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Inside this Month

Strategic Planning: HR Success Increasingly Tied To Showing Of Strong Business Acumen 1

Work & Family: DOL Explores Workplace Flexibility, Best Practices For Small Firms 5

Discrimination: EEOC Examines Potential Bias Of Employers' Use Of Credit Checks 8

Health Care: Tax Officials Discuss PPACA; Practitioners Say More Help Is Needed 13

DEPARTMENTS

Legal Insights 7

HRfocus News Briefs 11

Compensation & Benefits News 16

Strategic Planning

HR Success Increasingly Tied To Showing Of Strong Business Acumen

Still digging out of the worst economic downturn in decades and facing critical challenges worldwide, corporate executives increasingly are seeking a more business-focused, strategic human resources department, HR analysts said during a series of recent interviews.

In a growing number of industries and organizations, they said, business leaders today understand that HR can have a positive influence on the company's bottom line. A looming challenge, however, is the extent to which HR is prepared to make informed decisions about business growth.

"In the last couple of years, as the recession hit and companies had to focus on changing business strategies, they really took a hard look at HR and at having HR help the company improve its position," said Diane Youden, a principal at PricewaterhouseCoopers's Dallas office. At the same time, "HR had to rethink its focus and value, reorganize itself, and look at the skills and competencies that HR professionals had," she said. "Today, the roles are being filled by individuals with more strategic knowledge—not just a customer service focus, but individuals with business backgrounds and a real passion for HR."

Karen Piercy, a partner in the human capital business in Mercer's Philadelphia office, said businesses are looking to HR to assume a larger role in business strategy. "The recession made this more important," she said. "Employee engagement and leadership now are really critical."

HR facing business ‘capability gaps.’ But not all HR practitioners are prepared to respond effectively to these challenges. A Boston Consulting Group (BCG) report released in late September noted that HR professionals have acknowledged that they have “big capability gaps in business analytics, business planning, and client relationship management.”

The report, *Creating People Advantage 2010: How Companies Can Adapt Their HR Practices for Volatile Times*, said, “In particular, more sophisticated analytical skills will permit [HR] to better predict future requirements, track performance outcomes, and calculate the return on investment for various human-capital initiatives.”

J. Puckett, a co-author of the report and senior partner at BCG’s Dallas office, said during an interview, “HR professionals in the United States, at least as we see it, often lack the full capabilities set required to be a partner of the line management of the company.

“Part of the reason for this,” he said “is that too few companies actually rotate HR professionals into other general management positions or key functional roles that aren’t HR in the company. So they don’t develop as much knowledge, context, and experience in non-HR issues as they would if they had that rotation.”

Diane Caldwell, a senior consultant and researcher at Aon Hewitt’s New York City office, said: “It is still an issue and definitely a struggle for organizations to have HR people who are knowledgeable

and get the respect of business leaders. It is getting better in some organizations and in some parts of the world, but it’s not where we need it to be yet.”

Lack of predictive data. Craig Ramsay, vice president of client partnerships and managing director of the San Francisco office of Sirota Survey Intelligence, said a lack of “data or insight” is the primary obstacle for HR. Based in Purchase, N.Y., Sirota conducts survey research on employee engagement and performance.

“When HR doesn’t have the data skills, it really holds them back from having the influence they would have in C-Suite discussions,” Ramsay said. “We often see HR come to the table with data that already happened—but not data about where things are going,” he said.

Ramsay said that “data should be insightful and predictive, and HR needs to bring that foresight.” He added, however, that it can be more difficult for HR to measure data than it is for other company divisions, such as finance. “We’ve found that this is a very early science,” Ramsay added.

Still, he said, it would not be unreasonable today for company directors to expect a senior strategic HR employee to answer questions such as, “Which onboarding experiences are most likely to head off first-year attrition?”

“HR should be measuring this and be clearly able to say, ‘These four experiences cut the first-year attrition rate down by XX percent’, ” Ramsay said.

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Another question he said company directors would expect HR to answer is “how much money is being put into leadership development?”

Ramsay said HR’s response generally should be, “If you have \$3 million to spend on leadership development, here are the four programs with the highest prediction of performance improvement among these employees.” The response from HR should not be, “This is the most popular program out now,” Ramsay said.

