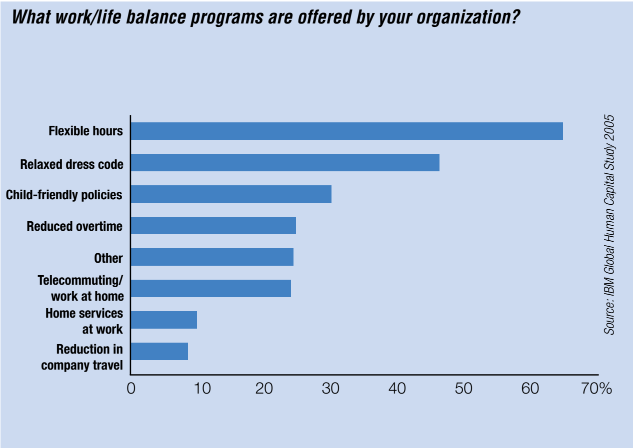
Relationship between turnover and selected human capital practices



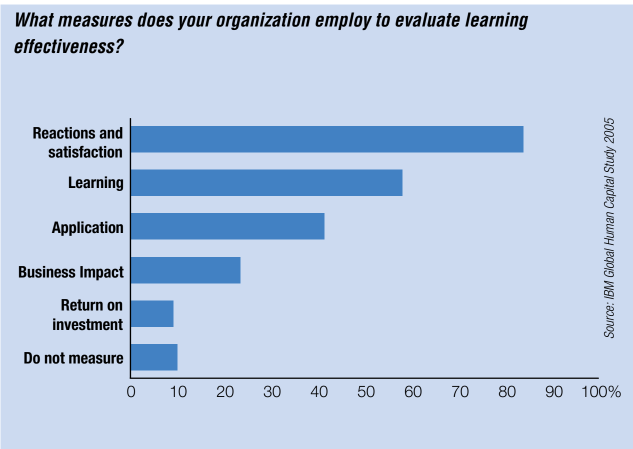
Relationship between selected outcomes and work/life practices



Flexible hours and a relaxed dress code are the most prevalent work-life balance programs offered by organizations

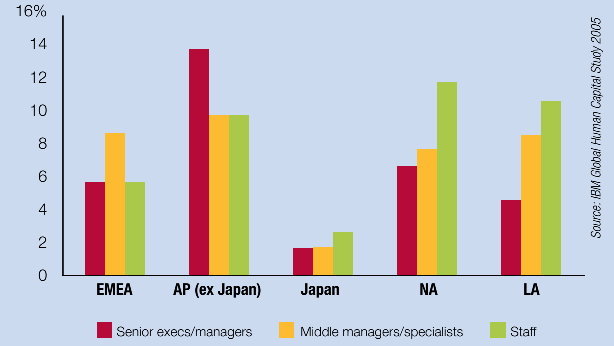


For the most part, organizations are still evaluating learning activities on individual reactions as opposed to business impact or return on investment



Japan has the lowest overall voluntary turnover across all the regions

Voluntary turnover by region



Companies that devote more learning time to employees appear to demonstrate higher profits per employee

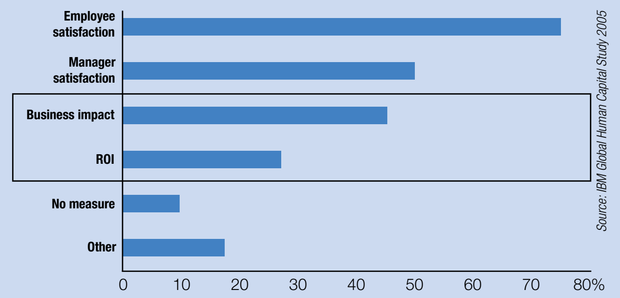
Learning days by profit per employee

	Mean (n=87 companies)	Top 25% of Profit/FTE companies	Middle 50% of Profit/FTE companies	Bottom 25% of Profit/FTE companies
Senior management learning days	5.0	**7.2**	4.8	3.9
MIddle management learning days	5.1	**6.7**	4.7	4.7
Other employees learning days	5.3	**6.8**	4.8	5.2
Total average learning days	5.6	**7.6**	5.2	4.8

