

Corporate Warming

‘Managing the workforce environment’



better work, better life

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Executive summary

The following research report investigates attitudes and opinions towards the workplace today, looking at employee issues, such as motivation and workforce attrition, whilst also addressing the role of workforce management and human resources at a strategic level. Entitled 'Corporate Warming', the survey discusses how fundamental changes in the way that large organisations tackle employee management, coupled with changes in the recruitment and career landscape, result in new and potentially damaging disconnects between employers and the workforce.

History shows that the employer/employee relationship is rarely a harmonious one, yet findings from the research identify how current habits displayed by both groups present a tangible risk for businesses trying to manage large groups of employees. The latest, and final stage in a six month research programme surveyed HR directors across the UK and provides comparative views from employees and other human resources professionals.

The role of the HR Director is diverse and challenging. It is also a role that has been subject to many changes itself over the past 10 years. A government that has introduced over 30 changes to employment law during its tenure, a buoyant labour market and fundamental shifts in the working population (diversity) all conspire to stretch HR resolve and resources. These challenges are compounded by the perennial issue of HR representation at board level and the ways in which HR strategy is deployed across the organisation.

Key findings from the *Corporate Warming* research are provided below:

Value and visibility

- 54% of respondents feel that the board values the contribution HR makes to the business. Only 39% believe that the HR function is valued by employees
- Only 31% of HR directors believe that improving intelligence on the workforce is strategically important in effective workforce management

Revolving doors

- Attrition rates show a 45% average turnover of employees every 36 months
- 68% of respondents identify workforce churn as a commercial risk/high risk to the business
- On average it takes 5 weeks to replace an employee once they have left the organisation, scaling to 15 weeks for management positions and above
- Despite this, only 25% of respondents see any value in analysing attrition data to evaluate employee morale
- Attrition rates are lower within the businesses where HR is tasked with staff turnover control through Key Performance Indicators

Motivation matters

- Respondent perceptions towards workforce motivation show considerable gaps in comparison to employee views, for example:
 - 66% of employees cite 'lack of recognition' as a key de-motivating factor at work, only 33% of HR directors agree
 - 64% of HR directors identify line managers as the primary source of employee motivation, only 18% of employees agree
- Only 37% of businesses undertake employee satisfaction research to gauge motivation and employee morale

In summary, there exists a situation today where the links between employees and the HR function are stretched, not to breaking point, but to a point of invisibility. General trends in employment and organisational management appear to exasperate the problem. HR is a centralised function, relying on outsourced services and line managers in order to shepherd a productive workforce. This presents risks to a business not managed correctly. Principal concerns presented by the report are:

- Lack of visibility and information surrounding employee resources
- Increases in compliance and legislation risk
- Insulated view of drivers influencing workforce change

The report concludes by suggesting that HR has a fundamental role to play in mitigating against employee risk, where too often the motivation for action is assigned to the legal arena alone. Strategy and risk assessment depend upon quality of information and a global view in order to succeed. One, or both of these factors are absent from a surprisingly large percentage of the survey sample. As the analogous title of the report suggests, the 'eco-system' often used to describe organisational structure and behaviour is equally susceptible to climate change. The problem for HR professionals comes from the difficulties presented in measuring that change and a failure to establish its cause and effect.

The scale of large organisations dictate that HR professionals cannot be 'hands on' with the entire workforce, but, in devolving this responsibility quality and consistency of management can fall through the gaps. A strong economy, supporting a strong labour market, creates choice and autonomy for employees and could leave employers vulnerable to increased labour costs, not only in maintaining productive employees, but also in replacing those that leave. Taking this backdrop into account, the report provides a set of recommendations to address the issues highlighted by the survey.

Research methodology

The 'Corporate Warming' survey is the final stage of a three-phase research project commissioned by Adecco under the title of Work-In-Progress. This report is based on 150 telephone interviews with HR Directors in the UK, working in businesses that employ 500+ employees. The interviews were undertaken in November and December 2006 and published in March 2007. Additional data within this report is based on two previous studies in the programme:

- 'Jobseekers' an online survey of over 1000 employees in organisations of 500+ employees, undertaken in October 2006 and
- 'Peoplekeepers', a telephone survey of 100 HR managers in organisations of 500+ employees, published in July 2006

All three phases of the research were undertaken by Loudhouse Research, an independent research consultancy based in the UK.

