

HR Trends



WHITEPAPER
VOLUME SEVENTEEN

THE BUSINESS APPROACH TO HR
A STRATEGIC PROFIT PARTNER

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THE BUSINESS APPROACH TO HR

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1 :: INTRODUCTION

Is your Human Resources Department focused on your business goals? Are you missing the opportunity to create a strategic partner from the team that knows your people best? If your Human Resources department isn't a tactical part of your organization's leadership how can they recruit the best talent? If your HR department is more focused on pushing paper than on pushing your company's vision, how can they bring in the people to achieve that vision? Or retain them? Or train and coach them? An engaged workforce can't be created by a disengaged HR department.

Every day your most important business asset—your employees—walks through the front door of your workplace. Companies in every industry sector acknowledge this. It follows, then, that the “people leader” should be among the most important leaders in an organization. Jack Welch says the head of human resources should be at least as important as the CFO. However, in many organizations this is simply not true. In fact, the Human Resources leader is often not even invited to the leadership table. This won't change until organizations get Human Resources focused on the business.

This whitepaper examines what the Human Resources department, and its leader, must achieve in today's business environment to be considered a true business partner.

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2 :: HR ORIGINS

“We must be the world we want to create.”

—Ghandi



Does your Human Resources Department know your core business strategy?

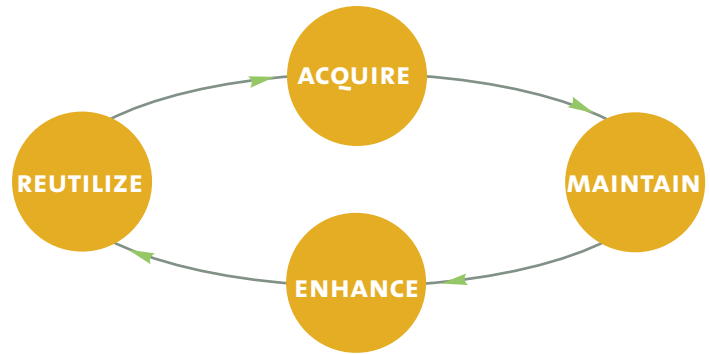
To better understand why some Human Resources departments do what they do, we have to understand their evolution.

Initially, people were considered a commodity and were obtained like all other commodities through the Purchasing Department. From Purchasing, Personnel Departments evolved to deal with issues arising from stronger and growing unions, and also with issues requiring special skills and knowledge including industrial relations, employee relations, compensation, benefits, payroll, training, organizational behaviour, and labour law.

Over the years the need for these departments to work as an integrated unit increased and there was a notable shift in the function as it moved beyond administration to providing specialized expertise. To reflect these changes companies dropped the term Personnel and changed the name to Human Resources. The Human Resources unit became more complex, more diverse and evolved into a field of study and a profession. It added more specialists in new fields such as organizational development, organization design, diversity, pay equity, and employment equity.

Now this field is further evolving. Organizations are recognizing the benefits of involving their HR department at a strategic level. Human Resources leaders are calling their departments the “People” department, are in charge of “Human Capital”, or have come together to form the “Strategic Capability Network”. These efforts are all focused upon becoming a business partner to ensure that their people strategies are aligned to the business strategy. Many thought leaders have emerged and are bringing forward new concepts, one of them, Dr. J. Fitz-enz, developed the Human Asset Cycle, below.

FIGURE 1: THE HUMAN ASSET CYCLE



The Human Asset Cycle shows that you can view your employees much like other important assets in your organization. First, the human asset is **Acquired** through a talent management approach that completes the recruit, interview, reference check, and test processes. Once in the organization, the human asset is **Maintained** through various means, including salary and benefits, health and safety, recognition, motivation, and communication. The human asset can then be **Enhanced**, this means that your people can become better at what they do through training, mentoring, coaching and developmental assignments. Other tools and methods can be used to streamline processes and improve quality such as value analysis, six-sigma training, and time management techniques. Finally, the human asset is one of the few resources that can be **Reutilized**. People can learn other skills, new knowledge and change behaviours to perform completely different jobs—the mechanic can become a manager; the claims adjuster can become an underwriter.

