IN FOCUS ▪ The importance of talented employees is more and more identified to be the key for business success. However, the gap between the value growth demands of knowledge organizations and HR management (HRM) is constantly increasing. Therefore, the author raises the question

How big is your HRM Gap?

Humαtica

BY ANDROS PAYNE

Tough New Requirements on HRM

There is an open secret in most companies: HRM must add much more value in the future. In fact, closing the growing "HRM Gap" is of vital interest to most corporations in industrialized counties. However, both management and "HR" are struggling to address this new reality - to define and adapt HRM's new role.

Businesses in Europe, North America and Japan are changing in profound ways. The opening of new product markets and low cost labor pools, both next door and abroad; in Mexico, Central Europe, India or China, are fundamentally shifting the strategic and operational chessboard in every industry. And, the collapse of information cost (cost per bit transmitted, stored & processed) is accelerating this transformation by collapsing transaction costs and disaggregating traditional value-chains. Hewlett Packard centralized secretarial assistance from its offices throughout Europe to Rumania. And, legal research, once done by prestigious law firms in house, is now being outsourced to India at 2 US$/hour![1]

The same dramatic and inevitable economic forces are also increasing the competitive stakes. Corporations (their organizations) must either respond faster to external changes, or risk irrelevance.

These factors are fundamentally re-shaping organizations on both sides of the Atlantic. Allianz's headline-grabbing downsizing in mid-2006 is one of countless human portfolio adjustments which firms are making. 7,500 German employees with be let go, despite record profits in 2005. However, it is not just a matter of off-shoring, automating, or de-localizing lower value-add tasks and sacking manual laborers.

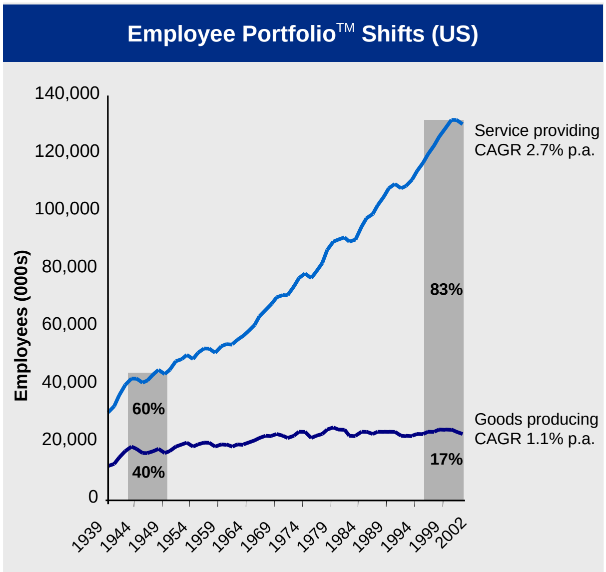
The same economic forces are placing new, higher demands on the remaining employees. Increasingly, knowledgeable workers will be required to anticipate what needs to be changed in their business and change it. This, as continuous adaptation becomes the only common denominator of sustained value growth.

These shifts are in turn placing new and much greater demands on the HRM organization. Human Resource departments should play a key role in enabling continuous self-renewal by implementing and managing employee processes which systematically drive adaptive organizational behavior. Sadly, the truth behind the secret is that this objective is rarely, if ever, achieved. Clearly, diagnosing common shortcomings is the first step toward closing the HRM Gap.

HRM & Human Portfolio™ Misalignment

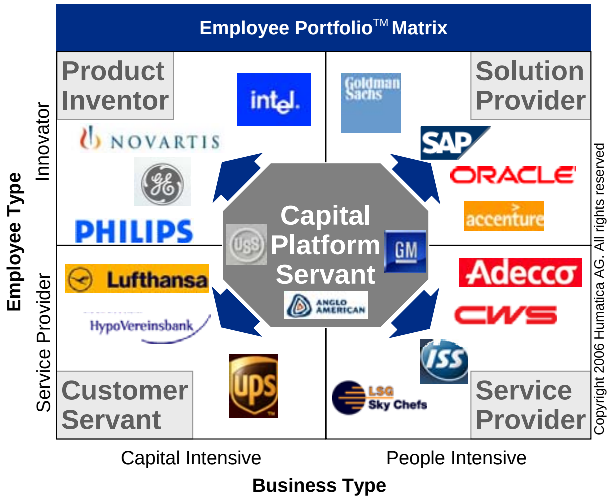
As companies in the develop countries adjust their human portfolios, the portion of workers involved in manual labor (Capital Platform Servants) will decrease, and the share of knowledge-based workers will increase.

The graphic below illustrates this point.



[1] Evalueserve is offering legal research service to law office clients in North America and Europe.

