

# 10 Minutes on Transforming HR\*

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

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## Reconnecting HR to the bottom line

### Highlights:

- More than 75% of HR work hours are spent on administrative transactions.<sup>1</sup>
- Business leaders are increasingly demanding that HR departments focus on strategic human capital issues.
- The link between talent and business results was never more apparent than during the financial crisis, as pivotal employees proved the difference at many firms.
- HR must be both strategically driven and administratively flawless.

<sup>1</sup> PwC HR activity analysis

**As companies emerge from the current recession, business leaders are demanding more value from human resources (HR).**

**First, most HR departments are still not equipped to help grow the bottom line, quantify talent needs, find and hire the best candidates, and develop and retain the highest performers.**

**Second, the crisis of the past two years wasn't just about subprime mortgages and overleverage. Stronger performers placed in the right critical positions proved a crucial differentiator between those companies that emerged from the height of the recession in reasonably good shape and those whose brands and bottom lines were badly damaged.**

**The key to transforming HR resides in reconnecting the HR model to the business in four key areas: brand, corporate vision, financial performance, and employee performance.**

### How HR can help the bottom line

- 1. Build the brand.** An HR department serves the dual role of supporting the external brand and internally promoting the desired corporate culture. By aligning approaches and practices with how HR wishes to be perceived externally, companies can successfully use HR to enhance corporate reputation.
- 2. Align talent and corporate strategies.** HR professionals find the pivotal talent that can help turn strategy into reality.
- 3. Develop talent.** By all means, save costs on HR back-office operations. But excellent HR departments add value through talent and leadership development and creation of a performance culture.
- 4. Measure success.** The holy grail is for HR to not only measure its impact on business results, but also enable the business to predict talent needs in the right place at the right time.

## At a glance

### Transaction-oriented performance measurements of the past

- HR costs per employee served<sup>2</sup> and HR full-time-employee (FTE) ratio
- “How many activities did I perform or take part in?”
- Number of training hours per employee
- Cost of a company’s workforce
- HR compliance metrics
- Compensation metrics

### Outcome-oriented performance measurements of tomorrow

- Overall impact on the business: Is HR both effective (producing a return on talent) and efficient (managing costs)?
- “What is the outcome of the work I am doing, and how is it adding value to the organization, customers, and investors?”
- Time to promotion
- Corporate performance based on return on talent
- Revenue and profit per FTE
- The cost of a company’s workforce compared with the productivity of its workforce

<sup>2</sup> According to PwC Saratoga’s 2009/2010 US Human Capital Effectiveness Report, the average organization invests \$1,462 per employee in the HR function.

# 01

## Enhancing the brand and building corporate culture

### **An untapped opportunity to promote the brand externally**

An untapped source of value within HR lies in its twin missions of external outreach and internal organizational guide.

A world-class HR team can serve as a valuable proxy for the entire company. Interaction with recruiters is often one of the first encounters that potential employees have with an organization, and HR professionals who creatively personify the brand help attract top-tier talent.

To remain relevant stewards of the brand externally, HR professionals need to embrace and creatively employ leading-edge tools, whether it's announcing job fairs on social networking Web sites, twittering a company's newest product launches, or publicizing important new hires in the industry press.

By aligning HR messages and recruitment policies with those attributes for which a company wishes to be known, HR becomes a powerful force for attracting talented employees with the right ethos for the company.

### **Promoting authenticity**

Internally, HR must repair its current image of merely providing personnel and compliance administration by actively developing trust throughout the organization, from first-year workers to experienced departmental business leaders.

Here's just one example of building organizational authenticity: If flexible work arrangements are available for staff, HR can serve as an active proponent in providing options for an employee seeking flexibility in a pivotal role. That role of employee advocate is just one way for HR to break out of its compliance role.

HR can further distinguish itself as a steward of the brand by creatively promoting internal and external activities that reflect the brand. These could include leadership development, diversity initiatives, community service, and wellness programs for employees.

# 02

## Aligning talent strategy with corporate goals

### Bridging strategy and execution

It's the job of HR professionals to understand the business strategy and employ the pivotal talent that can bring that strategy to reality.

In many companies, however, HR has not earned the right to sit at the strategy table. Without this access, they may not appreciate the specific skills needed to keep pace with changing strategies. In fact, according to PwC's 13th Annual Global CEO Survey, 79 percent of CEOs intend to refocus on how they manage people through change, suggesting a fundamental need to align HR strategies with the overall business strategy.

Deprived of HR insights, senior executives may not properly consider the labor market, educational trends, and other talent-related factors when crafting the corporate vision. The potential result could be crucial, fundamental flaws in a company's talent strategy. For example, a failure to anticipate the changing business model in publishing can at least partly explain why so many media companies had to decrease the size of their workforces over the past year.

### Two strong halves of HR

The right to be heard, however, carries with it the responsibility for HR leaders to prepare themselves for a more strategic, big-picture outlook.