Value and visibility

As a profession, Human Resources has long been challenged by lack of representation at board level. Surveys vary on exactly how many HR Directors have positions on the board at large business, though the issue is not one of representation alone. It is also the nature of the HR role at a strategic level that is changing and this leads to broader questions beyond the simple matter of a seat on the board. Key themes that summarise the HR role today can be described as follows:

- Smaller, centralised HR departments
- Higher levels of outsourced support
- Significant focus on legislative compliance and process issues
- Devolution of employee management to line management / business heads

In some ways, all these factors point towards a more strategic HR function, though the general 'burden' of process within the HR role often works to the detriment of its more strategic purpose. Within the survey, 83% of HR directors believe that they are close enough to the business to help deliver achieve its strategic goals. Only *46% of HR managers expressed the same opinion. The disparity between the two groups underlines the point that HR's strategic purpose is only fulfilled at the top level. Though some of the HR manager response can be attributed to management frustrations at wanting to take on greater responsibility, on measure the data still describes a function that feels somewhat isolated from the core business. Later in the report, the level that this isolation extends to the employee base is also considered.

Taking the strategic strengths and weaknesses of the HR function into account, Figure 1 shows the level to which HR Directors believe HR is valued by other key internal stakeholder groups. The graph shows that perceptions are higher at management level and above, but overall percentages are sufficiently low to give pause for thought.

(*finding taken from Adecco 'Peoplekeeper' survey 2006)

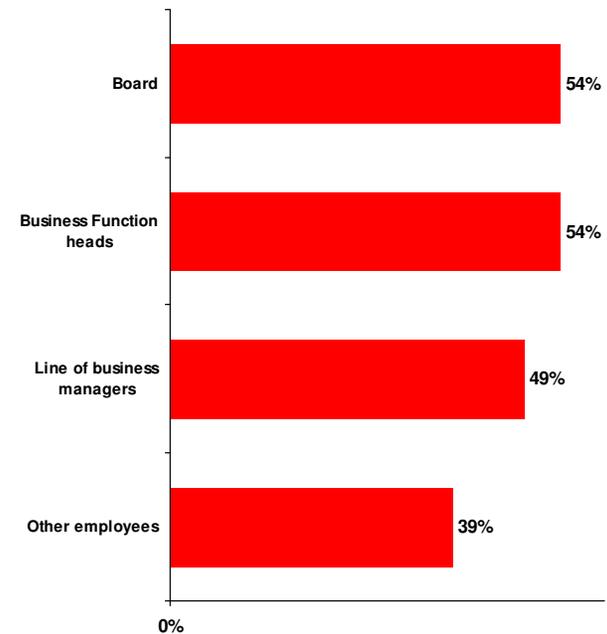


Fig1. How much do you think the following groups value the contribution of HR to the business?
% Shows 4/5 score on 1-5 scale of value (*4* For the most part' --
5 Completely)

On the assumption that the value of the HR function can be improved, further questions were posed to understand what issues HR Directors would most likely focus on to bring about change. Figure 2 shows what areas respondents would want to see improvements in to address the imbalance shown in Figure 1. Evidently, the standardisation of policies and procedures within the business (56%) is a popular area of focus to render change. However, it is surprising that it takes precedent over the more obvious strategic areas of outsourcing, and devolution of HR tasks.

It is widely understood that HR has to plough its way through high levels of administration and legal compliance. In order to be something that is considered a priority when adding value to the business, the issue of policy standardisation suggests that HR believes process is stifling strategic capability. Increased automation (48%) and better communication (48%) also suggest that the HR role faces resource pressures, which, once addressed would allow for increased strategic value.

There will be several drivers within the responses shown in Figure 2. Many of the less popular choices could be seen to relinquish further responsibility and ownership from the HR function. It could be said that without ownership, strategy is a difficult entity to secure. However, outsourcing and consolidation of existing activities are widely accepted methods of removing internal resource burden, meaning there is something of a conflict in the response to the question.

This sentiment is mirrored in Figure 3, where in response to the issues that are considered strategically important to the business to manage an effective workforce, there are some surprises in what might be considered as the logical order of things. Notably, only 31% of respondents see the need to improve the level of business intelligence that is held on the workforce. It is comforting to consider that HR has sufficient understanding of the workforce in order to make judgement on other issues showed in the graph, such as investing in a pleasant working environment, or creating employee flexibility. However, further data in the survey suggests that it is exactly this visibility / intelligence that may require review.