The portion of workers in goods producing industries in the US has shrunk from 40% in 1950 to only 17% in 2002. The same shift has taken place in the other industrialized economies, and has broad implications for HRM.
Humatica's framework for segmenting Employee Portfolios illustrates the shifts taking place:
Sharholder value, and number of employees are migrating away from managing a capital asset platform (factory, bank network, etc.), toward the ability of an organization to adapt, either



through innovation (in all forms) or by owning the customer relationship. Traditional HRM organizations and processes, designed to manage a manual labor workforce of "Capital Platform Servants", are not consistent with the requirements for leading employees in knowledge-intensive segments of the portfolio. Thus, the accelerated employee portfolio shifts in the last 10 years leaves traditional HRM organizations with an increasing list of daunting new requirements to fill.

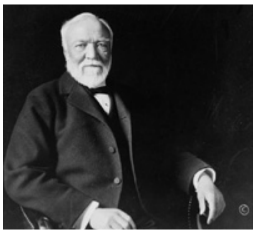
Managing Knowledge Organization Complexity

Managing human resources is very difficult. Humans are not as predictable as machines. However, when 60% of the workforce was on the assembly line, things were easier. The criteria for measuring performance were clear. And, collective bargaining arrangements for unionized workers defined how compensation was distributed. Salaries were fixed, and driven by a simple seniority principle. However, modern corporations in the industrialized countries have few workers who are still working with their hands. Most now have specialized knowledge and experience.

Drucker expressed the emerging complexity challenge: "when Frederick W. Taylor set out a century ago to make manual work productive, he assumed that there would be "one right way" to do specific operations which would fit the great majority of employees. But his assumption has proven wrong, especially for work requiring skill or knowledge".[2]

Knowledge workers work with their brains and rely on continuous development for their economic advancement and security. But, how should performance be objectively measured and incentivized in knowledge organizations? Variable compensation and the complexity of performance measurement, have made one of the fundamental responsibilities of HR departments – to objectively align compen-sation with employee performance – exceedingly difficult. The increased complexity of managing knowledge organizations is orders of magnitude higher than managing traditional industrial age workforces, and continues to overwhelm HR departments and management teams alike.

The Leadership Time-lag



Most of today's corporate leaders gained their formative work experience 20 years ago, at a time when optimizing the utilization of a capital asset platform was still the key driver of profit and business success. People, were dependent servants for the capital platform. And, they were managed and motivated accordingly. Short-term cost minimization, penalties and threats worked in this environment. And only a bear minimum of HRM support to control payroll and personnel accounting was needed.

However, value is now generated by creative people who are not dependent on the company. Nevertheless, the leadership values, norms and processes from the past are slow to change. And, they still drive manager's views on the role of HRM. Spending cash today, on a human asset which is not legally owned by the company and could walk out the door tomorrow, is a daunting cultural challenge for these managers. It therefore takes a visionary senior leader to connect the dots between incremental socio-economic changes with shareholder value, and make the leap to invest in the required HRM organization to compete for the future. Daniel Vasella CEO of Novartis is one such leader. According to Antoine Tirard, Head of HR at Novartis Animal Health, "Vasella knew that he had one chance to align the values and behaviors of Ciba Geigy and Sandoz when he merged them into Novartis, and he knew that HRM processes were a key tool to do this. It takes a visionary leader, the CEO, to drive this".

[2] Peter Drucker, Managing in Turbulent Times, Harper & Row Publishers, 1980

Middle Manager Power Play

Line managers often don't welcome an enhanced role for HRM since it is perceived to hinder their power and individual authority. And, they are right.

Power abuse, in all its many different and sometimes subtle forms, is both prevalent and corrosive in knowledge organizations. Line managers are often unprepared, overwhelmed and threatened by the combined pressure to perform and the complexity of today's human resource issues. The path of least resistance can be some form of power abuse - taking short-cuts with people to effect short-term changes.

Abuse might be immediately beneficial to an individual manager. And they will most likely even get away with it because human resource abuses are so hard to objectively identify. However power abuse almost always destroys a company's longer-term value by breaking trust within a group – the basis on which information exchange, sharing and leaderhip (adaptation) in knowledge organizations is built.

Power abuses can be prevented. In particular, HRM should be responsible for defining values, policies and employee processes (i.e. Human Algorithms™) and monitoring compliance, in order to insure that managers and employees do not abuse power with those they lead or their co-workers. In doing so, HRM must place values-driven boundaries on acceptable leadership behavior.

The threat of a strong and competent HRM to accomplish this is highest for middle managers, where abuse is the greatest. This is precisely why an increased role for HRM needs to be driven from the top, where insecurities about the role of the function are lowest.

