SHRM FOUNDATION LEADERSHIP ROUNDTABLE

WHAT’S NEXT FOR HR?

THE WHARTON SCHOOL, UNIVERSITY OF PENNSYLVANIA
PHILADELPHIA

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Executive Summary

This leadership roundtable takes place at an important moment. It comes as the context for business is changing in the wake of an historic recession, amid rapid increases in globalization, and in a world with more data and more powerful technology than ever before. Participants see the following changes taking place:

- **A greater focus on risk.** The financial crisis and recession have made organizations more attuned to risk and have made understanding and managing risk a greater priority.

- **Accelerating globalization.** Today, virtually every business, regardless of size, is a global business with a global workforce. Organizations are struggling to attract, develop, and retain talent around the world, particularly in fast-growing Asian markets.

- **Greater use of data and analytics.** The use of data and analytics has the potential to dramatically change how organizations make decisions in all areas, especially in HR.

With these factors changing the context for business, participants see the following factors affecting the HR landscape:

- **The recession has affected employees and the HR function.** Employees are more cautious and desire more security. HR has fewer resources and more responsibilities, and is more risk averse. A result is more outsourcing, especially for strategic needs.

- **In many organizations, the HR function lacks important capabilities.** HR is often not seen as a strategic resource that creates value for the enterprise. HR leaders must have business acumen and a deep understanding of the business. They must be able to lead change and drive value creation.

- **Managerial support for talent management is critical for HR success.** There are many success stories of people-centric leaders who see great people as the key to transforming the business, and view HR as a partner in making this happen. However, there are also examples of business leaders who lack a people-centric approach and see HR as merely a task-oriented support function. HR leaders must educate the business about the value of talent-focused, people-driven strategies to transform the organization. Participants believe it is possible to convince business leaders of this.

- **Increasingly, HR leaders are expected to lead efforts focused on talent management, performance, management, and risk management.** Many general managers and functional leaders are recognizing the importance of talent management and want to work with HR in advancing talent management. There is a heightened desire to measure and manage performance in a more analytical way. And, the events of the past few years place greater emphasis on understanding and managing major enterprise risks, including talent-related risks. Each of these areas has major implications for HR.

- **HR leaders need to become more data-driven and analytical.** Other functions have used data to make a business case and demonstrate ROI. Increasingly, HR has at its disposal a wealth of data that can be analyzed and distilled to convey the value of HR and to make better talent-related decisions. Focusing on analytics is a major HR trend of the future.

- **HR leaders must lead the way in creating a global workforce of tomorrow.** Participants described a global workforce supply chain. It will be HR’s responsibility to lead the creation of this supply chain and to attract, develop, and retain local talent to execute a firm’s strategy around the world.
Leadership Roundtable Purpose

This leadership roundtable brought together some of the leading minds in HR to develop a better understanding of the major challenges on the horizon for the HR function.

Moderated by Wharton Professor Peter Cappelli, the purpose of this leadership roundtable was to identify key issues facing the HR function over the next three to five years and to assess the implications of those issues on human capital practices. From SHRM Foundation’s perspective, a goal of this roundtable was to identify important areas where SHRM Foundation can invest in essential research to maximize the impact of the HR profession.

Leadership Roundtable Structure

This leadership roundtable was structured as follows:

- **What’s Now and What’s Next?** Participants were asked to share their observations on the most interesting, important trends that they see affecting HR right now and over the next three to five years.

- **What are the Challenges?** Participants were asked to reflect on factors inhibiting the HR function from making progress and moving forward.

- **Identification of Key Themes.** Based on the issues and challenges, participants identified four key themes deserving more thorough examination. These four themes were:
  1. What are the talent needs of the HR function? What capabilities does the HR function need to supply?
  2. What are CEO and business leader demands on the HR function?
  3. What new opportunities exist for the HR function?
  4. How does globalization change the HR function?