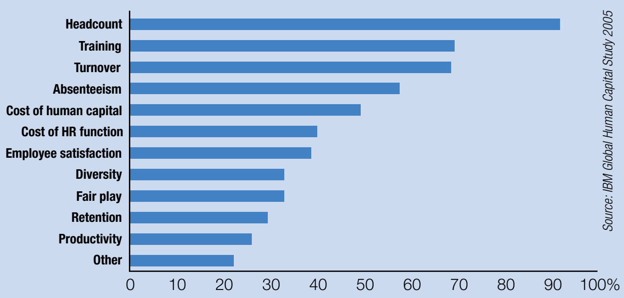
Source: IBM Global Human Capital Study 2005

Less than half the organizations measure the effectiveness of their human capital programs/ initiatives by their business impact or return on investment. Headcount, training and turnover are the people metrics that HR most regularly reports to the business

How do you assess the effectiveness of your human capital programs/initiatives?

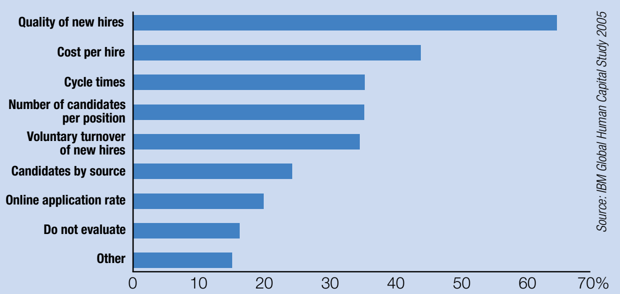


Which people metrics does HR report to business?



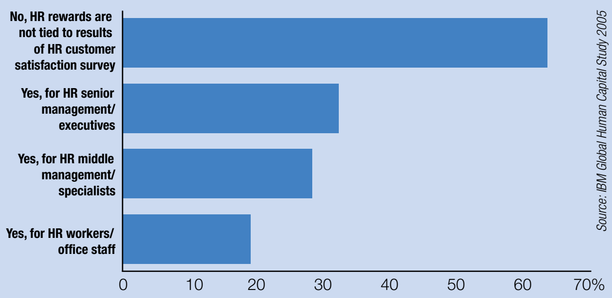
Two-thirds of organizations report evaluating the effectiveness of their recruitment and selection processes by assessing the quality of new hires

How do you assess the effectiveness of your recruitment and selection process



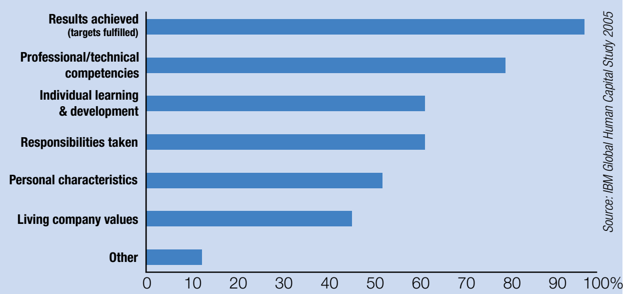
In the majority of organizations, HR performance is not closely linked to the rewards received by HR employees

Is HR performance linked to the rewards received by HR employees (as measured by your customer satisfaction survey)?

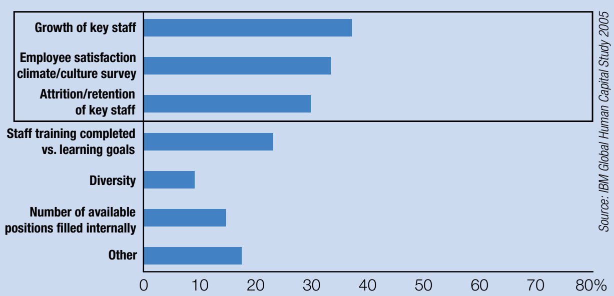


During employee performance assessment, organizations review results achieved and professional/ technical competence far more than any other factor. Since people metrics are often not built into senior leaders' compensation plans, people issues may not be receiving sufficient time and attention

Which employee aspects are reviewed during employee performance assessment?