Not every Human Resources department has evolved and many continue to operate at the “Personnel” level. While they may, in fact, be very good at what they do, they are not doing enough. The business landscape is changing rapidly around them and unless HR actively manages the Human Asset Cycle their organization will fall behind.

3 :: WHAT IS CHANGING?

“Do not seek to follow in the footsteps of the men of old;
seek what they sought.”

—Matsuo Basho (16th century Japanese poet)

Organizations are in a state of constant change and must continue to evolve just to survive. Markets are changing, competitors are getting stronger, and the customer is more demanding. These changes will force organizations to re-evaluate their approach to managing their workforce and Human Resources departments will need to act on these trends to help their organizations keep pace.

Over the next few pages we describe fifteen of the more challenging issues:

EMPLOYMENT BRANDING

The war for talent is fierce and getting more intense. In a tight market, an organization must differentiate itself to find the talent that is needed. Companies have to become employers of choice and rigorously market a strong brand.

For example, 3M's focus on innovation attracts top performers from a limited talent pool. Their Human Resources policies are created to deliver on the employee brand promise ensuring alignment of their internal brand to their external brand. This attracts a highly motivated workforce where employee values are aligned with company values.

LESS SKILLED WORKFORCE

Organizations are getting flatter. There is less time to train employees while the pressure mounts to improve the bottom line more quickly. Technology is key to modern training, but it is not accelerating quickly enough to keep up with the demand, while for some smaller organizations it is simply too expensive to implement. Organizations need to have a range of tactics to manage the skill shortfall.

SMALLER CANDIDATE POOL

Already we are seeing the urgent need for carpenters, bricklayers and electricians in numerous markets. This need will extend to many other job categories because there are not enough workers to fill jobs. It is predicted that by the year 2010, there will be 10 million more jobs than workers in North America¹. Companies need to respond with improved attraction and retention strategies.

GLOBAL VIRTUAL WORKFORCE

The global virtual workforce has arrived. According to The Human Capital Institute, “Remote teams, telecommuting, and office “hoteling” have become familiar terms over the past decade or so...almost a quarter of the U.S. workforce “telecommutes” at least some of the time. More and more, teams or entire workforces can be located in different parts of the country or the world and still collaborate effectively”. In Alberta, workers are being brought to fill the demand, not only from across Canada, but from England, the Philippines and Australia. To save costs, yet maintain a highly skilled workforce, many call centres have been established in countries such as the Philippines and India. The next time you make a hotel reservation, or call for tech support, remember the operator is probably in another country. Learning how to manage a virtual workforce is a new necessity.

ENGAGEMENT

Once an employee is hired, companies need to fully engage them to keep that talent effective. Recent studies have shown that at least 58% of Canadian employees are ready to move to another organization, and that currently, employees work on average at about 60% of operational efficiency. The traditional methods to win employee commitment do not work: we cannot add benefits due to rising costs; we cannot offer more promotions because organizations are flatter; and we cannot offer more training since we need employees who can do the job right now. New, innovative methods must be found to get employees excited about their work and committed to their organization.

DIVERSE WORKFORCE

Diversity, as an inherent part of our values, is showing itself on many different levels. First, facing the current skills shortage, we are importing talent from around the world. Second, organizations are moving toward intellectual diversity. Left brain and right brain thinkers are working together to ensure a fresh set of eyes is always looking for innovative solutions. Third, age diversity needs to be addressed—there can be up to four different generations in the workforce at the same time. HR needs to work to maximize the needs and talents of the entire workforce.

KNOWLEDGE LOSS

Employees are leaving the workforce in increasing numbers through retirement, to become entrepreneurs, and even because they are just tired of working. A number of these workers have inherited money from their parents and have decided that they do not need to work, or do not need to

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work on a permanent basis. Others have decided to change careers or do something else that they have always wanted to do. But when they leave organizations, their knowledge has to be replaced somehow. What this also means is that, with the ongoing war for talent, the power is shifting from employer to employee—the worker will have more authority in the job market. Organizations will have to be more creative and systematic in managing knowledge transfer.

