HR Challenges and Solutions for SMEs

Winning the War for Talent Through Automation and Outsourcing

In association with:

Corporate Leaders

heliview
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In late 2010, ADP Employer Services (ES) International conducted a survey into the challenges HR executives in small- and medium-sized enterprises (SMEs) are facing among 2,642 HR professionals from 8 European countries, China and Australia. Originally the findings were intended to enhance ADP’s offerings, however, during the process we realized the uniqueness of the survey given the focus on companies with 50 to 2,500 employees.

Being a leading provider of outsourced HR services, we see it as valuable to share this knowledge and insights and have published this report. The survey and analysis have both been conducted independently by Heliview and CorporateLeaders ensuring neutrality and objectivity.

This report provides details into the challenges faced (talent management, cost saving and improving HR performance) and the solutions being deployed to overcome them. Defining what is the “right approach” to solve the challenges, whether this is through outsourcing, automation, delegation of tasks to line management and employees, engaging external consultants or adding HR staff, turns out to be as individual as the needs of the organization that the HR function serves.

From years of experience we know that transformation of HR takes time and it is critical to understand all the options available to decide which is right for you. Agreeing on what processes and activities to transform, keep in-house, reengineer, outsource and the way they are delivered will enable you to define what is expected from your future HR organization.

You might get inspired by the case studies in this report which provide intelligent ways two companies are transforming HR to deal with the war for talent, using new technology and leadership styles to recruit, develop and retain their key employees. In doing so, their HR executives prove their strategic importance to the company’s overall success.

We invite you to benchmark your HR practices against the findings presented here and hope that reading this report will bring you rewarding insights for your own HR journey. Any feedback from your own experiences would be greatly appreciated.

Enjoy your reading.

Mark Benjamin
President
ADP Employer Services International
The war for talent is all about trying to recruit the best people? A leading CEO once told me, "There is no such thing as having the best workforce. We’re all average. As a result, the aim must be that companies strive to get the most out of employees by arming them with the tools, training and confidence to achieve the goals”. If you want to win the war for talent then the focus should not only be on finding the best, but providing people with the ability to do uncommon things.

We have little control over how the broader labor and talent market will react and evolve. The labor market has its own rules and the only way to be successful is to adapt to the ever-changing market. To do that, one must build an agile organization that greets change as a rule, not as an exception, by having the systems and processes in place which provides flexibility and solves the talent challenges.

Talent is becoming more like software, a service. Soon we all might be talking about Talent As A Service (Taas) with tools such as LinkedIn becoming the market place for buyers and sellers of talent. Younger people are becoming less interested in a “career” and are more interested in developing their skill sets and providing their work essentially as a service in a way that enables them to follow their personal dreams. Organizations need to showcase success, inspire through exceptional management, tailor offerings to the individual, provide training and development, continually stimulate employees, and enable them to follow their dreams.

This report shows that HR executives in SMEs, just as their colleagues in larger organizations, will use automation, integration and outsourcing to enable flexibility and solve the talent management challenge. In doing so, resources and time will be freed up by HR to develop leaders, cultivate culture and influence the activities within their organization.

Talent is attracted to success and good leadership.

Andre Rampat
Director and Co-Founder
CorporateLeaders
The war for talent is still being fought – and it is as much a reality for small and medium-sized (SMEs) companies as for their larger counterparts.

This is the message to emerge from a new study of 2,642 HR professionals from organizations employing 50 to 2,500 people in eight European countries plus China and Australia.

Despite experiencing the deepest recession since the 1930s, the executives say they are finding it hard to recruit and retain the talent they need for key posts.

The research which was conducted by Heliview in 2010 and independently analyzed by CorporateLeaders on behalf of ADP ES International, shows that hiring qualified people and filling key positions is the most frequently mentioned problem in seven out of the 10 countries. The exceptions are the UK and China, where it is still among the top three issues most often cited, and Poland which is more concerned with the wage bill and labor laws. After this companies say their biggest challenges are retaining and developing their top talent and reducing/controlling HR costs.

HR executives in SMEs expect to tackle these issues in the same way as their large company counterparts: by automating administrative processes such as payroll, time and attendance management and core HR administration, and outsourcing HR functions like training and development, payroll, health and safety management and recruitment to have the time and the data available to become a valued strategic partner to the business. They are also considering delegating more HR work to the line and want to engage external consultants with specialist knowledge.