- **Deep Dive on the Key Themes.** A separate breakout group focused on each of the key themes. Each breakout group created a one-page list of answers and sub-topics for the major thematic question. A representative from each breakout group summarized the major ideas discussed by each breakout group. Roundtable participants then voted on the most important sub-topic for each theme.

- **Direction for SHRM Foundation.** Participants were asked to provide input on where SHRM Foundation should invest in future research.

- **Final observations.** Participants offered final observations on key takeaways from the day.

This summary follows the chronology of the leadership roundtable.
What’s Now and What’s Next?

Forecasts and predictions tend to be extremely inaccurate. With this in mind, Peter Cappelli asked participants to share the most interesting and important trends they are seeing today that they believe are likely to have a significant impact on the HR function over the next three to five years. Participants offered a wealth of observations. Among them:

- **The recession has had a significant impact on HR, which is likely to be long-term.** Several participants offered observations related to the impact of the recession and noted that this impact is likely to be sustained going forward. Impacts related to the recession include:
  - *HR departments being leaner than ever.* The recession resulted in deep cuts in HR departments.
  - *More alignment between HR and the business.* Alignment often improves in a crisis when people focus on what is essential for survival. In many organizations, the recession focused the organization on short-term survival, which drove greater alignment.
  - *Increased investments in leadership development.* It seems that during the recession, the topic of leadership development and emphasis on high potentials has gotten a great deal of attention.
  - *A greater desire for security.* As a consequence of the recession, the anxiety associated with it, and the high unemployment rate, many workers, particularly younger ones, want a greater sense of safety, security, and predictability from their employer.
  - *An increase in risk aversion.* Participants mentioned that the recession has made people within companies more cautious and risk averse, which can be seen in corporate cultures.
  - *A looming retention problem.* During the recession, retention has improved as people have been reluctant to leave their current position. However, when the economy improves companies could face major retention problems. The key is to engage employees.
  - *Different responses to managing labor.* Companies in different countries have responded to the recession very differently. In the United States, companies responded by cutting their workforce, producing high unemployment, hurting macroeconomic demand, and limiting the capacity of businesses to grow. In contrast, German companies didn’t cut back on their workforce. Unemployment is low and the economy is strong.

Also mentioned was research indicating that HR leaders feel positively about their actions during the recession. Of some surprise, others in HR agreed and also feel positively about the actions of HR leaders over the past few years.

- **In many organizations the HR function lacks important capabilities.** Several participants commented that HR functions in organizations lack both quantity (too few bodies due to staffing cuts) and quality (lack of critical skills). Implications of this lack of capabilities include:
  - *More outsourcing.* Since organizations lack the HR capabilities that they need, they are outsourcing many aspects of HR, which benefits consultants and companies that provide outsourced HR support services. Several consultants concurred with this observation, noting that their business is booming, particularly in regard to providing companies with high-level strategic resources.
  - *Up-skilling.* Recognizing that key capabilities are lacking, some organizations are investing to up-skill their personnel. They are seeking to develop greater business acumen as well as stronger critical-thinking and risk-management capabilities.
  - *Different paths into HR.* Since HR functions aren’t developing the capabilities needed, organizations are bringing people into HR from other parts of the organization. For example, at Google just one-third of
those in HR have a traditional HR background and two-thirds of the HR organization come from outside of HR.

- **Globalization of the workforce continues to have a significant impact on HR.** Several participants commented on the broad impact of globalization. Among the comments on this topic were:
  - *Talent needs in Asia are growing rapidly.* For many companies, the growth of their Asian business exceeds the availability of talent. Just moving large numbers of people to Asia is not a viable solution. The key is to increase the level of talent and the capabilities of the people in those countries.
  - *Even small companies are affected.* The impact of globalization is not limited to major multinational enterprises. Even small companies with just 50 employees or less are creating global workforces.