WORKING LONGER

From 24/7 to 36/7—not only are customers demanding that businesses be accessible 24 hours a day, with time zone differences it can feel like you are being asked to be available 36 hours a day. Companies should not ignore how these demands can stress managers, leading to lowered effectiveness.

TAKING WORK HOME

Technology has made us more accessible than ever. We are working longer hours at work and much longer hours at home. Professionals and managers often spend a few hours on the PC after the children have gone to bed—they even take time to handle emails while on vacation. Fewer people are accomplishing more, but this has a profound impact on our work / life balance.

RE-SKILLING

With jobs moving offshore, for such opportunities as inbound and outbound call centres as well as for technical support, employees have to learn new skills, and acquire new knowledge. This means that we have to keep learning all the time. HR needs to provide the infrastructure and culture that supports continuous learning.

DECLINE IN EMPLOYEE / CUSTOMER LOYALTY

As the talent pool decreases, employees are loyal to themselves, not the company—unless they are engaged. As customers have more options, their loyalty to a brand is waning. The customer wants what the customer wants. The employee wants what the employee wants. We have to deal with this to retain both.

SHAREHOLDERS / BOARD INTERVENTION

Governance is becoming more important to ensure that organizations are not only more strictly controlled, but to show customers that organizations are ethical. Everyone needs to adhere to ever-tightening controls.

THE LEADERSHIP SHORTAGE

Baby boomers are retiring in greater numbers causing a leadership shortage. Organizations have to be ready with succession planning systems and have a supply of high-potential and trained leaders available. Organizations can not wait long to fill opportunities, especially at the critical management and leadership levels.

HIGH PERFORMANCE ORGANIZATIONS

In high performance organizations, everyone becomes a leader. Such a culture, giving everyone increased accountability, has to be grown and developed. Forward-thinking organizations have become more agile by making leadership a role and not a function. To survive, the rate of learning at an organization has to be greater than the rate of change in their industry; and, the top leaders of the organization must actively drive the learning agenda. Creating high-performance should be part of HR's core mission.

TALENT MANAGEMENT

Talent needs to be managed differently. Organizations must define what talent is critical to business outcomes. Rewards and communication need to be personalized to employee needs and there is a strong trend toward the idea that organizational cultures need to be compassionate to retain the best talent.



4 :: FROM BACKROOM TO BOARDROOM

In his recent book, *Roadmap to Strategic HR*, Ralph Christensen noted a number of reasons that HR remains unaccepted at the business table:

- Discuss too many issues that are not related to the business
- Seek line management's direction and leadership, and don't think about providing leadership themselves
- Lack the business knowledge to talk intelligently about business issues. They do not understand the customers, the technology, the industry or the competition.
- Do not tie Human Resource initiatives to the bottom line
- Use a unique language that does not appeal to senior management or to employees
- Do not bring enough to the strategic conversation. They move too quickly to the details of execution without understanding why it is being done
- Have not educated others at the business table to understand why Human Resources is even at the table

What this shows is that for Human Resources to get to the business table, it has to change from being solely an HR department to being a strategic business department. It has to change from being an employee support system to being a support system that is an integral part of the business. To get to the business table, Human Resources must:

- Know the strategy, culture, vocabulary and operating issues of the business
- Have a passion for the issues which add the greatest value to the external clients and shareholders
- Focus upon, and understand, financial results
- Get its own house in order. This is not only having the right people in place and aligning their rewards with the organization's goals, it is about providing more than what is expected. This is having a "no waiting" customer service perspective. This is running the Human Resources department like a business unto itself

HR has no entitlement to a business leadership role, it has to earn it. What does running Human Resources like a business mean? It means that HR has to go beyond being a staff function. It must operate almost as if it were a separate entity where the business is the client. This is the only way that Human Resources will take control of its future.