In searching for the best solutions, they stress the importance of integration between systems and services for different HR functions.

As HR executives, their concerns start and end with the search for talented people to give their organizations a key competitive edge. But along the way they need better information and slicker processes.

The research is unique in focusing on organizations from 10 countries with 50 to 2,500 employees, with the vast majority (around 70% in most countries) having fewer than 500. The organizations are divided 40:60 between country operations of multinationals and national companies although proportions vary across countries.

This report, “HR Challenges and Solutions for SMEs: Winning the war for talent through automation and outsourcing”, examines the results of the research and compares them with findings from other recent surveys. It also draws on views from experts within and outside ADP ES International and provides
case studies of good practice. The results and discussions are divided into two sections: first, the challenges faced by HR professionals and, secondly, the solutions they expect to deploy to meet these challenges.

Other surveys referred to include:

- The International Barometer of HR Response to the Economic Downturn, 2009 report by Assessment Circle Europe (ACE), chiefly covering Belgium, France, Germany, Italy, Portugal, The Netherlands, Slovenia, and the UK.

- Annual surveys by the Chartered Institute of Personnel and Development (CIPD) in the UK: The 2010 Resourcing and Talent Planning Survey (based on 2009 data) and the Recruitment, Retention and Turnover Survey 2009 (based on 2008 data).


- 10 Best Human Resources Practices, by ADP in the United States based on a Spring 2010 survey of 800 heads of HR, senior HR executives and other senior executives in the U.S., Canada, Western Europe, China and Australia.
HR executives in SMEs clearly experience similar challenges to their counterparts in large companies. By far the most prevalent is talent management, although they are also concerned about cost savings and performance of the HR function. HR executives also feel that they lack sufficient time to deal with these challenges.

**Challenges**

“Recruitment and retention of talent is critical to SMEs.”

**Talent Management**

The HR professionals surveyed were asked to list the most important challenges, issues or problems they currently face (see graph 1). Overall, 33% mention “hiring qualified people/difficulties filling key employee positions”, 27% “problems retaining qualified people” and 24% “developing managers and employees with high potential.”

Hiring and retention were not only mentioned more frequently but also placed at the top of the list of priorities by 11% and 10% of respondents respectively, ahead of other concerns.

Downsizing is the least mentioned, with only 10% overall recognizing this as a challenge, along with “managing globalization”. The latter is not surprising given the preponderance of national companies.

There are some interesting variations between countries in their priorities. It is clear that hiring talent is of particular concern to the smallest companies (see graph 2). The UK and Poland stand out in Europe as having slightly different concerns. Poland’s big issues are around controlling the wage bill and dealing with employment law which is to be expected in an economy emerging from a highly regulated past with fast-improving living standards. The UK’s concern with cost savings in HR and controlling the wage bill is perhaps a result of recessionary effects lingering rather longer there than in its continental counterparts.

The interests of HR professionals in Europe are mirrored in Australia with the same anxiety over talent shortages. Hiring qualified and experienced people comes well ahead of other concerns in Australian HR professionals’ list of priorities with 41% citing it compared with 33% who mention developing high potential staff, the second most common problem. Retention of qualified people ranks third (31%), with creating a performance-driven culture a close runner-up.

Transforming HR comes right down the list with 14% ticking that box, while only 6% think downsizing is an issue, perhaps reflecting the fact that the Australian economy proved more resilient than others in recent years.
Talent management concerns even surface in China although retention is a bigger issue than recruitment there (see China Panel on page 27).

Overall, the survey shows that talent management issues top the agenda nearly everywhere despite the fact that most companies were by last autumn only starting to emerge from the economic downturn.

