

Executive Summary

5th European HR Barometer

Trends and Perspectives on the Human Resources Function in Europe

2010



Foreword



We are pleased to present the key findings of the fifth 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, and more prominently in the current business environment, the survey has reflected the growing importance of people management policies as a key factor of sustainable business success. It has also shown the relevance of HR policies designed to overcome national boundaries.

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

The survey report sheds light on European trends related to:

- Actions taken to overcome the downturn and future prospects;
- Business drivers of the HR function and its top priorities;
- Impact of HR activities on business performance and ways to improve it;
- Future changes foreseen by HR; and
- Expectations and views of HR on 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 and perspectives. We are grateful to Jean-Pascal Arnaud, Bernard Lairre, Hilaire de Chergé and Stefan Zagelmeyer for their useful comments and suggestions on the survey.

We hope that the survey results give you useful insights into emerging HR experiences and that it will stimulate your own ideas and practices to better face a fast changing business environment.

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Executive Summary

The tough economic and social climate that we have been experiencing over the last year and the uncertainty surrounding the scope and self-sustainability of recovery under way underpin the overall picture emerging from the 5th edition of the European HR Barometer. HR leaders foresee a better but still challenging outlook for 2010. On the upside, corporate growth plans are bringing selected human capital development measures back to the centre stage -including prospects of job creations for qualified positions- and the opportunity to better measure and leverage HR added value to the business. On the downside, concerns remain in relation to productivity gaps, workforce adequacy, rigour in people management policy implementation, and to a protracted contraction of market demand.

In terms of macro trends, according to the latest data available in January 2010, European and global economic activity appears to be on a recovery path, with GDP growth rates having turned positive in several advanced economies during the second half of 2009. However, EU public finances are severely affected and growth potential has been halved by the crisis. Moreover, the pace and scope of recovery, mainly supported until now by governmental measures and by the inventory cycle, is still fragile and becoming increasingly divergent across countries¹. This is reflected in the segmentation and deterioration of labour market conditions, although at a more moderate pace over recent months. Overall unemployment is expected to reach 10.3% in 2010 on average, with variations of 15% and more between the highest EU rates for Latvia and Spain, and the lowest rate for the Netherlands.

The labour market mismatch remains among the greatest concerns of policy makers and businesses. Without bold and timely initiatives on both sides, the competitiveness of our economies and the sustainability of our social models risk being undermined. These require tackling in particular: the gap between the 16 million more qualified jobs required by 2020 and the low proportion of people obtaining a university degree and the large number of people (80 million) with low or basic skills; the implication of the acceleration of ageing and of the low employment rate of older workers; the persistent lack of work force mobility, and the further increase of youth unemployment that has already risen over 21% in the European Union area².

From the perspective of HR leaders, a positive sign is in relation to what they have learned when managing during the recession period. A large majority of participants (83%) took that experience as an opportunity to show HR added value and were considered by the board as a strategic partner (65%). In that context they felt they were often able to influence the business agenda on people issues (69%), and ensure a fair treatment of employees concerned by restructuring plans (72%). Meanwhile four out of ten respondents seek greater and timelier involvement of HR in strategic decisions, and six out of ten recognise that communication to employees on the impact of the crisis was not adequate and it needs to be improved.

¹ European Central Bank, February 2010

² European Commission, Eurostat, February 2010

In a nutshell, from an operational perspective, the most compelling message emerging from the 5th Edition of the European HR barometer can be articulated around three complementary areas of action. These are:

- Firstly, implement a more balanced and dynamic policy mix of HR activities with greater emphasis on impactful and engaging people development capabilities, such as leadership and talent management;
- Second, deploy a “total-quality” evidence-based framework to overcome the persistent delivery gap against business expectations in several specific HR activities; and
- Thirdly, upgrade HR business expertise and capabilities, notably by promoting cross-functional mobility and by fostering the attractiveness of the function for the younger generation of managers.