This requires a clear strategy. Like other business people, HR professionals have to develop a complete understanding of their clients, products and services. HR has to have the structure and people to deliver its products and services. In other words, it has to mirror what it is trying to accomplish within the organization: to achieve maximum effectiveness, to be customer-centric, to possess a sense of urgency, to successfully execute its business strategies, and, to exhibit the best working culture to optimize market opportunities. Human Resources has to go through three phases to accomplish this.

PHASE ONE: THE TACTICAL PHASE

This refers to the baseline administration of people issues and data. This includes benefits and compensation administration, employee record keeping, policy development and enforcement. In addition, this includes the implementation of traditional Human Resources programs such as hiring, skills training, salary surveys, compensation plan design, and resolving day-to-day employee problems. These are traditional Human Resources activities; however, they form the basis of trust. If HR can not demonstrate control over their internal business they will not be trusted to perform at a higher level for their organizational "clients".

This does not mean that the Human Resources department needs to perform these activities. This means that the Human Resources department needs to make sure that these activities are done. Hence, this work can be outsourced to a specialist organization, like Drake, an industry leader that can manage non-core HR business processes.

Tactics alone do not give an organization a competitive advantage. They do not differentiate one organization from another. Business leaders are outsourcing, examining shared services, utilizing technology and transaction centres, and cutting Human Resources costs. What differentiates an organization in the marketplace is the strategic use of Human Resources.

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PHASE TWO: HR AS A STRATEGY

Strategic Human Resources work focuses on the path between attracting talent and winning business in the marketplace; hiring the best people to build a competitive advantage that enables their business strategy to fulfill customer needs. These people-based strategies enable the business to grow through the collective efforts of the employees toward customer satisfaction.

This can include working with the executive team to re-examine the clarity of the business strategy, aligning reward systems to encourage the fulfillment of customer needs, and developing training solutions to build organizational capabilities. Strategic Human Resources connects to building competitive advantage which enables business strategy, which in turn fulfills customer needs.

PHASE THREE: THE ORGANIZATIONAL ARCHITECT

A much more expansive view than that of strategist, the organizational architect pulls parts of the business together, aligning customer needs, business strategy and organizational objectives. The architect decides what critical systems and processes need to be influenced. They build the foundation for organizational work while ensuring that the ultimate owners of significant organizational efforts are the line managers. Most importantly, the architect shapes the organization of the future, influencing the structure, leadership, and culture of the organization.

Organizational leadership no longer accepts activity in place of value to the business—meaning customers. In the past, Human Resources was valued for what it prevented from happening: strikes, unions, vacancies, and discrimination charges. Now, it will be valued for what it causes to happen. To be successful, Human Resources must be flexible, resourceful, innovative, and creative.

So, if the business of Human Resources is delivery, how does it do that? We have already discussed how the tactical part of the job can be delivered. How do we deliver the strategic part of the job? If this was a business, we would have account representatives. Thus, in this new Human Resources model, we also need account representatives. Their role would be to:

- Understand the challenges, strategic objectives and business plan of the business
- Have a solid knowledge of several Human Resources disciplines
- Have the experience and training in managing client accounts

- Have a clear understanding of the company's goals and vision
- Have excellent interpersonal skills
- Be in touch with the pressing challenges of the business

This does not have to be a Human Resources professional. The account representative has to be one to understand the issues and make sure that they are delivered. The account representative will be supported by subject matter experts who bring to bear specialist knowledge to address business issues.

Leading the representatives is the architect, who ensures that the services are provided, strategically enables the organization's success, and prepares the organization for its future challenges.

HUMAN RESOURCES COMPETENCIES FOR BUSINESS

To be successful, the Human Resources professional is expected to know the following:

- Technical competencies
These are the competencies that will build trust
- Business competencies
Learn about finance and how to read your business' financial statement
- Change and process competencies
Be able to focus the ever-increasing pace of change in a very flexible manner
- Personal credibility
Develop excellent relationship management skills and deliver not on-time, but before-time
- Develop a sense of urgency
This is the service era where HR professionals can excel
- Customer-centric
Provide maximum services with minimum staff
- Values
Be grounded in moral and ethical principles. Show the courage of conviction in values as well as in business performance

Once these have been learned, teach them to the rest of your organization!