Graph 1. Important challenges, issues or problems

- Hiring qualified people/difficulties filling key-employee positions (11%)
- Problems retaining qualified people (10%)
- Developing managers and employees with high potential (7%)
- Control total wage bill (total payroll costs) (7%)
- Improve labour conditions (7%)
- Cost savings in HR (11%)
- Creating a performance driven culture (6%)
- Meeting development needs of workers (6%)
- Managing work-life balance (5%)
- Apply/dealing with (new) laws/regulations/legal obligations (6%)
- Managing change and cultural transformation (4%)
- Gaps in leadership pipeline/improving leadership development (4%)
- Managing demographics: impending retirement of key workers (5%)
- Transforming HR into a strategic partner (4%)
- Managing globalization (3%)
- Downsizing our workforce (3%)

Note: the percentage between brackets refers to the first mentioned challenge, issue or problem
Sample: All companies (n=2,642)
### Graph 2. Challenges by company size

<table>
<thead>
<tr>
<th>Challenge</th>
<th>&lt;500 employees</th>
<th>500-999 employees</th>
<th>1,000-2,499 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiring qualified people/difficulties filling key-employee positions</td>
<td>33%</td>
<td>29%</td>
<td>36%</td>
</tr>
<tr>
<td>Problems retaining qualified people</td>
<td>26%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Developing managers and employees with high potential</td>
<td>22%</td>
<td>25%</td>
<td>28%</td>
</tr>
<tr>
<td>Improve labour conditions</td>
<td>21%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Control total wage bill [total payroll costs]</td>
<td>23%</td>
<td>19%</td>
<td>26%</td>
</tr>
<tr>
<td>Cost savings in HR</td>
<td>21%</td>
<td>26%</td>
<td>21%</td>
</tr>
<tr>
<td>Meeting development needs of workers</td>
<td>20%</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>Creating a performance driven culture</td>
<td>21%</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>Managing work-life balance</td>
<td>17%</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Apply/dealing with [new] laws/regulations/legal obligations</td>
<td>16%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Gaps in leadership pipeline/improving leadership development</td>
<td>13%</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Managing change and cultural transformation</td>
<td>15%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Managing demographics: impending retirement of key workers</td>
<td>13%</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Transforming HR into a strategic partner</td>
<td>13%</td>
<td>17%</td>
<td>15%</td>
</tr>
<tr>
<td>Managing globalization</td>
<td>10%</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>Downsizing our workforce</td>
<td>9%</td>
<td>9%</td>
<td>12%</td>
</tr>
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</table>

Sample: All companies (n = 2,642)
Top Talent Still Remains Elusive

“At a time when many European countries are putting record numbers through higher education, why is the talent war still raging?”

The most puzzling aspect of the report is this over-riding concern about recruitment and retention of experienced and qualified people at this point in the economic cycle.

Graph 3. Recruitment challenge by country

- Switzerland: 45%
- Australia: 41%
- Poland: 40%
- Germany: 35%
- France: 34%
- Average: 33%
- Italy: 31%
- China: 29%
- United Kingdom: 24%
- Spain: 24%
- The Netherlands: 22%

- % of HR executives with challenges in hiring qualified people/difficulties filling key-employee positions

Sample: All companies (n = 2,642)
It might have been expected that the downsizing which has been going on in the private sector since 2008 would have placed a number of experienced and qualified people on to the jobs market, eagerly waiting to be re-employed. This clearly has not happened. Even in Spain, seen as one of the countries hardest hit by economic downturn (among those covered by our research), respondents mention recruiting talent more than any other problem.

This is not the only survey to have uncovered such a finding. The ACE-report, found that 60% of the 559 respondents, mostly from eight European countries, were maintaining or increasing their HR budgets during this recession, unlike in previous ones. Most people they surveyed agreed it was “still hard to recruit for some posts”.

The CIPD’s annual reports on recruitment in the UK in 2009 and 2010 encountered the same concerns. Its 2010 report, based on data collected the previous year in the midst of the downturn, said:

“Despite the reduction in recruitment activity and the burgeoning labour market, two-thirds (68%) of organizations experienced recruitment difficulties.” While this proportion was lower than the previous year, the main reason was still said to be a lack of necessary specialist skills (67% citing this compared with 73% the previous year). “Managers and professionals and technical positions were the most difficult vacancies to fill,” the report added.

Why should this be? In the midst of downturn and at a time when many European countries are putting record numbers through higher education, why is the talent war still raging?

### Aging Workforce

Some commentators believe the graying of the workforce is a significant factor. As knowledgeable and experienced baby-boomers retire, there are too few younger people to take their place.