Key Findings

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

Moderate improvement of employment and investment prospects

Overcoming the downturn

Respondents have a more positive outlook for 2010 but they remain very cautious on the prospects of expansion. The proportion of companies foreseeing a reduction of their workforce remains high (44%) but it is significantly less than in last year's survey (71%). Meanwhile the companies that expect to add new jobs have increased from 8% in 2009 to 20% in 2010 and 37% are expecting to maintain the same level of employment.

Revenues and investments are expected to grow at a better pace than last year, but for the majority of companies these remain in the single digit range. Companies planning investments increase from 4% last year to 16% in 2010, while those planning a contraction of new investment decrease from 34% to 16% in 2010.

Weak and lengthy economic recovery impacts results and HR programmes

The sentiment of respondents on 2010 business results has improved by 20% compared to last year's survey. However the impact of the economic downturn and the uncertainty around the timing and scope of recovery are expected to continue to significantly affect business results (56%), HR programmes (38%) and, to a lesser extent, own standards of living of HR leaders (15%). Only 8% consider that the slowdown of the economy will have no impact on HR activities in 2010.

Last year measures often successful

The impact of measures taken in 2009 to face the recession has been assessed by almost all respondents and results seem to match the plans. 62% of respondents affirmed reaching more than half of planned objectives, while 27% of companies have achieved all targets. Only 4% of companies declared to miss the majority of target objectives.

More balanced
policy mix in
a year of transition

A wide range of new measures, encompassing twenty different HR-specific actions, has been undertaken or planned. 2010 emerges as a true year of transition during which companies are looking to further improve their competitiveness and prepare for a post-crisis environment. This leads to a greater balance between more "defensive" measures –such as those aiming to reduce production, work force cost and capacity– and "growth" lead initiatives aiming to upgrade productivity, talent and leadership capabilities, or to explore new opportunities for mergers and acquisitions.

Geared towards
leadership development

Although work force reduction is still underway for approximately half of survey respondents, the identification and implementation of productivity improvements is at the top of the list of post-recession measures, chosen by 59% of respondents. The reinforced interest shown for opportunistic hiring of top talent (52%), and targeted leadership development (49%) –now in the top of the list and both grown by 20 % compared to last year's results– gives a sense of the change of emphasis in business plans.

Cost-cutting and raising
profitability targets
continue to influence HR
agenda

Same HR drivers and priorities but new needs and delivery gaps

There are no major changes in the ranking of internal and external business factors influencing HR policies. Pressure on cost reduction is confirmed as the most influential factor for the second consecutive year, while it was in seventh position in 2008. Challenging profit targets, change in the company culture and organisation and talent shortage continue also to be among the top drivers of HR policies. These are all signals of the reinforced consciousness of an HR function that needs to cope with a highly competitive and fast changing business environment in terms of market and of critical work force capabilities.

New business
competencies required
for HR

These factors are expected mainly to have an impact on new business competencies to be developed by HR –moving from sixth position last year to first this year– and, as in the past, on HR processes and on the way HR measures its value to the business. The size reached by HR departments seems to have stabilised and is less under question compared to last year.

Consolidated order of
priorities for
adding and measuring
HR value

The top three priorities on the HR agenda for the period 2010-2012 remain stable with an even greater emphasis on core human capital issues, namely: leadership development (mentioned by 46%), employee engagement (39%) and talent retention (32%). As a 4th priority the focus will be on improving the assessment of what HR does and how it adds value to the business. This is also the area where HR leaders seem to be most keen to have further support and fill their current gap in terms of delivery capacity. The reduction of labour cost remains among the top ten priorities but it is scaled down to the 8th position, now mentioned by only 14% of respondents.