Figure 3 also shows that it is boardroom visibility that is considered of greatest strategic importance to HR directors. There is obvious strategic benefit to board awareness and it is encouraging that the majority of respondents see it thus. The hope is that the thirst for strategic recognition is not undermined by an inaccurate picture of the workforce. As trends conspire to centralise HR thinking and deliver upon its strategic intention, there is the potential that faults appear across the HR network of responsibility. It is important that the elevation of the HR role within the business is based on strong commercial footings, stabilised by effective management insight.



Fig2. Within your organisation, which of the following do you see as important to improving the value that HR can deliver to the business?

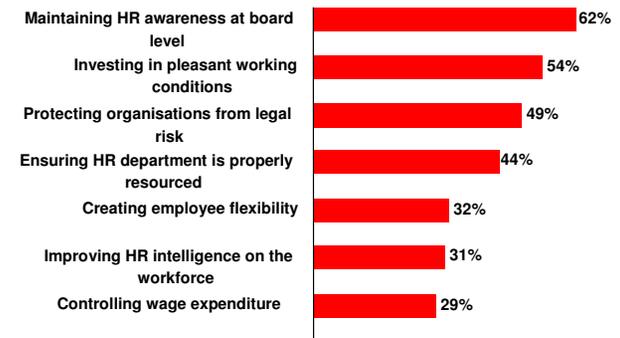


Fig3. Please select the areas that you consider as strategically important in managing an effective workforce (3 maximum)

Revolving doors

In a survey of over 1000 employees undertaken in October 2006, respondents were asked to estimate when they expected to move jobs. Figure 4 shows that in a cross section of today's employee base in large organisations, employers can expect to lose almost half their existing staff (46%) within the next three years (2009/10).

Some businesses may find this level of staff turnover alarming, though it sits within an accepted trend towards a more transitory employment market with shorter job tenures on average. For HR directors, attrition equates to cost, continuity and productivity issues. Contemplating the commercial 'muscle' required to achieve corporate objectives, in light of workforce continuity and churns, will no doubt seem a daunting possibility for many HR departments today.

Another key consideration for HR strategy over the next 3-5 years is the drivers for shortened job tenures and increased attrition rates. It is not simply a case of unsatisfied workers looking for a better deal elsewhere. In fact, both the employee and HR director survey respondents believe that getting a better job is harder today than it was 3 years ago. Beyond satisfaction *per se*, a tight labour market and an increasingly diverse labour pool will compound attrition issues.

Managing an increasingly dynamic employee base requires a heightened awareness of the changes experienced by various employee groups – regions, departments, peer groups etc. Within the survey, 68% of respondents identify workforce churn as a commercial risk/high risk to the business, suggesting a real and evident desire to control employee attrition rates. It also implies that existing attrition rates are far from acceptable. Therefore, it is surprising to see how HR professionals maintain an understanding of the workforce, as shown in Figure 5.

Despite attrition concerns, there appear to be a large percentage of respondents that fail to engage in what should be considered standard exercises in improving intelligence on the employee base. It is somewhat concerning that the direct opinions of employees themselves are being bypassed - only 37% of businesses conduct employee satisfaction research. Also, as shown in the next section of the report, line manager feedback may fail to give a wholly accurate picture of employee activity.

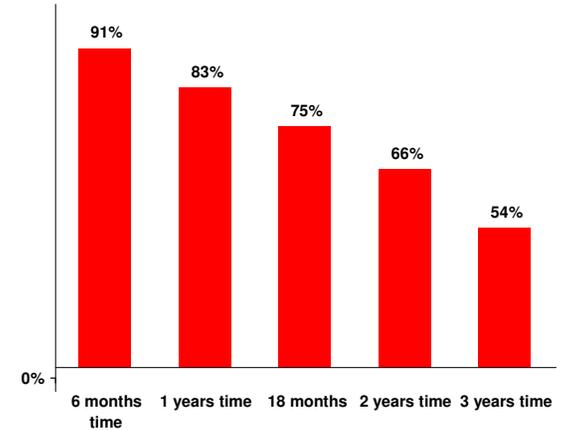


Fig4. Yes responses for: “Will you be working at your company in.... ?” (timescale provided)