Still another question company leaders expect HR to be prepared to answer, he said, is, “Which employee development programs should we invest in to [increase] productivity?”

“This is easy to measure,” Ramsay said. HR departments “that do measure this seem to get a lot more attention from the executive staff because they are bringing decisions that have financial implications to the table, and they are informed by measurement,” he said.

Different priorities. Peter Cappelli, a professor and director of the Center for Human Resources at the University of Pennsylvania’s Wharton School in Philadelphia, said that “some of these complaints [about HR] are not really about business acumen; they are simply about different priorities.”

“The HR folks have other responsibilities beyond simply trying to advance the goals the CEO is describing,” he said. Those responsibilities include making sure employers comply with government regulations, Cappelli said, as well as addressing other employment-related legal and ethical issues.

The idea that HR should act like a regular member of the executive team is a different model, Cappelli said. “To really get good at helping the organization advance its business goals will require a higher level of sophistication than some companies have, in terms of understanding how HR practices drive business outcomes,” Cappelli concluded.

Robin Lissak, a principal at Deloitte Consulting’s Human Capital practice in New York City, said chief executive officers and other business leaders today “clearly understand that people are their most important asset and they don’t need to be sold on HR’s value proposition.”

“The key issue for them is having a business partner that can develop an HR strategy that is aligned with business strategy,” Lissak said. “To do this you must understand the business, the business strategy, and how to effectively deliver the HR services the business needs to support its strategy.”

Reduce administrative work. But a central goal continues to be to reduce the amount of administrative work HR is handling so it can focus more on business strategy, analysts said.

“Most business leaders say they want [HR] to focus on the new types of services companies need and want,” Lissak said. “They include driving mergers and acquisitions and helping companies enter new markets, like expanding to China.”

Lissak said CEOs increasingly expect HR to answer questions such as: “What’s our entry strategy? What people will we send first? Where will we locate the organization? What’s our talent strategy? Where might we expand?”

Ramsay at Sirota said company leaders expect HR to understand “the big picture.”

“They have to understand the business,” he said, “but the relative core skill is to be able to align people’s organizational talent and resources to the business needs.”

Ramsay and other analysts also pointed out, however, that HR has its own set of business skills that can influence change at organizations.

“Things like organizational design have become much more important for HR to lead the charge on,” he said. “We also see skills in terms of trend analysis. HR can bring a broader perspective in terms of societal, cultural, workforce, and employment trends to inform the business on what’s coming.”

Caldwell at Aon Hewitt shared a similar view. “HR professionals are not just responding to business but also leading the change, which is a distinct skill,” she said. “In some cases, it’s not a business skill that will drive change but it’s skills around people and aligning people to what the business needs to drive change. That requires a broad set of subskills, and it goes beyond business acumen.”

Best practices. While the techniques that employers are implementing to enhance HR's contribution to company business strategies vary, there are several prevailing best practices. They include:

