



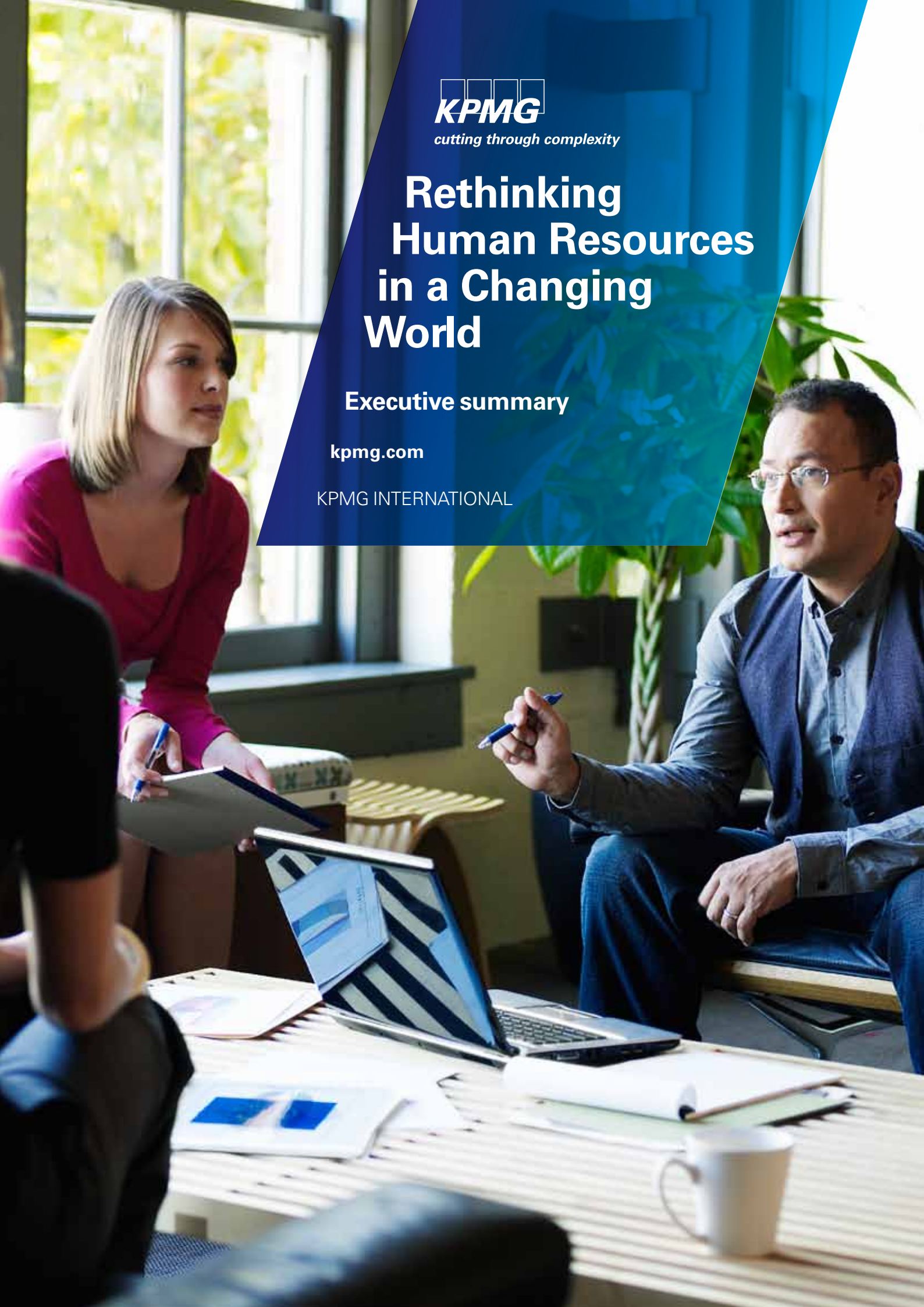
*cutting through complexity*

# Rethinking Human Resources in a Changing World

**Executive summary**

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## Rethinking Human Resources in a Changing World

The value of the Human Resources (HR) function elicits sharply contradictory views within organizations. On the one hand, in today's competitive global markets, the "war for talent" is understood to be crucial to almost every business. On the other hand, the HR function is often dismissed as non-essential or ineffective.

KPMG International commissioned the Economist Intelligence Unit to conduct a study to explore these issues. The report, *Rethinking Human Resources in a Changing World*, provides similarly mixed messages. About eight in ten (81 percent) respondents say that putting in place the most effective talent management strategy will be key to competitive success. Six in ten (59 percent) believe that HR will grow in strategic importance. At the same time, just 17 percent maintain that HR does a good job of demonstrating its value to the business, and only 15 percent see HR as currently providing insightful and predictive workforce analytics.

