

Executive Summary

4th European HR Barometer

Trends and Perspectives on the Human Resources Function in Europe

2009



About the Research

The *European HR Barometer* is based on a survey that was carried out between December 2008 and mid January 2009 among top companies operating in Europe. In this fourth edition, fifty-three organisations from a wide range of sectors of economic activity and with a combined total of 3.5 million employees completed the online survey. Of these, 70% are listed companies, with the majority having their shares listed on a European stock exchange and one-third listed on a US stock exchange.

The majority of the companies' workforces are based in Europe with 22% employing more than 100,000 employees, 39% employing between 10,000 and 50,000 employees and another 25% employing less than 5,000 people. Survey respondents encompass 13 different nationalities and three-quarters of them are executives and directors with exclusive responsibility for HR at European or global level. 70% of respondents have a total of more than 20 years of professional experience, at least half of which in HR. From a demographic perspective, 78% of participants are 45 years old and more and 83% are male.

Foreword

We are pleased to present the findings of the fourth edition of the *Pan-European HR Barometer*, designed and carried out by Hewitt Associates on behalf of the European Club for human resources (EChr).

This regular survey was launched in 2005 with a view to gaining a better understanding of the role and impact of the human resource (HR) function in top companies operating in Europe. Over the years, it reflected the growing importance of people management policies as a key factor of business success, and the relevance of the trans-national dimension in corporate strategies.

The number, diversity and importance of the companies involved continue to offer new insight into human resource practices and directions beyond industry or geographic borders. We are pleased that our “Barometer” inspires other complementary initiatives and investigations that allow both policymakers and managers to deepen the analysis of the people management landscape from a European and global perspective.

The survey report sheds light on European trends related to:

- The business drivers of the HR function and its top priorities;
- The way HR is facing the current economic crisis;
- The impact of specific HR activities on business performance;
- The needs expressed by HR to improve its performance;
- The future changes expected by HR; and
- The way HR perceives relevant European Union (EU) activities.

On behalf of Hewitt Associates and the EChr we are grateful to all participating organisations and HR professionals for taking the time to share their views, concerns and perspectives. We are grateful to Francis Stickland and Tina Kao for their useful suggestions on the survey, and to Jean-Pascal Arnaud and Andrew Bell for their thoughtful comments on the report.

We hope that the survey report gives you useful insight into emerging HR experiences and that it will stimulate your own ideas and practices to better face a more than ever challenging business environment.

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Executive Summary

The *HR Barometer*, designed and carried out by Hewitt Associates on behalf of the European Club for human resources, is the main survey of its kind aiming to explore the evolving role and impact of the HR function from a Pan-European rather than from a national perspective.

Each year the survey involves top HR professionals from leading companies operating in Europe with the goal of capturing the most critical aspects that would improve the effectiveness of the HR function. The perspectives of HR professionals gathered by this year's Barometer in such turbulent times should help managers, employee representatives and policymakers to have a better sense of the nature and scope of the measures which are being deployed on the ground. Meanwhile, apart from shedding light on the wide range of initiatives being undertaken within businesses to overcome the crisis, the survey results show how HR professionals are also looking at the medium term by taking non-contingent actions that will contribute to future success through more efficient and people-friendly management practices.

A specific section of the Barometer offers HR views on relevant EU activities that impact people policies. In the year of the renewal of the European Works Council (EWC) legislation, the current edition offers fresh insight on business experience and plans to change their EWC. Some clear orientations emerging from this year's survey on the key principles of the "European social model" and on the opportunity for its renewal, will hopefully contribute to the political agenda of the forthcoming European Parliament, while inspiring other businesses to strengthen their involvement in the EU debate and bring the EU process closer to citizens' interests.

Key Survey Findings

This year's Barometer is inevitably influenced by the general deterioration in the economic and social climate in Europe and other regions around the world. The results demonstrate clearly, however, that leading HR professionals are facing the downturn not just by scaling down workforce and programmes, but by thinking ahead at the way they can help their businesses leverage future opportunities.