- **The use of data and analytics in HR is growing.** In the past few years participants have seen a dramatic increase in the use of data and analytics in HR, a trend that is expected to accelerate. This is seen as beneficial for HR in that it results in more data-driven decisions and creation of a more data-driven business case for HR. However, greater use of data will require new skills by HR professionals.

- **Many organizations are offering greater flexibility.** A trend that some participants have observed is greater flexibility and more alternatives in work arrangements.

- **Interest has increased in talent management, performance management, and HR-related risk management.**
  - *Talent management.* Increasingly functions like finance and marketing see talent management as integral to their success. Other functions are thinking broadly about how to attract, develop, compensate, reward, and retain talent.
  - *Performance management.* There is an increasing desire to measure how well people are performing.
  - *Risk management.* HR risk management is largely unmapped, but is a growing area of interest. The idea is to understand how business risk affects HR.

- **Boards are increasingly interested and involved in HR issues.** Participants have seen a growing involvement of company boards in HR-related matters. As more and more companies claim that their people are their competitive advantage, boards want to know how people strategies drive value for the corporation. They are also interested in topics such as compensation and succession planning. At the same time, many HR professionals lack exposure, experience, and confidence in interacting with board members.

- **There is a significant focus on “best practices” and copying leading companies.** An observation is that many companies desire to implement industry best practices, despite an inability to perform them.

- **There is greater homogenization of HR practices and decreasing differentiation.** An observation was shared that due to societal pressures for standardization and consistency, many organizations are creating homogenous HR policies and practices. The result is that everyone in an organization is treated the same, which results in a loss of differentiation.

While participants have observed the previously mentioned trends, also cited was data indicating that on the whole, over the past 15 years, not much in HR has truly changed.
What Are the Challenges?

In thinking about the various trends that are underway, Professor Cappelli asked participants to describe the key challenges that are preventing the HR function from capitalizing on these trends. Among the most significant challenges mentioned were:

- **Lack of management support for HR.** Several participants see lack of management support as the key barrier that the HR function faces. If a CEO or general manager does not believe in the importance of people and in the HR function, this view will permeate an entire organization. (This is a demand challenge in that the CEO is not demanding that HR play a leading role in transforming the company.)

  In contrast, examples were shared of companies where the CEO embraced HR as a partner in transforming the business. In these examples (which included Pepsico and Honeywell), the CEOs saw people as the key to business success. They had people-centric strategies that emphasized hiring the best general managers, the best marketing people, the best in all other functions—and the best HR people. In these situations, the expectations for HR were incredibly high, because HR was the driver of overall business success.

  When lack of management support is the barrier, the case must be made and demonstrated that people and HR are the keys to business transformation.

- **Lack of adequate talent in HR.** The view of some participants is that the HR function doesn’t supply the business with the capabilities that are needed. One reason for the lack of talent in HR is that the top students from the top schools are not interested in HR. The field is perceived as not as attractive as other options and the compensation is not as good. (Professor Cappelli commented that some Wharton MBA students do want to go into HR, but they can’t find jobs.)

  The argument was made that HR people have to be as smart as anyone else in the room and have to understand the business as well as anyone else.

- **Lack of a leadership attitude in HR.** HR often views itself, and is viewed by the business, as a “support” function with a purpose of “supporting the business.” This very attitude is a barrier. Instead, HR needs to have an attitude that focuses on driving the business. This requires understanding how the company makes money and being able to recommend strategies (not tools or processes) to enable the business to make more money. Often those in HR aren’t prepared to help the company improve its overall performance.

- **Lack of use of data and analytics by HR.** The perception is that other functions—like finance, sales, or marketing—bring data to a management conversation. They can make a business case and discuss ROI. HR has been behind and has lacked the tools to have data-driven conversations.
Key Themes

After discussing trends and challenges, participants identified four key themes for further examination. These major themes were:

1. What are the talent needs of the HR function? What capabilities does the HR function need to supply?
2. What are CEO and business leader demands on the HR function?
3. What new opportunities exist for the HR function?
4. How does globalization change the HR function?