Increased HRM Competency

Not only management needs to adapt to the new realities. Most HRM organizations are still locked in the grip of their past requirements. They find it difficult to break-out and prove their value to management. HRM has traditionally been viewed as a profession with little creative and career potential. In the days of managing manual labor forces, this was indeed the case. HRM organizations therefore failed to attract the most ambitious and creative people. As a senior HR leader in the US recently recalled "HR was the guy casually walking around, smoking a pipe and talking with employees."

However, changes in the basis of competition have put managing talent in the spotlight. And, the complexity of setting-up processes to do this effectively in practice requires some of the most able-minded and dynamic people in business today. In particular, the job demands HRM personnel who understand human business processes in sales, engineering, R&D, marketing and operations. Without this broader, deeper and networked understanding of the business, it is difficult to design and implement processes which align individual behavior with corporate objectives.

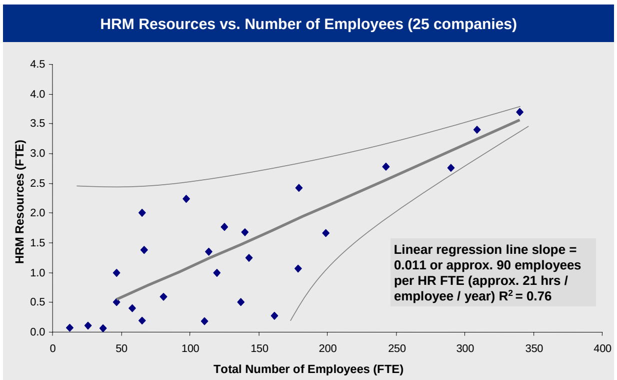
How Much HRM is Enough?

It is an important question and source of debate in many companies. Like Finance and Legal, HRM is an overhead function and is therefore considered a fixed cost without a clear activity driver. However, unlike these staff functions, there are few legal requirements defining a minimum staff level. On average companies have 1 HRM staff member per 80-100 employees. However, the average is misleading. The right answer depends on many factors, including the size, structure and type of organization being managed.

The HRM headcount comparison below is typical. It shows a broad range of different HRM resource levels for companies with between 50 and 150 employees, converging to the 1/100 average for larger firms.

The varying HRM resource levels for smaller firms are an indication of fundamentally different approaches taken with HR and the inherent difficulties of adequately covering small & medium-sized companies. The broad range of activities in HR, from strategic to administrative, make it difficult to fulfill all responsibilities with a single person, even if the level of resource is adequate

However, large companies with many thousands of employees face the same HRM staffing challenges when employees are geographically dispersed into small groups with less than 100 people. Which HRM responsibilities should be done locally, regionally and at corporate headquarters? These become the key questions whose answers determine appropriate staffing levels.



Generally, the more a firm relies on utilizing cumulative experience, innovation or direct customer interaction to drive revenues up and/or cost down, the more important standardized HRM process are. Knowledge-based organizations therefore require a higher HRM resource level to support the complexity of managing employee behavior in this environment.

A Vicious Cycle

Together, line management's traditional lack of appreciation for HRM, and the lack of required competencies and resources in the function form a self-reinforcing, vicious cycle. HRM does not receive the resources needed to break-out and prove its value, and line-management is falsely confirmed that the only appropriate role for HRM is purely administrative execution. Although this deadlock is understandable from the short-term and historical perspective of both HRM and line management, it is the wrong long-term, future equilibrium for the company. In order to break out, many organizations must start with a commitment to fresh new leadership at the top of the HRM function.

Lack of Tools and Methodologies

What you can't measure, you can't manage goes the saying. When the key corporate resource was a capital asset, utilization and productivity were easy to quantify. The denominator was not a moving target. It was fixed, determined by the capacity of the capital asset. However, when the key asset is knowledgeable people the denominator becomes fluid.

What is the capacity of a businessman, engineer or scientist? It depends on how skilled and motivated he or she is. And the difference between motivated and unmotivated productivity is NOT linear. It can easily be 100%, 1,000% or even 10,000% with a brilliant idea. Fredrick Taylor's stop-watch and time-card were appropriate tools to measure productivity in the factory. However they are not the right tools in the office. New approaches are needed to objectively measure and quantify individual performance in knowledge organizations. The lack of tools makes it difficult to pull the right levers to increase the performance of human resources, and therefore to build a justifiable business case for an enhanced HRM organization.

Mastering the HRM Gap

Overcoming the challenges will be difficult. However, the underlying factors driving the widening HRM Gap are at the same time a valuable business opportunity. As adaptation drives value growth, firms which embrace the new realities stand to gain a sustainable cultural and behavioral advantage over their competitors.

About the Author

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