However, the companies in our research see “managing demographics” as less of a challenge than recruitment, which suggests they do not recognize the link between talent shortages and the graying workforce as such. The exception to this is Germany, where 21% of companies say they have an issue with the “impending retirement of key workers.”
Knowledge Economy

Alongside the aging workforce, analysts point out that the growth of the knowledge-based economy has been the main differentiator between this downturn and earlier periods of economic stagnation.

Trevor Townsend, Operations Director of the HR services division from ADP UK, argues that the move from manufacturing to knowledge-based industries has been the major factor in creating the talent war, although he agrees that the aging workforce is also a problem. He advises a wide variety of companies on HR systems and services and draws on his experience of their differing needs: “If you are hiring a software developer, or pharmaceutical researcher or chartered accountant, they will all have the same qualifications. But their experiences and exposure may be vastly different. It’s not always the case that everyone with the same qualifications brings the same benefits.

In utility businesses, they put a man in a van and their big issue is recording his time spent working. They may have 2,500 to 3,000 employees and contract staff. So although they are a large business, their recruitment needs may be very basic. They will want to know: has the person been adequately trained, delivers on time and doesn’t run anyone over?

But a small pharmaceutical company of 350 to 500 people could find that one particularly talented individual could achieve a leap forward in research and make a major impact on profits.”

Townsend also points out that, although the labor market expands during a recession, companies often hang on to their most valued talent and let go of the people they deem to be less productive. So the availability of the most innovative knowledge workers does not necessarily match the rise and fall of the jobless count.

Finally, he thinks that labor laws can have an impact, which might explain the country differences, with the UK apparently less concerned about recruiting talent than its neighbors: “The labor market is less rigid in the UK. In some countries it takes more time to take people on and to lay them off, especially in France and The Netherlands,” he says.
Graph 4. Challenges by country

Hiring qualified people/difficulties filling key-employee positions

Problems retaining qualified people

Control total wage bill (total payroll costs)

Developing managers and employees with high potential

Improve labour conditions

Cost savings in HR

Meeting development needs of workers

Creating a performance driven culture

Apply/dealing with inewl laws/regulations/legal obligations

Managing work-life balance

Managing change and cultural transformation

Transforming HR into a strategic partner

Gaps in leadership pipeline/improving leadership development

Managing demographics: impending retirement of key workers

Downsizing our workforce

Managing globalization

Sample: All companies (n= 2,642)
Changing Expectations

The Boston Consulting Group (BCG) report flags up the increasing complexity of business which fits Townsend’s point that changes in the nature of business are mainly causing the talent shortage. But BCG also stresses the changing expectations of employees.

Many companies do now recognize, after many years of persuasion by HR professionals, that people are their most important asset. But at the same time a new generation of high potential young people is looking for a rewarding lifestyle rather than a long-term career in one organization. They can no longer be relied upon to stay and travel up through the ranks.

Our research shows that “Managing work-life balance” is a challenge for 18% of all companies. Larger companies (1,000-2,500 employees) have more of an issue with this (21%) than smaller (<500 employees) companies (17%).

As Thomas Mulder, HR director of Accenture in The Netherlands, puts it: “They follow their dream.” Accenture has put enough energy and innovation into recruiting knowledgeable and experienced people (see panel on its use of LinkedIn on page 31) to have avoided a talent drought. But Mulder does see the retention of young people as a challenge.

“Nowadays we need to tailor our offer more around the individual. Younger people are not coming here for a career. It’s more about building your own talents and using them somewhere. If people are offered a great career but not doing the role in line with their dream, they are more likely to switch jobs, even if there is a far smaller salary at their new job. That’s a change we are still grappling with.”

“A new generation of high potential young people is looking for a rewarding lifestyle rather than a long-term career.”
Holding on to Your Talent

“Retention is the second most important challenge among HR executives.”

Retention is the second most important challenge among HR executives interviewed (27%). Retaining employees is just as much an issue for smaller organizations (26%) as for larger ones (>500 employees, 28%). Spain and Italy are the exceptions, with retention only ranking 4th (Spain) and 9th (Italy) in their list of most important challenges.