For each of these themes, breakout groups went into depth to address the particular topic. Participants then voted to identify the most important elements discussed for each major theme.

1. Talent Needs of the HR Function

This breakout group focused on the capabilities that the HR function must supply, capabilities which today are often lacking. The five areas identified as key capabilities that HR must supply, in rank order, are:

- **Strategic thinking and value creation.** This was far and away seen by participants as the greatest need of the HR function. The idea is to know the business and to then think strategically about how to create tangible business value.
- **Business acumen and orientation.** Business acumen is understanding the business and being conversant in all aspects of it. Business orientation is thinking first about the overall success of the business and then thinking from a functional perspective. One idea is for HR people to do rotational assignments, working in areas such as finance, marketing, and IT.
- **Willingness to take risk.** HR people tend to be risk averse by their nature, yet growth only comes from taking risk. The HR function must become more comfortable and adept at taking risk.
- **Project-management skills.** A great deal of HR work takes the form of projects. This often involves collaborative, multidisciplinary projects. As a result, those in HR must develop strong project-management skills.
- **International talent development.** Having large numbers of expats in emerging markets is expensive and not sustainable. Talent needs to be identified and grown in local markets, while at the same time infusing the company’s values and culture around the world.

Other attributes mentioned were:

- **Selling skills.** Those in HR must have good sales and marketing skills. This is necessary to secure support for ideas.
- **Accountability.** The HR function needs to have accountable leaders and higher levels of accountability throughout the function.
- **HR specialists.** HR leaders must be generalists, but within the HR function, there still must be specialists in areas such as compensation, benefits, and leadership development.

2. Demands on the HR Function

This group focused on what CEOs, general managers, and other business leaders are demanding from HR, now and over the next three to five years. The five key demands on HR are (in rank order):

- **Provide talent that is strategically aligned.** Business leaders want HR to recruit and develop talent that enables the business to deliver on its strategy. This requires that HR understands the strategy and the organization’s talent needs, and is able to anticipate future needs. It also requires that HR be able to move
quickly to provide the talent that is needed. (A participant commented that what most businesses are demanding from HR is not just “talent” but that the talent is “ready” to contribute as needed.)

Participants debated whether the key issue faced in many organizations is a lack of appropriate talent, or a lack of appropriate HR processes and practices to develop the talent that is needed. The answer was that in some situations, both are lacking. However, great talent will fix broken processes and practices.

- **Align all HR activities with the business.** Beyond just providing the talent that is needed, the business is demanding that all aspects of HR be aligned with the business strategy.
- **Establish and manage the culture.** An important demand of the business is for HR to manage the organization’s culture and to serve as the organization’s conscience.
- **Understand the business and customers.** An understanding of the business is a necessary underpinning for all HR activities.
- **Manage HR risks.** A demand of the business is for HR to understand, identify, communicate, and manage HR-related risks.

Other demands mentioned were:
- **Fill the talent pipeline.** A subset of provisioning the talent needed is to strengthen the organization’s pipeline of “B” players, not just its “A” players, and to focus on the talent needs now and in the future.
- **Help lead globalization.**
- **Make HR administration and transactions more efficient.**
- **Develop comfort with analytics.**

This group also mentioned that the HR function must educate business leaders about what to demand.