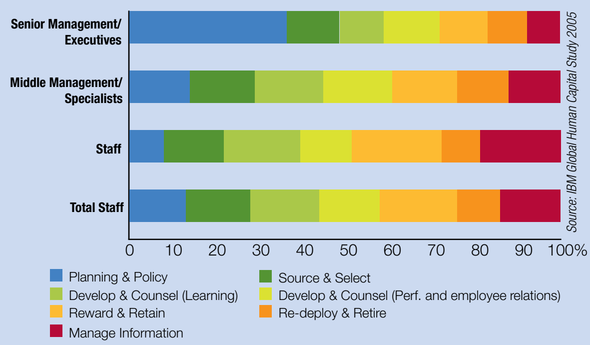


People metrics in compensation plan for leadership team



The two processes where HR focuses most employees are reward and retain and manage information

Breakdown of employees by HR process



Breakdown of the overall annual cost per HR process area

Annual cost per process area

Process Area	% of Internal Cost	% of Outsourced Cost	% of Total Cost
Planning & Policy	14%	7%	13%
Source & Select	13%	22%	14%
Develop & Counsel (Learning)	23%	32%	26%
Develop & Counsel (Perf. & employee relations)	11%	8%	10%
Reward & Retain	20%	17%	20%
Re-deploy & Retire	8%	5%	7%
Manage Information	11%	9%	10%
Total	**100%**	**100%**	**100%**

Source: IBM Global Human Capital Study 2005

The capability within

The Global Human Capital Study 2005 vividly illustrates the challenges facing CHROs and their organizations around the world. The implications of this Study also play out beyond the organization – to a national level. In order to deliver growth and responsiveness, human capital has to be leveraged in order to improve workforce effectiveness and organizational performance. People are the competitive difference. They are "the capability within."

It is time for CHROs to set out a new human capital agenda – one that will transform the potential of people but may well vary according to the market conditions in which they are operating. To step up to being the Chief Talent Officer, it is time for CHROs to connect the investments that are made in their employees firmly with performance outcomes. It is time for them to identify and deploy the optimal strategies to promote the retention of key people. The CHRO must define the "Next Generation HR" – the role that the HR function will play in the future around talent, flexibility, performance and growth.

But it is not just down to the individual CHRO. The Study sets out a challenge for the broader executive leadership. If people and talent are central to the successful addressing of the priorities of growth and responsiveness, then organizations aren't yet demonstrating it. Very few are measuring or rewarding their executive leadership or HR function by how they deliver on this vital agenda. Organizations have to adopt more dynamic people management strategies to help ensure responsiveness to the market and positioning for growth.

At a national level, the Study has a powerful relevance. Many regions of the world have to acknowledge that the Asia Pacific (excluding Japan) region is not just a source of cheaper labor, but that Asian organizations are working at getting better both in terms of flexibility and skills. This is something for other regions to consider in terms of the government agenda – their support in helping organizations build the talent and skills required for the future.

Individually, organizationally, and nationally, human capital management is at a crossroads. Deficiencies in skills, talent and leadership have to be addressed by a refocusing and, in many cases, by fresh thinking on "the capability within."

IBM contacts

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IBM Global Business Services' Human Capital Management (HCM) focuses on helping clients improve the value of their human capital assets to the organization. With more than 3,000 practitioners, Human Capital Management has a full suite of end-to-end capabilities to address client's challenges. Our capabilities include HR Strategy, HR Service delivery, talent, learning, workforce and performance management.

Further Information

To find out more about this study or to speak to a Human Capital leader please send an email to the contact listed or directly to global.benchmarking@us.ibm.com
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