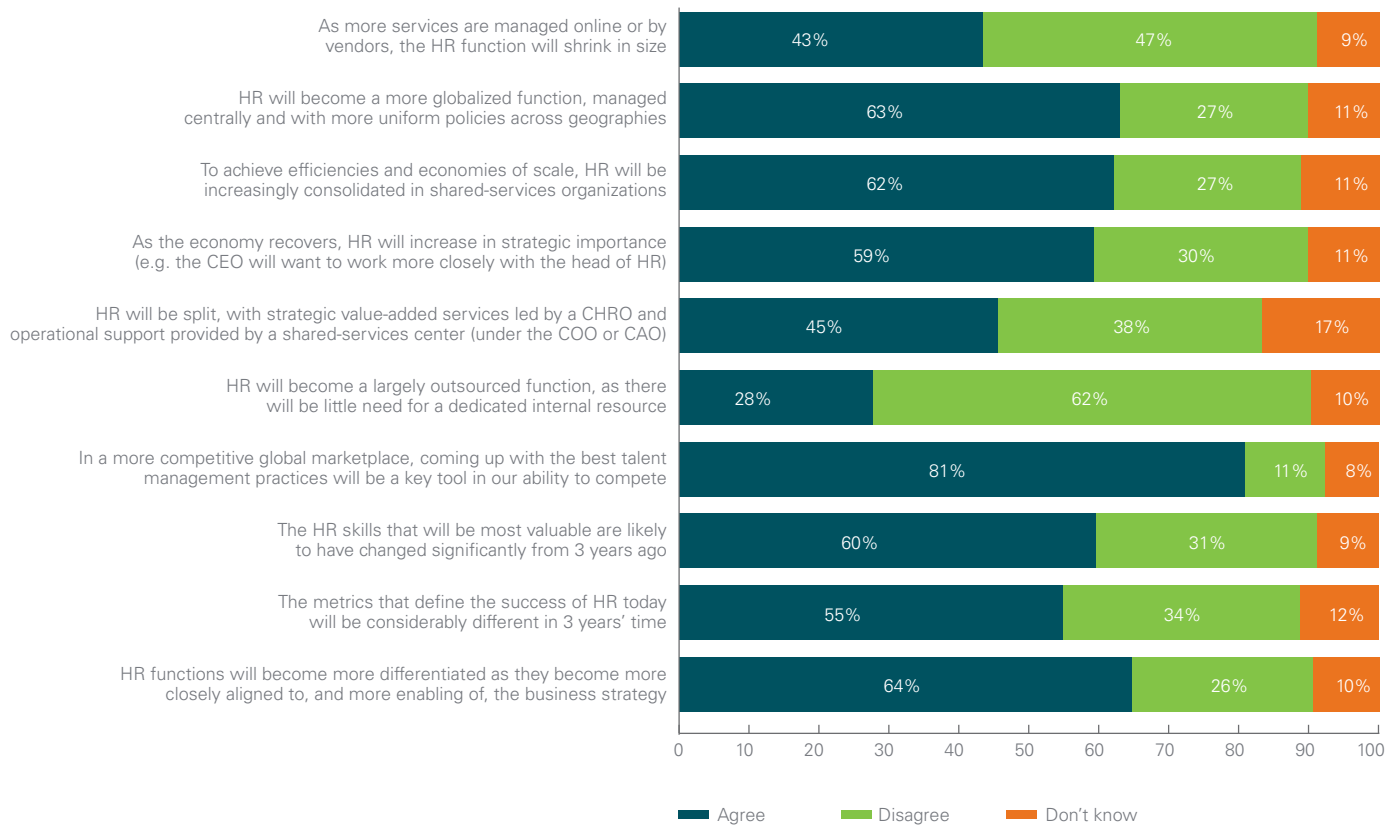
Meanwhile, the forces of globalization, talent constraints and new technology are driving rapid change to the HR function. Fifty-five percent of survey respondents believe the metrics that define the success in HR today will fundamentally change over the next 3 years. *Rethinking Human Resources in a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

- **HR is struggling with the challenges of managing a global, flexible workforce.** The global workforce has become increasingly integrated across borders while simultaneously growing more virtual and flexible. In fact, 71 percent of respondents believe that working across borders has increased in the past 3 years, and more than half of their organizations now have international reporting lines and talent flows.

These developments have made the retention of key talent and building workforces in new markets the top priorities of HR departments over the last 3 years. Survey respondents expect little change in the next 3 years. Yet only about one in four respondents say that HR at their company excels at core issues such as sourcing and retaining key talent globally or supporting a virtual and flexible workforce. Only 24 percent feel that their HR function proficiently supports their company's globalization strategies.

While 63 percent of respondents feel that HR functions are likely to become more globally uniform in the next 3 years, survey participants highlighted the need to find a balance between developing globally consistent strategies and local customization geared to individual markets.