5 :: ADDING TO THE BOTTOM LINE



Consider

To be successful, HR professionals are expected to possess technical competencies, business acumen, change and process abilities, and personal credibility. Where does your HR fall?

One of the most difficult things to measure has been the influence of Human Resources upon the organization. Typically, Human Resources has measured activity, such as, the number of hires, the length of time it takes to hire, the number of people trained, and the number of Human Resources Information System (HRIS) transactions, etc. While important, these are administrative measures that do not add to the bottom line.

Research has identified that specific Human Resource practices, when aligned with the business agenda and implemented effectively can contribute to a significant increase in shareholder value.

We need to look at our current accounting methods. They do not support Human Resources. This, again, demonstrates that HR must find ways to measure its direct and indirect impact upon an organization's bottom-line.

If a Vice President has the choice to invest \$1 million in the human asset or in physical assets, she takes the following into consideration:

- \$1 million in physical assets is depreciated over time, usually over a 10–30 year period
- The \$1 million in people assets is expensed in the current year, reducing the current year's profits by \$1 million

If the Vice President's incentive is determined by this year's earnings, the choice of where to invest the money is obvious. There is a clear challenge for HR to get better at providing evidence of its value so that leaders are not misled by current accounting practices.

6 :: DRAKE'S HUMAN RESOURCES AUDIT SOLUTION

Human Resources must be run as an internal business, with strategies aligned to support the overall plans of the organization. It must focus on adding value.

Ensure that HR is achieving success for your organization. Drake's Human Resources Audit solution begins by understanding your business strategies and identifying any gaps that exist between your goals and the activities of your Human Resources department. Drake will conduct an initial needs analysis to ensure that recommendations will be aligned with your overall business strategy. Drake begins with information gathering, both formal and informal. Discussions with senior managers outline business challenges and your vision for the future. Interviews with staff assist in distinguishing different perspectives, needs, challenges and even regulatory impacts.

Drake's HR Audit solution focuses on review and assessment. This involves selecting and prioritizing issues from the full spectrum of Human Resources activities. We develop the road map to making your HR more aligned and effective.

Drake can assess the current state of your HR Department and provide detailed recommendations on how to transform your Human Resources into a strategic profit partner. We create checklists for each Human Resources function, specific to your needs. The checklists will be scored to rate each Human Resources activity. Once the checklists are completed, they will be analyzed for patterns in the responses. From the analysis, recommendations will be prepared, priorities will be set, and an action plan can be developed to take your HR out of the back room and put them where they belong—in the boardroom.

INSIGHT

- Take the time to develop the return on people. Sears calculated that a 4% increase in employee satisfaction is directly linked to profit, lifting market capitalization by \$250 million. They also determined that a five point improvement in employee attitude will drive a 1.3 point improvement in customer satisfaction, which in turn will drive a 0.5% improvement in revenue growth.

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7 :: CASE STUDIES

CASE STUDY 1: OUTSOURCING

One of Canada's largest banks was spending too much money in decentralized transaction activities. To remedy this, they looked to an outsourcing expert to focus their HR activities into a single department. This included their Human Resources Information Systems (HRIS), compensation and benefits administration, organizational initiatives, global and executive recruiting, knowledge network, and vendor management.

Their processes were streamlined to become more efficient and less expensive. What were the business results for this top-tier Canadian financial institution of outsourcing their HR?

- Saved millions
- HR transactions processed more quickly, more efficiently and more accurately
- The Human Resources employees of the institution can now focus on the development and implementation of strategic initiatives to achieve business results. They're no longer removed from the process by administration—they can recruit the right people, with the right skills, knowledge and behaviours, because they are aligned with the organizational objectives of their company

CASE STUDY 2: CULTURE CHANGE

A Canadian insurance agency, with 28 branches nation-wide, had developed a paternalistic culture. It was not changing with the times and, most importantly, was not evolving with its clients. Recognizing the critical need to update, a new CEO gave his Human Resources the mandate to modernize the corporate culture.