That means fully educating themselves on the industry, the challenges within each of the company's various business or product lines, the important core skills and job positions in different parts of the company, the relative strength of the company's collective core skills compared with the competition, and whether the company's long-term goals can be supported by labor market demographics.

In the end, HR must offer two kinds of value: the strategic ability to find and motivate the right talent, and the administrative know-how to correctly allocate employee resources and manage costs.

## 03

## Improving the bottom line

“What you do in this environment is add to your talent base to be more suited to the challenge ahead.”

Michael I. Roth  
CEO, Interpublic Group  
*PwC's 13th Annual Global CEO Survey*

### First, understanding the bottom line

Corporate leaders are demanding that today's HR executives truly understand the company's financials and business goals.

To respond to this demand, many companies have initiated HR transformation efforts designed to link HR investments and capabilities with business strategies. Renowned HR expert Dave Ulrich and his co-authors of the new book, *HR Transformation*, state, “When HR transformation connects to the context of the business, it is more likely to be sustained because it responds to real needs. This means linking HR efforts directly to the business strategy and to the environmental factors that frame the strategy.”

The solution lies in a truly integrated relationship between HR leadership and senior management. Companies find this common ground in various ways, such as establishing rotations for HR leaders in other parts of the business and encouraging key business unit leaders to take leadership roles in HR.

### Then, affecting the bottom line

Once HR executives develop that deep understanding, they can better decide

where HR fits in. As of early 2010, reducing HR operation budgets has been necessary at many companies, but truly sustainable HR contributions to the bottom line must involve far more than belt-tightening.

For example, HR can use technology to focus in on the best recruits, provide higher-quality service for employees, and produce more actionable human capital data. Dramatically improved HR software applications from such innovators as Oracle, Taleo, Success Factors, Workday and SAP can help managers and executives make better and faster human capital decisions.

With the help of these tools, companies can shift time and attention away from HR administration to the more value-added aspects of HR, such as talent strategy. For example, in the financial services arena, savvy smaller players have been recruiting top loan producers from big banks, greatly increasing loan volumes.<sup>3</sup>

<sup>3</sup> Feb. 8, 2010; *WSJ*; “Firms Poach Top Talent from Recession-Weary Rivals,” Dana Mattioli

# 04

## The good to great HR journey

As the economy picks up speed in 2010, a singular opportunity exists for HR. Corporate leaders today realize that they do not need HR to be simply “good” at administrative transactions. Instead, companies need HR executives to engage business units as true partners, helping execute the overall business strategy by getting the most out of the organization’s talent. In other words, they need “great” HR performance.

### Fact-based effectiveness measures

The challenge for corporate leaders is to somehow quantify both the success of individual employees and the firm’s overall return on talent, or what it’s getting in return for its total investment in its people.

All too often, though, HR departments produce just a few, standard cost and activity measures, such as recruiting cost per employee and requisition-to-hire days. Instead, HR, in concert with management, should develop fact-based HR effectiveness metrics, which will provide more and better information about an organization’s return on talent.

### Surprising insights

Viewing talent from new perspectives often elicits surprising insights about a company’s return on talent. For example, an increasing number of studies suggest a link between the number of women in management and superior corporate performance.<sup>5</sup>

One underutilized metric of corporate performance is profit per FTE, which upends the formula traditionally used for measuring a company’s ability to create wealth. Instead of focusing on return on invested capital, this yardstick measures a company’s success by the cumulative value created by its employees.

While accounting for intangibles like employee knowledge, corporate reputation, and customer relationships is a bit trickier than standard financial reporting, it can provide additional insight into how a company creates value.

#### Fact-based HR effectiveness metrics<sup>4</sup>

Labor cost per business unit per demographic group as a percentage of revenue

Return on compensation and benefit programs

Training hours per employee and comparison to performance management ratings

Retention and promotion rates

Employee productivity compared with peers

The process by which employee ideas are gathered and funneled to management

Retention of high performers and talent in pivotal positions

“Voice of HR customer” feedback

4 PwC Saratoga

5 10Minutes on Managing Diversity, PricewaterhouseCoopers, 2009

## Upcoming 10Minutes topics

### **From crisis mode to sustained efficiency**

With the strength of the recovery remaining uncertain, companies have yet to ease up on cost-reduction measures. In fact, many are going to the next level, re-thinking operating models and structures to see how various functions can deliver even more value at lower cost. 10Minutes looks at how companies are embedding lessons from the crisis into more disciplined management of corporate performance.

### **Creating value through transparency**

In today's complex and often uncertain economic environment, organizations and their stakeholders are seeking greater insight into and assurance around their own financial performance, operations, risk management, and corporate responsibility practices, as well as greater transparency into those of their business partners and providers. 10Minutes explores how companies are giving their stakeholders the insight and comfort they need, in areas beyond traditional financial reporting, to encourage investment and enhance trust in business.

## How PwC can help

To have a deeper discussion on  
transforming HR, please call

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