3. **Opportunities for the HR Function**

This group focused on potential new opportunities for the HR function. The four key opportunities identified, in rank order, were:

- **Improve decision making through analytics.** This was seen as the most important opportunity for the HR function. This requires collecting relevant, meaningful data from the overwhelming amount of data that exists, being able to synthesize this data, and then using the data to make better HR decisions. The key is not just to aggregate all of an organization’s data; it is to start with the question that needs to be answered and then use technology to cull the relevant data.
- **Be more proactive in working with business leaders to get things done.** HR is often reactive, waiting for the business to make a request. The opportunity for HR is to understand the business, anticipate what needs to be done, and then be proactive in helping business leaders execute.
- **Take the lead with workforce planning.** Opportunities exist to be more thoughtful and analytical in developing integrated workforce plans, including global workforce planning.
- **Raise HR’s level of accountability.**

Other opportunities mentioned were:
- **Work with the CEO and CFO on the strategy.**
- **Make HR metrics more visible.**
- **Be a product manager to internal clients.**
- **Write a strategic plan.**
4. Impact of Globalization on HR

This group focused on how globalization might change the HR function. Three major ideas were mentioned:

- **Tailor HR for local markets.** The HR function will be expected to tailor practices to local markets while at the same time, identifying what is central to the global enterprise. This issue applies to small and mid-sized enterprises as well as large organizations.

- **Optimize and deploy global talent.** This involves determining when to move talent into certain roles and when to source local talent. It also entails having an integrated solution for managing talent globally.

- **Help organizations make geographic sourcing decisions.** Increasingly, organizations are making staffing decisions based on the supply of talent. HR must be integrally involved in this decision process. This will entail supplying intelligence about the labor market and HR practices in a country.
Direction for SHRM Foundation

Based on participants’ observations on what’s next, the chair of SHRM Foundation’s Board of Directors, Bill Schiemann, asked participants for input regarding where SHRM Foundation should invest in research.

Participants’ comments focused on the following three topics:

- **Data and metrics.** Research would be beneficial around how data is being used in HR and to create a set of standardized metrics for HR. Also, understanding how non-HR people (HR’s customers) use HR data would be advantageous.

- **Globalization.** Research about creation of a global talent supply chain and a global talent workforce would have value.

- **Risk management.** The topic of risk management in HR was mentioned frequently, but participants felt research on this topic would be beneficial to provide more clarity about the subject. This includes providing an understanding of what it means and how risk is being managed.

Concluding Thoughts

Participants were asked to share the major observations and learnings from the day. They included:

- **CEO support is critical.** For the HR function to play a prominent role in transforming a business, the CEO must have a people-centric perspective. Participants were optimistic that CEOs, general managers, and other functions can be educated about the business value of having such a perspective.

- **Securing CEO support can be done through a combination of threat and opportunity.** Appealing to a CEO requires using fear to convey that the company will be at a competitive disadvantage and will miss opportunities if the company fails to embrace a talent-centric strategy. In addition, if the company does focus on talent—and develops necessary capabilities—the company can have greater business success and make more money.

- **When HR is done right, HR leaders are “value integrators.”** When HR is done right, the HR leader understands the business, the customer, the external context, and the company’s vision and strategy. The HR leader can “connect the dots” to create the organization and capabilities that can achieve the vision. In this way, the HR leaders are integrators who create value for the organization.

- **If the competency of HR leaders grows, so too will HR’s role.** A challenge for HR is that in many organizations the HR function lacks the talent needed to drive business value. On the whole, the competency of HR leaders needs to improve—which participants believe is possible. As the level of competency of HR leaders improves, the strategic role of HR will rise.

- **People are taking a variety of roles to become HR leaders.** Previously, HR leaders were experts in one area of HR and then grew to become generalists and managers. Increasingly, HR leaders are coming from the ranks of consultants and from other roles in the business.
SHRM Foundation Leadership Roundtable Participants

The SHRM Foundation is the 501(c)(3) non-profit affiliate of SHRM. A leading funder of HR research grants, the Foundation produces publications and educational resources to advance the HR profession. The mission of the SHRM Foundation is to maximize the impact of the HR profession on organizational decision making and performance by promoting innovation, education, research, and the use of research-based knowledge.

The SHRM Foundation's work includes: innovative academic research grants, scholarships, and educational resources.

For more information, please visit http://www.shrm.org/about/foundation/Pages/default.aspx

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