When most factual and emotional indicators seem to hit their deepest trough, the need to restore confidence and promote economic recovery becomes even more compelling for decision-makers in both the public and private sector.

The responses put in place by several governments and central banks has prevented the collapse of the global financial system, however, the benefits of the financial, monetary and fiscal policy measures already taken, have been slow to impact business and family livelihoods. Moreover, there are fears that the increased role of the State in the economy opens the way to new forms of protectionism bringing further tensions at the political and corporate levels.

From a business perspective, there is an increasing consciousness that the ongoing crisis may have a transformational rather than a cyclical impact. The HR function can be a critical catalyst in this context provided it contributes to balance – and fix – short-term market and operational needs with long-term strategic business goals. High standards of ethics in leadership, of equity in workforce management and of focus in human capital development are instrumental to improving the competitiveness of businesses and to regain trust with customers, employees and public opinion at large.

The revamped order of priorities and concerns emerging from the survey introduces three priorities for the HR agenda over the period 2009 - 2011.

Firstly, HR is now more conscious that it needs, above all, to improve the execution of what it does. There are some areas of HR excellence which have already been achieved by respondent organisations, but in many cases there are significant margins for improvement, especially in those activities that go beyond compliance issues. This is likely to contribute to a more impactful and timely involvement of HR in strategic business decisions, a recurrent unsatisfied claim of HR vis-à-vis its own leadership.

Secondly, on this foundation of improved execution, HR is looking to refocus efforts on the core activities that are more likely to have a direct impact on business direction, performance and results. By targeting leadership, talent and employee engagement as top operational priorities, HR intends to reinforce its accountability on critical human capital value creation factors.

Thirdly, for HR professionals the transformation journey that is underway in the corporate world, accelerated by the economic turmoil, means a comprehensive reshuffling of their structure and capabilities. This will involve the establishment of a lean HR organisation, the acquisition of different skills and competencies, the attraction of new talent, and the identification of more adequate tools to measure the impact of HR programmes and activities on the business.

Many HR organisations appear to have begun the journey towards changing their operational patterns and frameworks with a view to upgrading their contribution to the business. Within this process that will lead eventually to greater business efficiency and recognition, there is an underlying risk for HR professionals to avoid; that is, to become too inward-looking and narrow-focused in their approach and mindset. The poor level of cooperation established by HR departments with universities, business schools and professional associations, or – even within the business – with critical externally-oriented departments such as investment relations, marketing and PR – is an indication that HR continues to struggle to get the balance right between core areas of activity and broader interdependent variables of success. This balance is essential for making a leap in people management practices and contributes to build sustainable success for the organisation.

In particular, the results of this year's edition reveal the following:

Coping with the downturn

Respondents foresee a negative outlook for employment with timid perspectives of growth in terms of revenues and investment for their organisations during 2009. 71% of companies expect a reduction of their workforce in 2009 and only 8% will create new jobs over the year while 20% will maintain the same level of employment. Revenues and investment are expected to grow at a much more limited pace than last year for half of respondents, while another half foresee a contraction of revenues and investments. Only 4% of companies expect to increase investments and 11% revenues in a range of two-digits growth.

Gloomy perspectives for employment

Economic downturn hits results and HR programmes

Respondents believe that the impact of the financial crisis and the slowdown of the economy will be significant on business results (77%), on HR programmes (47%) and also, although for a smaller proportion, on own standards of living (21%). Only 2% consider that the current situation will have no impact on HR activities.

All respondents have already undertaken or decided several different measures to cope with the economic downturn in 2009.

Wide range of anti-crisis measures in place:

The majority of them are focusing on actions that reduce production capacity and cost by reducing overall headcount (72%), by looking for new productivity gain (70%), by closing down interim work contracts, and targeting activities which are less in demand on the market.

From getting lean...

...to leveraging new market opportunities

A third of respondents have a more comprehensive response that combines HR budget-cutting with opportunistic hiring of top talent, targeted leadership development and new business acquisitions. Also under review, in one out of four participating companies, are compensation and benefit programmes, notably long-term incentives. However in this context, where occupational pension plans often represent an important component, only 8% of respondents have planned to close them to new hires.