- **Job rotations for high performers.** “From a development perspective, I advocate the idea of rotations—having HR spend time with business units in China, for example, or working in operations or in accounting,” said Ravin Jesuthasan, a managing director and global practice leader for talent management in Towers Watson's Chicago office. “This forces them to acquire new skills,” Jesuthasan said. Job rotations tend to “accelerate careers,” Ramsay said. “A lot more HR people are being rotated into non-HR functions. They are spending time in an operational capacity or in a marketing or finance function,” he explained.
- **Rotating line managers into HR.** Piercy at Mercer said: “We are seeing more employers now bringing strong line managers into HR and training them. It helps HR understand how important it is to know the business and it raises their level of business knowledge.” Youden at PricewaterhouseCoopers shared a similar view. “When a business leader comes into the HR organization they bring a perspective about how to support the business because they've been a customer,” she said. “They can help engage the HR professionals in a different way by sharing what the business has been looking for.”
- **Hiring individuals from non-HR disciplines.** “We're seeing more and more [employers] hiring people with skills to come in to influence, consult, and make changes despite what their HR resume looks like,” Ramsay said. “It brings a different perspective into HR and allows HR to more deeply understand other parts of the business. The challenge is finding folks who want to do a stint in HR, or choose HR as a new career path.”
- **Finance and business education.** Cappelli at the Wharton School said the simplest step companies can take to help HR professionals strengthen their business knowledge is “to help them understand finance and basic accounting—what goes on with the financial issues of the firm, and what drives shareholder value.” Debbie Rose, a principal in talent and HR solutions at Buck Consultants' Houston office, said: “Training should be focused to provide a high degree of comfort with general and industry-specific financial and operational measures. HR professionals should then be able to link the company's financial and operational goals and objectives to its current and future talent management programs.”
- **Mentorships and leadership development.** Ramsay said employers may want to coach new HR employees during their first few months on the job and augment that with “lots of networking,” as well as introducing them to the “right business leaders,” having them attend the “right meetings,” and exposing them to the “right data sets” and tools. While there are some companies that establish formal mentoring programs, Ramsay said, more often than not the programs are informal.
- **Competency training.** Piercy at Mercer said some companies conduct assessments of HR staff competency to understand employees' strengths and weaknesses. “Then they create formal training programs or development plans to bring up knowledge levels across the board,” she said. “It doesn't have to be expensive, but they need to commit to do it.”
- **Forging collaborative relationships.** HR should build bridges with the company's finance, marketing, operations, and legal units, Ramsay said, “to bring a much more holistic solution to talent and business challenges.” Forming such partnerships is not just about “bringing the HR perspective to the table, but also working offline to form collaborative relationships with other groups,” he said. “In my experience, [business] units are open to this when it makes sense.”
- **Performance appraisals.** Emphasize employee development in performance appraisals, Puckett said. “If you emphasize people issues in the performance appraisal of a busi-

ness manager, it can create pull,” he said. For example, an employer could say in a manager’s performance appraisal that a people strategy should be developed that is aligned with the business strategy. “This creates a linkage between the business manager and HR function,” he said.

- **Strategic workforce planning.** “The biggest opportunity for HR in the business is to help with the concept of workforce planning,” Caldwell at Aon Hewitt said. As business leaders are thinking about their three- or five-year plan, she said, they really need to be challenged to think about it in human capital terms. HR can provide a human capital perspective, she said, about labor capacity, labor pools, and skill sets needed.
- **Change traditional HR structure.** Ramsay said HR divisions should be restructured so that managers are not responsible for handling basic tasks related to employee relations, benefits, and payroll. “Have others attend to

all of the low sort of transactional work that takes away from the HR day,” he said. Allow managers in HR to “spend more time in meetings where they can add strategic value.”

- **Take risks to develop staff.** Offer less experienced HR employees a chance to grow their business acumen by promoting them into positions where they would learn more, Ramsay said. “HR tends to be rather risk-averse when it comes to promoting people within HR to the next level,” he said. HR often will rely on hiring external people who are highly experienced as opposed to promoting a less experienced internal candidate, Ramsay said.
- **Be innovative.** Caldwell at Aon Hewitt cited a large chemical and pharmaceutical company that organized its HR unit as a business, developing pricing for its services to other divisions in the company. “This is a different approach and stretches HR to think like business people,” she said.

Work & Family

DOL Explores Workplace Flexibility, Best Practices for Small Firms

A recent conference on workplace flexibility in small businesses held by the Labor Department’s Women’s Bureau emphasized the widespread need both women and men have for work-life integration policies and the benefits businesses derive from developing such policies.

The Women’s Bureau held the conference in Dallas because the area has the fastest growth of small businesses in the country, Sara Manzano-Diaz, the bureau’s director, said. The conference kicked off a national dialogue expected to continue with a series of nine conferences to be held in various cities with a focus on flexibility for specific industries and groups including low wage earners, the health care industry, and the manufacturing industry.

Speakers highlighted reduced turnover and absenteeism, increased loyalty, lower training costs, and greater productivity among employees when their work and nonwork life demands are balanced.

Tina Tchen, executive director of the White House Office of Public Engagement, said the issue of workplace flexibility is important for the president and first lady Michelle Obama. The first lady spoke at the White House Forum on Workplace Flexibility in March about the need for flexible work practices to become the norm rather than viewed as a perk.

Tchen added that workforce flexibility is needed in all businesses, not just for women of every economic and educational background and younger children but also to help workers with disabilities balance their needs, to accommodate workers’ religious preferences, and to accommodate employees who are going to school while they are employed.

Labor Secretary Hilda Solis also spoke of the need military families have for workforce flexibility, especially when a parent is deployed.

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