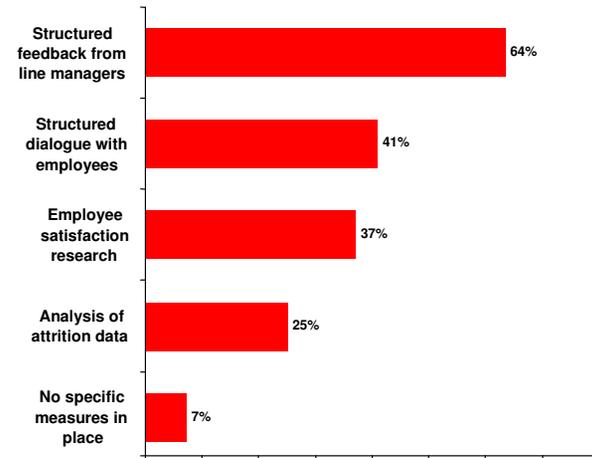


Fig5. What methods does your department rely upon to gauge employee motivation and evaluate employee morale?

Motivation matters

Having a highly motivated workforce is a worthy goal for any organisation – research and observation show that well motivated employees are more productive and creative. The how, why and who of employee motivation are far more difficult to fathom.

Opinion as to who is ultimately responsible for employee motivation varies depending on who you ask. Figure 6 shows that most HR directors believe that line managers have primary responsibility (64%) for employee motivation and only 11% believe that employees themselves have this responsibility. In contrast, as shown in Figure 7, employees themselves consider that they hold ultimate responsibility for their own motivation (59%).

Whilst this is encouraging news because it points to self-sufficient workers in control of their own destinies, it also raises questions about the perceived value of the line manager from the employee perspective.

Line managers are typically regarded as the organisational ‘middle-men’, with a unique vantage point of both HR and employee perspectives. Indeed, not only do HR directors consider line managers to have ultimate responsibility for employee motivation, but accordingly they rely on structured feedback from line managers as the main barometer of employee motivation levels (64%) [Figure 5]. It seems a very narrow channel to pursue in light of employee opinion on the issue of motivation. This is not to discount or undermine the value of line manager testimonies, but to highlight the need for a wider set of measures that include direct feedback from employees themselves.

The ultimate demonstration of a lack of motivation for an employee is the decision to leave a company. The Work in Progress study sought to uncover the reasons why employees leave organisations as well as to explore why they stay at an organisation and what factors de-motivate people at work from the perspective of both employees and HR departments. The research reveals that at the point of leaving a company, businesses actually have a solid grasp of the demotivators that prompt people to leave. This is probably, for the most part, garnered via exit interviews and other procedures instigated in an attempt to better understand and mitigate churn. However, the factors considered to keep employees motivated and productive are less consistent between the two groups.

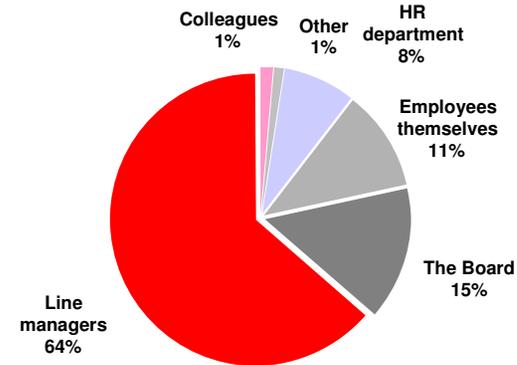


Fig6. Who do you think is primarily responsible for keeping employees motivated?

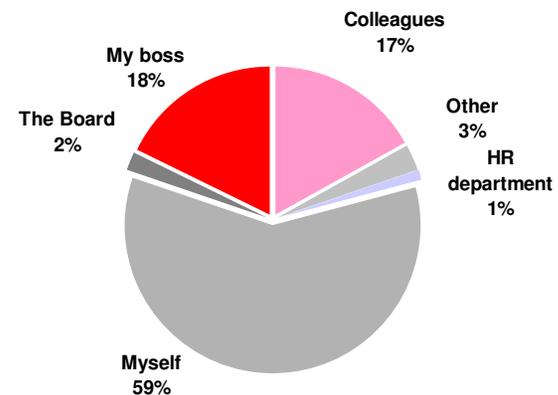


Fig7. Who do you think is primarily responsible for keeping you motivated at work?