HR worked with all levels of the organization, improving their processes to become more client-friendly. Employees across the company took ownership of the transformation and became fully engaged. HR acted as the grass roots motivator to bring the people into alignment with the business goals.

This drastic corporation-wide re-imagining, that left nothing off-limits (including the President's office!) was facilitated by an outside consultant but ultimately was managed by HR, acting as a strategic business partner committed to advancing the insurance company's business goals and to adding to the bottom line.

THE RESULTS?

- Employee engagement and change celebrations brought the company together as a team, nation-wide
- HR achieved new credibility because it had not only led this active culture change, but it successfully revised all policies, procedures and systems (reward and talent management) to support the new culture
- Canadian efforts were adopted and introduced throughout the US branches of the organization
- Two books were written about the success of this partnering of HR to the business results, including a mention by internationally recognized HR management guru Tom Peters in one of his books
- HR became aligned in all major line efforts, such as product implementation, strategic business alliances, and more

8 :: CONCLUSION

“Leadership has a harder job to do than just choose sides. It must bring sides together.”

—Jesse Jackson

Human Resources is here to stay, and its evolution continues. Already acknowledged as a critical business function, HR has to demonstrate how it generates value and increases organizational performance. In Fortune magazine's **The 100 Best Companies to Work For 2006**, the elements of a great workplace were defined by two elements: trust and recognition. Both of these elements fall under the domain of HR.

The change that Human Resources is undergoing will make it stronger and more effective. Leaders recognize the value that strategic HR brings—too many experts have shown a causal relationship with Human Resources excellence and organization success to ignore and there are many exceptional people working to integrate Human Resources with the success of the organization. HR is a profession that is moving to the next level. As a member of the leadership team, HR is a company's tactical gateway to building the best talent in the marketplace. How many other parts of an organization provide service level agreements to ensure their effectiveness? Human Resources does this, and does this well, but companies need to ensure that they have aligned their HR with their organizational objectives creating a strategic profit partner and helping to drive the bottom line.

9 :: THE FUTURE OF HUMAN RESOURCES

- More is expected—HR must create more nimble organizations
- More attention to organization and people issues
- HR increasingly strategic and effective as business leaders
- Administrative components will separate from HR
- HR must adopt effective tools to measure performance
- Steward of the culture, values and employee promise
- Emphasis on Human Life principles: respectful, honest, humble, forgiving, devoted to excellence and service
- Not for the faint of heart—courage and conviction is essential
- A great field to work in

CHALLENGES

- Examine and understand the context driving business
- Design critical, high value added agendas
- Ensure that defined Human Resources practices are exactly aligned around these agendas

ABOUT DRAKE

Using a partnership approach to deliver measurable results, Drake optimizes a company's profitability applying a blend of flexible staffing, permanent recruitment and technology solutions. With innovative strategies, Drake reduces costs, increases revenue and customizes HR solutions including outsourcing of non-core business functions. Our unique vision plans to hire the right people for our clients the first time, thus saving them money by reducing their need for recruitment.

Drake's operating philosophy is based on the principle that organizations and people are at the highest level of productivity when they are working with the right skills, knowledge and behaviours, using the best processes and technologies.

We aim to assist your organization in achieving heightened productivity, performance and profit standards through the effective use of people and the application of proprietary technologies to help match workforce levels to workload. Allow Drake to help you and your company Outperform.

Members of The Drake International Group of Companies are global leaders in the field of human resources, consultative management, staffing and technology solutions. For more than 50 years, Drake International has helped North American businesses solve productivity problems and recruit the best people. We begin with a business needs analysis which pinpoints the optimal way in which we can help your organization achieve its strategic objectives and overall workforce optimization strategy.

CONTACT DRAKE TO FIND OUT MORE ABOUT HOW OUR HUMAN RESOURCES AUDIT SOLUTION CAN HELP TAKE YOUR HR FROM THE BACK ROOM TO THE BOARDROOM.

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