Board partnership
and HR effectiveness still
on demand

Year on year, the needs expressed by HR leaders about the operational conditions that would increase the impact of their activity on business results become a recurrent unsatisfied call that seems to remain unheard or to be difficult to apply in practice. A greater and timelier involvement of HR in strategic business decisions (44%), the improvement of execution of HR related activities (35%), update business expertise and board empowerment (25%) continue to be most in demand. Given the nature of these wishes, there is a shared responsibility between the boardroom and HR leaders themselves to make them happen on a larger scale.

Nevertheless HR should be the initiator of that process by deploying a "total-quality" oriented culture in HR. This should be combined with the acquisition of greater business acumen. These actions will certainly be more conducive to better results, and instrumental to broader and more effective board partnership and recognition.

Talent management
remains the most
impactful HR activity

Along the lines of last year's edition, talent management (46%) is the area where HR predicts it will make the greatest contribution to business performance. Leadership development (39%), followed by organisational effectiveness (37%), becomes the second most impactful HR activity and registers the most important progression in this year's ranking.

HR too often delivering
below business
expectations

When judging its own performance against business expectations, HR acknowledges that there is large scope for improvement in HR strategy and execution, and in all other 26 different people-related activities under analysis. In 16 of these activities –increased from 11 in last year's survey– the majority of respondents admit to performing below expectations. The most frequently mentioned areas of excellence continue to be those related to statutory compliance issues, such as health and safety at work, employee data-privacy, industrial relations and non-discrimination. But also in these best performing fields, in particular in relation to non-discriminatory practices, the proportion of companies acknowledging the gap has increased from 15% last year to 36% this year. The weakest fields where HR self-assesses as delivering below target are in relation to: HR metrics (77%), work/life balance programmes (75%), management of intergenerational diversity (62%), consistency of HR policies across countries (62%), and employee communication (59%).

Employee Engagement
most used metric by HR

The traditional range of people and internal "customer" tools are generally preferred by HR to measure the business impact of their activities. Employee engagement surveys emerge this year as the most commonly used tool. However, the proportion of companies that do not use HR metrics at all for lack of resources has increased from 8% to 18% this year. Meanwhile there are 35% of respondents that are still looking for relevant quantitative tools. These results further explain the weak performance mentioned above in the same area.

Upgrading expertise in change management

A majority of respondents expect significant changes in HR capabilities and competencies within the next three years, in particular in relation to change management, processes and operations and strategic advice to management. On the contrary, only one fifth of respondents expect changes in the functional area of expertise required to handle compensation and benefits policies.

Good cooperation with the CEO

Solid business partnership, trust and engagement

The CEO maintains the top position for the best level of cooperation established by HR. While respondents remain divided over the quality of cooperation established within HR among the different HR activities. The weakest level, or total absence, of cooperation in place remains with the function responsible for investor relations: 25% of respondents consider this relation as poor, while another 36% has no relations at all.

The quality of the level of cooperation with top business executives is reflected in the high perception of HR activities by the CEO. 81% of respondents think that their CEO has a high or very high perception of what HR does. This high level of appreciation is less widespread, but improving compared to last year, when asked about the perception that employees have of HR (47%).

Corporate peers most trusted

This year, the highest confidence rating goes to HR's own peers within the organisation (76%), just ahead of the CEO (65%), and of the overall employees in the company (52%). Trust in European Union institutions is weakening compared to last year (11%), while at the bottom of the trust index, politicians voted in previous elections and Trade Unions continue to lose ground in the eyes of HR professionals.

Almost all HR satisfied with their job and employer

This year there is a steady improvement of the level of satisfaction of HR Directors with regard to their job and current employer, almost back to the pre-crisis mood. 92% of respondents do not wish to move to another function outside HR, and 87% do not wish to change the company they work for. Moreover, only 7% of them admit often experiencing a tension between their personal values and the daily practices within the business; the majority of respondents do not see any major conflict and 42% declare that such conflicts appear sometimes.