Employees clearly resign for a number of different reasons. Figure 8 compares the responses of HR directors and employees regarding reasons for employees leaving an organisation. For both parties, the over-riding reason for leaving is considered to be the 'pull' of better salary and benefits (62% of HR Directors, 63% of employees). A lack of job security, opportunities for development, issues with line managers and stress are amongst the 'push' factors that both HR directors and employees cite as reasons why people seek alternative employment. The level of consensus between HR directors and employees is strong suggesting that on the whole, current measures to assess attrition are accurately uncovering the true reasons why people leave organisations.

Figure 9 shows that there is an even greater disparity between the views of HR directors and employees when it comes to employee de-motivators. The main issue for almost two-thirds of UK employees is a lack of recognition (HR 63%, Employees 33%). This raises the question of whether recognition programmes are ineffective or whether there is disagreement between what employees define as recognition and how employers perceive it. Recognition may encompass providing employees with career paths, opportunity, promotions, good pay, pleasant working conditions and interesting work but ultimately comes down to how valued an employee feels. Interestingly, HR directors are more likely to consider that lack of support and lack of leadership and stress are bigger de-motivators than they actually are in the eyes of an employee.

At a time when companies are relying on their workforces to achieve growth, these disconnects between employee and employer perceptions of what motivates and what de-motivates present a significant challenge. Not only can de-motivated staff drain value from the organisation, it is often only a matter a time before an employee's internal resignation manifests itself in a tangible departure from the company.

The understanding from these two areas of interest is that businesses know why employees leave, but are much less confident about what keeps them working. A greater consensus on the gaps exposed in Figure 9 would clearly influence productivity and attrition rates. Also, there are wider implications for a lack of agreement between the two groups shown in the chart because these gaps impact the entire employee base, not just those looking at pastures new.

*Base: 150 HR Directors – 1000 employees

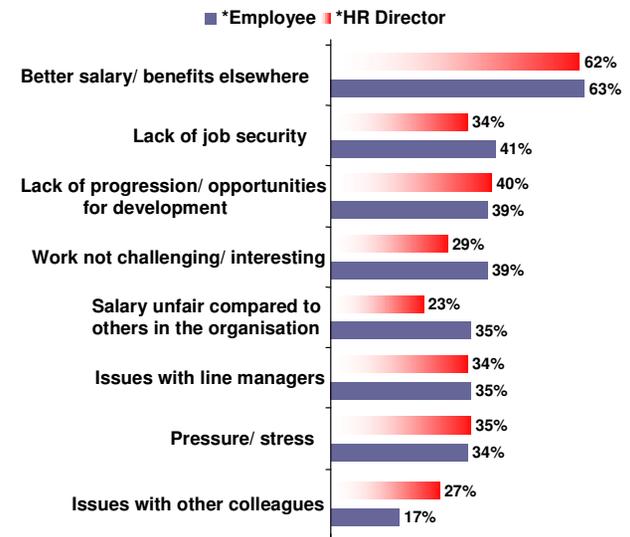


Fig8. What are the main reasons you would see for leaving the organisation? / What are the main reasons that you feel employees leave the organisation?

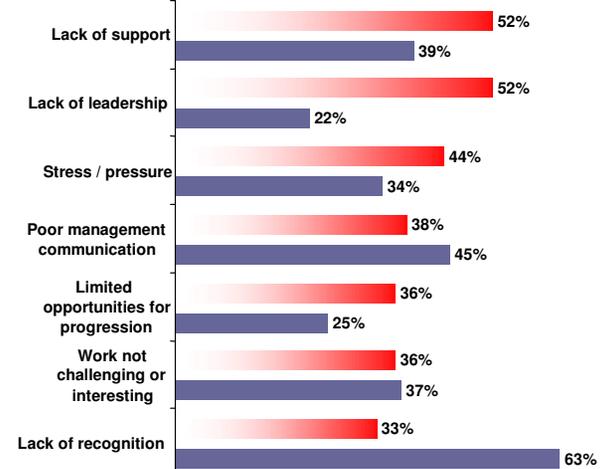


Fig9. Which of the following factors do you feel are most likely to de-motivate your employees? / What factors do you find most likely to de-motivate you at work?