Cost-cutting and raising productivity targets influence HR agenda

Reshaped HR drivers, priorities and needs

Pressure on cost reduction has become the factor most influencing the HR agenda, jumping from its seventh position of last year, to the first now. Challenging productivity targets, organisational change and talent shortage continue to be highly influential for HR policies.

HR structure, value and processes most impacted

These factors will mainly have an impact on HR organisational structure, on the way HR measures its value to the business, on HR processes and eventually on the size of HR departments that are expected to shrink.

New order of priorities for HR brings concerns

Key priorities on the HR agenda become: Leadership development (mentioned by 38%), Talent retention (34%) and Employee engagement (30%). The need to reduce labour costs jumps from 12th position in last year's priority ranking – only 7% of respondents mentioned it as a priority in 2008 – to the 4th position on this year's agenda, indicated now by 28% of HR professionals. Against these priorities, a significant proportion of HR professionals are concerned by their capacity to deliver against business expectations. This is more evident in relation to improving employees' engagement, reducing labour cost and better measuring employee performance.

Execution and credibility most in demand for HR

The improvement of execution emerges as the main precondition for strengthening the impact of HR on the business (mentioned by 42% of respondents), followed by the need for a greater and timelier involvement of HR in strategic business decisions (40%), and the opportunity to attract new talent within the HR function (36%).

Talent management remains most impactful HR activity

For the majority of participants, talent management (60%) and organisational effectiveness (55%), consistent with the previous year's edition, are the areas where HR have the greatest impact on business performance.

HR better in compliance than in people management issues

When judging its own performance, HR acknowledges that it can do it better. Only 8% of respondents consider their work excellent, outperforming targets, while 43% recognise the need to improve their services to match business expectations better. Most frequent areas of excellence are mainly related to statutory compliance issues, such as employee data privacy, health and safety at work, non-discrimination, and industrial relations. The weakest fields – where HR self-assesses as delivering below target – are in relation to: HR metrics (78%), Work/life balance programmes (64%), Management of talent (64%), and Management of competencies (63%).

HR looking for right metrics

The definition of adequate HR metrics that give a better sense of the impact of HR on the business is highly in demand with 43% of respondents declaring to be looking for relevant quantitative tools. Internal “client” satisfaction surveys are the tools most commonly used by the majority of respondents, followed by employee engagement surveys.

Upgrading functional and operational expertise

A majority of respondents expect significant changes in HR capabilities and competencies within the next three years. In particular in relation to: Processes and operations to gain HR efficiency (58% think it will change the most); Functional HR expertise in change management (55%) and in Leadership and talent development (47%); Functional expertise related to compensation and benefits is expected to change the least (75% think will remain mainly the same).

Good cooperation with CEO and CFO

Solid business partnership, engagement and trust

Among the different internal and external partners of the HR leadership, the best level of cooperation seems to be established with the CEO, followed by the CFO, Legal Counsel and the lines of business' managers. At the opposite, the level of cooperation in place with the department in charge of investment relations is considered very poor by one-third of respondents, and for another third there is no relation at all. Outside the business, limited cooperation has been established by HR with business schools and professional associations.

The quality of the level of cooperation with top business executives is reflected in the high perception of HR activities by the CEO. 78% of respondents think that their CEO has a high or very high perception of what HR does (66% for the CFO). The level of appreciation goes down to 34% of respondents when asking about employees.

HR struggling to gain satisfaction from the current demands placed upon them

While the majority of HR Directors continue to express a high level of satisfaction with their job, this measure has declined significantly year on year (down from 80% to 60%), almost certainly due to the increased cost pressure and changing demands they are facing. This declining satisfaction

has driven an increase in the percentage of respondents seeking a move to a different function (up from 7% to 17%). When given the opportunity for a change, 34% said that they would be ready to move with the same role and employer to another country. As in previous editions, respondents gave their CEO the highest confidence rating, just before their peers and the employees within the company. EU institutions emerge in fourth place, as being more trusted than own government and the UN. At the bottom of the trust index, policymakers in general and Trade Unions, they continue to lose credibility in the eyes of HR professionals.