EU good for the country less for companies

HR less positive on the impact of the European Union

The majority of HR executives (63%) continue to hold a generally positive perception of the impact of the EU on their country's economy, but that positive perception has declined by 12% compared to last year while the negative sentiment has increased from 9% in 2009 to 21%. More limited is the proportion of those that see a positive effect of the EU on their company (also declined from 57% to 48%) and on their own life (from 58% to 52%).

Looking for a new EU
policy agenda geared
towards human capital
development

The greatest emphasis and demand from HR leaders to the new EU institutions in office is for the launch of a new European growth plan that would foster innovation in education and research (66%).

The second most compelling request is related to the review and modernisation of the European Union labour laws into a consolidated and simplified EU labour code (56%).

The third priority to beef up the EU policy agenda for HR is for a new initiative that would promote the acquisition of new skills and workforce mobility to reduce unemployment (48%).

In conclusion, this year's survey results suggest that for many HR leaders the "exit" strategy from the crisis does not (yet) mean the "entry" into new models of management, but rather a greater focus on operational performance. The resilience of organisations in 2010 will continue to rely notably on:

- The definition of the right people policy mix and on its rigorous and timely execution, and
- The depth and breath of a fully engaged workforce, backed by a trusted leadership.

However, it should not be underestimated that the competitive advantage of an organisation will also depend on its ability to articulate innovative people management policies in anticipation of emerging business contexts and paradigms that need to be embedded into HR practices. They span from new financial risks exposure to tougher statutory requirements, from a bolder role of public authorities to increased shareholder activism, from new forms of work-time and work-space organisation to changing inter-generational and cross-cultural people goals; from new levels of individual empowerment to new forms of collective representation and networking, to mention but a few. Leading edge organisations are already taking into account the consequences of these trends on the world of work and of business, and are adapting their policies accordingly. But for the majority of HR professionals, there may be scope to take advantage of this year of transition to update their vision.

The findings and remarks presented here are not intended to be comprehensive or representative of the wide, diverse and complex European business landscape. The aim is to share, without complacency, some business insight and food for further thoughts that may help us to improve our people management practices.

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Leonardo Sforza

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About the Research

The European HR Barometer 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 aim of capturing the most critical aspects that would improve the effectiveness of the HR function. A specific section of the Barometer offers HR views on relevant European Union activities that have an impact on people policies.

The 5th European HR Barometer survey was carried out between December 2009 and mid January 2010 among top companies operating in Europe. In this edition, seventy organisations completed the online survey. They operate in a wide range of economic activity sectors, generating together 600 billion euro of revenues in 2009 and with a combined total of 3.7 million employees. 67% of respondents are listed companies, with the majority having their shares listed on a European stock exchange.

The majority of the companies' workforces is based in Europe, with 22% employing more than 50,000 employees, 45% employing between 10,000 and 50,000 employees 14% employing between 5,000 and fewer than 10,000 people, and 20% fewer than 5,000. Survey respondents encompass 16 different nationalities. 61% are executives and directors with exclusive responsibility for HR at European or global level. 59% of respondents report directly to their CEO. 89% of respondents have a total of more than 15 years of professional experience. From a demographic perspective, 66% of participants are at least 45 years old and 79% are male.

About Hewitt Associates

Hewitt Associates (NYSE: HEW) provides leading organisations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges. Hewitt works with companies to design, implement, communicate, and administer a wide range of human resources, retirement, investment management, health care, compensation, and talent management strategies. With a history of exceptional client service since 1940, Hewitt has offices in more than 30 countries and employs approximately 23,000 associates who are helping make the world a better place to work. For more information, please visit www.hewitt.com.

About the European Club for human resources (EChr)

The Club was launched in 2001 by Senior Executives of global corporations with a European headquarter and which are market leaders in their sector of economic activity. The mission of the Club is to stimulate debates and exchange of practices on Human Resources issues. Through its studies, working groups and seminars, the Club contributes to promote a European approach to the management of HR and support the strategic role of HR executives in the management of change. For more information, please visit: www.europeanclub-hr.eu