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Conclusion

In July 2006, Adecco commissioned a three stage research programme to understand what fundamental issues influence the role of HR and its relationship with the organisation from board level to employees. Each stage of the research has revealed fascinating insights into the nature of employment within large organisations today, using HR as a porthole to establish wider workplace trends. A brief review of the two previous projects is useful to understand the context of the HR director survey:

- **HR Managers – ‘Peoplekeepers’**

When talking to HR managers, the summary of ‘Peoplekeeper’ opinion was that this group appears largely insulated from commercial risk due to the tickbox, process-oriented nature of the role. Though as managers, it is to be expected that risk insulation is appropriate to a degree, the research suggested that insulation potentially turns into ‘isolation’. Over half of HR Managers (54%) do not see themselves as close enough to the core business to help the organisation achieve its strategic goals.

In terms of metrics and measurement, HR Managers were unable to provide basic metrics that underpin standards – less than half felt confident that they could produce information on staff turnover (49%), budget (44%) and time taken to fill vacancies (29%) within the business. This brought into question the robustness of metrics used for both HR performance and HR planning.

- **Employees – ‘Jobseekers’**

An evaluation of employee attitudes to the working environment disclosed that 4 in 10 employees have applied for a job, or registered with a recruitment agency in the past 12 months, showing that ‘flirtation’ with career changes is an established, and potentially damaging aspect of corporate life.

The research showed strong links between employer commitments to quality and assurance and levels of job satisfaction with employees. However, findings also described employees as an increasingly autonomous group in terms of career control and self-motivation. Looking at motivation in the survey, 33% of employees were defined by the survey as ‘disengaged’ with their existing job roles / careers.

HR Directors – ‘Corporate Warming’

The final stage of the research, which is the focus of this report, has been entitled ‘Corporate Warming.’ Looking specifically at the HR Director audience, the title of report is analogous to that of the current debate surrounding climate change, though relating to the working environment, in that workforce change is subject to considerable external influences and drivers for change are varied difficult to measure.

As discussed in the body of the report, the current ‘climate’ for HR professionals can be defined, broadly speaking, as follows:

- Smaller, centralised HR departments
- Higher levels of outsourced support
- Significant focus on legislative compliance and process issues
- Devolution of employee management to line management / business heads

These issues can be seen as the drivers for ‘corporate warming’, with the findings in the research providing an insight into how they are influencing the workforce and the framework created to manage it.

The fundamental point that HR directors can take from the survey is that business intelligence on the workforce is not sufficient to mitigate against risks surrounding employee attrition and motivation. Workforce diversity and a buoyant employment market only serve to compound existing problems faced in managing and motivating a large employee base.

Attrition and motivation are two sides of a coin. Motivation is difficult to measure, hard to ‘create’ and even more difficult to maintain because of the many variables involved in establishing what exactly motivation means for your business. Company P&L is rarely influenced directly by employee motivation. However, it is widely acknowledge that it is an indirect cause of many corporate woes. Attrition, on the other hand, wreaks havoc with operational expenditure as there are hard costs in losing and replacing employees at any level of the business.

Figure 10 shows that replacing employees creates an evident drag on resources with it taking an average of 5 weeks to replace an employee that has left the business, rising to 15 weeks when replacing managers and above. Assuming that attrition rates perform at the averages stated in the survey (45% turnover in 3 years), this loss of resources represents a huge cost to the business, making a very real business case for increased focus on employee satisfaction and morale. A useful measure of potential steps forward in this area can also be found in the data. The survey also established that only 58% of HR departments are tasked with attrition management as a Key Performance Indicator (KPI). When asked to estimate attrition rates, the group with attrition KPI’s had considerable lower estimates on workforce turnover than those without.