**Do you agree or disagree with these statements about the future of HR at your company over the next 3 years?**



Source: Economist Intelligence Unit study: Rethinking Human Resources in a Changing World, 2012

- Finding ways to engage with workers will help address the challenges of this global, flexible and remote workforce.** Insights from interviewees for this report point toward improved employee engagement as the way to address the challenges of business globalization and the rise of flexible, virtual workforces. For example, 60 percent of businesses have increased the use of virtual workspaces and 55 percent have hired contractual or temporary workers in the past 3 years. Survey respondents noted that these workplace trends have a consequence in terms of employee engagement, and only a quarter of respondents believe that their HR department excels at supporting increasingly virtual,

flexible workforces. With survey participants identifying talent retention as HR's biggest concern – in light of low levels of employee commitment to their current employers – the survey flagged the risk that greater workplace virtualization will undermine employee loyalty and clash with talent retention goals. Creative solutions will be required to overcome these challenges and engage meaningfully with the evolving workforce. HR executives suggest the need to rethink performance management and apply technology tools to adapt a company's approach to communications, meetings and mentoring.



- **Technology has transformed HR and the application of data analytics will foster even more profound change.**

Sixty-nine percent of companies surveyed say it is more common for the HR function to provide web-based and/or mobile HR platforms than it was 3 years ago; only 3 percent of respondents have cut back on these technology enhancements. While organizations often faced challenges implementing HR platforms, these technology projects have already enabled HR to do its basic administrative work faster and more efficiently. They have also provided employees with more flexible and tailored training opportunities while creating a positive culture for communication.

The advent of data analytics – the most commonly cited area by respondents for IT investment in the next 3 years – will lead to the next technological quantum leap for HR. Interviewees explain that the application of analytics, if done properly, will empower HR professionals to better manage talent, obtain a clearer view of a company’s talent supply chain and recognize where greatest demand for particular skills exist today and will exist in the foreseeable future. For example, already 57 percent of respondents say that data analytics is helping to identify future talent gaps.

Among the rewards of applying data analytics: HR can deliver hard, empirical evidence to reinforce their recommendations, and gain much-needed credibility at the highest levels of the business. HR can also become more ‘laser focused’ on work that adds business value – a crucial capability in light of increasingly scarce resources in HR departments.

HR opinion leaders point out that, before it is possible to reap these benefits, HR must develop a data-centric culture in which the function becomes proficient in strategic analysis and glean business intelligence from data. They must also be ready to embrace social media, which is changing the data landscape with new, less structured sources of information and communication.

Two further points from the survey are worth noting:

- **HR has gone mobile.** More than two-thirds of survey respondents say that their companies have increased the use of mobile or web-based platforms to provide employees and their managers with a range of self-service functions for benefits, payroll and performance evaluations.
- **Technology and economy: twin catalysts for HR transformation.** With widespread agreement among survey participants that HR is often not well respected in many organizations, the report highlights a number of focus areas that could help HR transform itself, or at least overcoming a perception problem that it does not deliver real value. Powerful technologies, emerging in times of heightened financial constraints, present a rare opportunity for HR to enact long-overdue reinvention.

## What lies ahead for HR?

In which of these areas do you think your company's HR function excels?



Source: Economist Intelligence Unit study: Rethinking Human Resources in a Changing World, 2012

Looking ahead, to deliver strategic value to the organization, the HR function needs to:

- Develop greater confidence, leadership and credibility, so that HR heads can deservedly insist on a place in strategic conversations at the highest levels.
- HR executives must ensure that the company sees the value that HR can deliver. This requires courageous leaders who are ready to listen and deeply understand the needs of the whole organization, in order to make that contribution.
- It has become a cliché, but is nonetheless still true, that HR must shift focus from administration to higher-value added activities. As technology-enabled HR functions improve efficiency, HR must focus on providing more strategic, higher-order services.

But how to achieve this? Our research suggests that HR must dispense with its pursuit of generic models and universal best practices and instead craft highly differentiated and distinctive approaches based on a deep

and insightful understanding of the company value chain, required culture and strategically based people agenda. Only then will HR break-out of the trap of seeking a kind of universal “holy grail” that can only ever bring mediocrity. Instead HR will find greater value (and credibility) in a highly situationally specific and idiosyncratic configuration, one that drives competitive advantage, organization by organization.

- Reposition line managers (and employees) as an integral part of the HR operating model rather than trying to “partner” with them. They will inevitably use more user friendly and insightful HR information solutions, such as those coming forward from the SaaS providers, to play a greater role in the shaping of the people agenda. HR must proactively exploit these opportunities in exciting new ways or risk being written out of the picture altogether.

By doing so, HR can help build leadership capabilities among a company's people managers. The HR function can then move from being surrogate managers to become advisors who deliver differentiated people management strategies that drive company goals.



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