HR confident in the European Union

EU positive impact

A large majority of HR executives (75%) continue to have a generally positive perception of the impact of the EU on their country's economy. More limited is the proportion of those that see a positive effect of the EU on their company (57%) and on their own life (58%).

Time to rethink European social models

HR professionals seem to rely more on national authorities (64%) rather than EU institutions (58%) to be protected against the negative effect of the economic crisis, but most of them (77%) believe that the current economic context is an opportunity to think at a new "European social model". Critical pillars of this model are:

- Investment in employee training and life-long learning (100%).
- More flexibility in work contracts to encourage job creation (94%).
- Universal healthcare and social security (89%).
- Economic and equity efficiency (83%).
- Maximum 48 working hours per week (66%).

With only 57% in favour and 43% against, respondents are more divided on the front of penalising early retirement while encouraging elderly people to work longer.

A visible European identity

74% of respondents are able to identify a geographic component in their company values and corporate identity, and for most of them (69%) this coincides with the regional rather than the national (23%) or local (8%) levels. The possible tension between the company's national roots and its current corporate brand continue to lead the identity of the business only in 13% of cases while another 38% consider that these tensions are decreasing because national origin has become less relevant following the internationalisation of operations and management.

HR experience with EWC

For one of the EU initiatives that aimed to change the nature and scope of employees' management communication – the European Works Council (EWC) Directive – companies were asked to assess their own past experience

and their likely expectations given the recent changes introduced by the EU decision-makers. 55% of respondents have an EWC already in place, another 11% plan to set up one. A majority (55%) of those who have already experienced an EWC consider its effect positive, while 41% useless. Only 3% consider the effect of their EWC as being negative. 22% are considering changes on the functioning of their EWC with a view to improving its effectiveness, while another 22% have planned to change their information and consultation system with a view to anticipating recent legislative developments.

In conclusion, this years survey results show that HR professionals are responding tactfully to the radical change of markets conditions but also they are preparing themselves for economic recovery. Beyond the threat of an uncertain business environment and severe budget restrictions, there is a chance for business leadership to accelerate change by questioning outdated organisational models and habits while refreshing their people management practices.

HR can be a key contributor in this process provided that it:

- Improves its operational effectiveness;
- Stays ahead of new workforce patterns and of contextual industry changes;
- Guarantees fair treatment of, and accurate communication with, employees; and
- Creates new opportunities of cooperation with relevant potential partners, within and outside the business, for improving the networking capacity of its organisation from a people perspective.

As has been the case for previous reports, the findings and paths of analysis presented here have not the ambition to be neither comprehensive nor representative of the wide, diverse and complex European business landscape. Hopefully the readers will gain useful business insight and new *food* for further thought on innovative people management policies that drive business success at large.

Leonardo Sforza
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About the European Club for HR

The European Club for human resources (EChr) is a financially independent non-profit association based in Brussels. The ECHR brings together executives from multinational companies to share experiences and develop, from a European perspective, an international vision of human resources management. The club is a forum for the exchange of ideas and analysis about human resource policies and best practices in Europe. For more information, please visit www.europeanclub-hr.eu

About Hewitt Associates

For more than 65 years, Hewitt Associates (NYSE: HEW) has provided clients with best-in-class human resources consulting and outsourcing services. Hewitt consults with more than 3,000 large and mid-size companies around the globe to develop and implement HR business strategies covering retirement, financial, and health management; compensation and total rewards; and performance, talent, and change management. As a market leader in benefits administration, Hewitt delivers health care and retirement programs to millions of participants and retirees, on behalf of more than 300 organizations worldwide. In addition, more than 30 clients rely on Hewitt to provide a broader range of human resources business process outsourcing services to nearly a million client employees. Located in 33 countries, Hewitt employs approximately 23,000 associates. For more information, please visit www.hewitt.com.