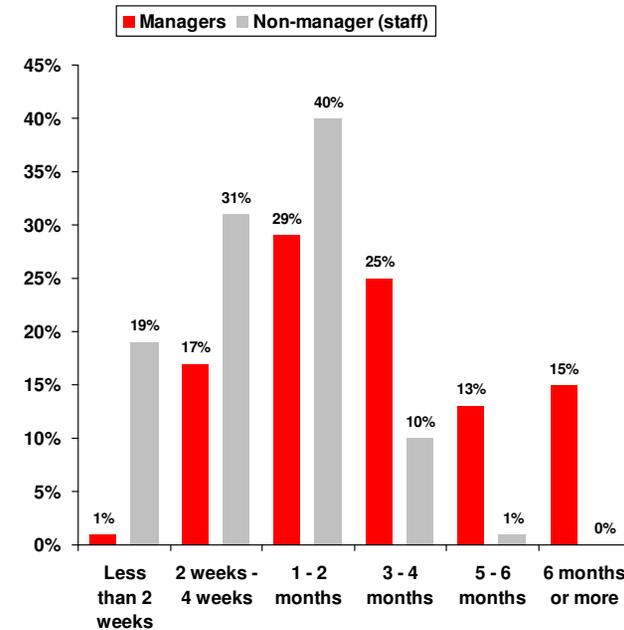


Fig10. How long does it typically take to replace someone who has left the company?

What is the average length of service for employees in your organisation?

	Attrition KPI: workforce turnover	No Attrition KPI: workforce turnover
12 months	2%	2%
24 months	8%	21%
36 months	13%	21%
48 months	25%	24%
Total	48%	68%

Therefore, as the role of HR develops and 'ownership' of employee attrition, motivation and management spreads across the business, the research shows measurable value in HR departments fulfilling the holding role and being incentivised accordingly, via KPIs. This particular group also demonstrated more positive findings in other areas of the research. When comparing the KPI group to the non-KPI group, additional findings also suggest that the KPI group demonstrate best practice in other areas. They were more likely to capture attrition data (94% - 54%), more likely to have access to employee motivation information (61% - 33%) and were also more likely to see an increase in the strategic role of HR over the next 12 months (63% - 38%).

In many ways, HR has an unenviable position within a large business. It grapples with recognition at boardroom level, whilst potentially losing touch with the employee base. HR isn't culpable for this situation, the causes are mostly created by a general corporate enthusiasm for outsourcing and centralisation of enterprise-wide business functions. For example, the same point could be made of the IT role, though the IT function itself is much better equipped to work towards a centralised, outsourced model for obvious reasons.

The additional problem for HR is that the workforce seems to be more difficult to manage, less reliant on 'a job for life' and comprised of a much richer demographic mix. These elements combine to raise the temperature within the employee environment.

A failure to acknowledge the need to manage this situation will undoubtedly leave some businesses out of pocket, perhaps significantly so. It is therefore a collective, organisational responsibility to respond to the issues raised by the research, with HR as a powerful common denominator in finding a solution.

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Recommendations: *Reducing the impact of corporate warming*

Risk Radar

Risk assessment is a costly process and one that should not necessarily be undertaken in isolation of the business as a whole. HR risk may be mitigated or heightened by activity elsewhere in the organisation. Therefore the most effective way of understanding risk is to ensure that HR & employment receive sufficient focus in wider risk initiatives. In the absence of an ongoing risk assessment in your business, a diligent, HR-driven internal evaluation of existing company employment strengths and weaknesses can form the basis of mitigation and planning going forward.

Diverse Evaluation

A clear understanding of the composition of the workforce is essential in order to evaluate what socio-economic factors will influence future HR strategy. What does the profile of your workforce look like on paper? What operational and legal changes might influence recruitment policy, existing employee morale and overall workforce performance?

Workforce Watch

The survey shows a considerable lack of priority on information surrounding the workforce, most data created is a compliance necessity or reactive in nature. Taking a proactive stance on capturing and analysing employee data changes the HR department's 'culture' towards business intelligence bringing about constructive change within the business, if needed.

Supplier Synergy

Third party suppliers form an integral part of corporate HR strategy, recruitments providers in particular extend an HR department's visibility into the workforce as a whole. Suppliers should be evaluated not only on the quality of service provision, but also on the additional value derived from an outsourced relationship. An 'arms-length' approach to strategic supplier relationships can undermine HR's ability to achieving corporate objectives. Ongoing third party relationships can provide considerable support for HR in tackling risk, diversity and workforce analysis.

Profile Raising

HR profile should not be focused on the board alone. Maintaining awareness and dialogue with business functions and employees is also very important. Though resources are invariably stretched, measure should be taken to ensure that the management layer of the business subscribes to the importance of the HR role within the organisation. Ensuring that the HR function is the primary point of contact, or counsel for workforce information and decision making is an important objective to set. HR is in a unique position to measure the pulse of a business. In the context of an increasingly volatile workforce environment, it should correspond that the status of HR also rises within the organisation, creating an opportunity from potentially adverse conditions.