Graph 5. Retention challenge by country

- China: 36%
- Switzerland: 34%
- Australia: 32%
- France: 31%
- Poland: 31%
- Germany: 29%
- Average: 27%
- United Kingdom: 21%
- Spain: 19%
- The Netherlands: 18%
- Italy: 18%

% of HR executives with problems retaining qualified people

Sample: All companies (n = 2,842)
How have HR executives been responding to the challenge of talent shortages and higher than expected turnover among younger people?

A criticism which is occasionally leveled at HR is that the talent war is all about trying to recruit “perfect people” rather than being prepared to develop people to become productive and innovative and give them the experiences they need in order to grow in the job.

This was the point made by Rosabeth Moss Kanter, a Harvard management professor, at a CIPD conference in 2005. She pressed HR professionals to do more to develop their whole workforce.

Her view is echoed by Euan Davis, Director of Research for HfS Research. “I wonder if the concern about recruitment and retention of qualified people is partly due to companies being too unwilling to invest in training and development of their own employees and expecting a kind of ready-made talent pool which they could dip into and fish people out.” In particular, he questions whether the short-termism of investors is not infecting HR and producing a lack of long-term workforce planning.

Euan Davis and Moss Kanter have a point. But there is evidence in the research that many smaller companies are taking training and development seriously. Developing managers and employees is the third most important challenge companies are facing (overall: 24%). This issue is slightly more important for larger companies (28%) than for smaller ones (<500 employees, 22%).

In a response to this challenge, there is a growth in the adoption of competency management. Eighty per cent of the businesses in our survey have established competency management. Forty four per cent apply this to the whole workforce, while 36% cater for specific groups of employees. And 70% or more want to introduce or extend the use of competency models and job profiles for leadership development, performance management, including identifying high potentials, and recruitment.
Bearing in mind the size of these organizations, it is a healthy approach to tackling problems, which are high on their list of priorities: developing managers and employees with high potential.

This is backed up by data from the CIPD’s 2009 recruitment report which commented that appointing people with potential was the most popular way of tackling recruitment problems – and the most effective recruitment initiative was deemed to be providing extra training to allow internal staff to fill posts.

An excellent example of this strategy in action comes from Arcadis, an international civil engineering and design company. Typical of the knowledge-based organization cited by Trevor Townsend (ADP UK), Arcadis has squared up to the talent shortage by creating an attractive place to work and developing its own management cadre. (See case study on page 20).

**Graph 6. Use of competency models**

![Graph showing the use of competency models in HR function](image)

- **Leadership development**
- **Performance Management**
- **Recruitment**

- % of HR executives that want to introduce or further extend the use of competency models and job profiles for HR function

*Sample: All companies (n=2,642)*
Arcadis, the international civil engineering and design company, believes in developing its own talent. Ninety per cent of the managers in its Dutch offices are home-grown.

Key to its philosophy is the creation of inspiring leaders who will produce business results but also engage their teams and motivate people to stay with the company. Despite the recession, Arcadis has mounted a major program of leadership development with one eye on talent retention.

Marcel Stultiens, director of HRM in The Netherlands, says: “We believe in growing our own talent in this company.”

“We have invested time and money on making leaders understand the importance of their role. We tell our leaders: you have to inspire people, give them feedback and pay them attention.”

Arcadis also ensures that those who don’t want to be managers can earn as much on a professional career path: “You can become a specialist or a manager and earn the same amount. And people can switch career paths. We feel that is very important for a professional organization,” Stultiens explains.

To make working life even more attractive, the company has a highly flexible workplace. Stultiens says no obstacles are placed in front of people wanting to go part-time. Even one of the board-level executive directors works four days a week. All of the 2,500 employees in The Netherlands can work from home or from any of the 10 offices around the country.

While Stultiens acknowledges that talent shortages are real – largely due to the dwindling numbers of younger people coming into the job market – the issue is not top of his list of priorities. It is reasonable to say this is at least partly because of the attractive working environment Arcadis has created.
Time Pressures Stack Up

In tackling these talent management challenges, more than half of HR executives experience time pressures. Asked if they had enough people, knowledge and time in the HR department to deal with the challenges raised, most seem to find “time” the biggest barrier. Three-quarters of the companies state that they have enough knowledge and people. But only 54% have enough time.

**Graph 7. Enough people, knowledge and time?**

![Graph showing percentage of companies with enough people, knowledge, and time](image)

Sample: Companies which mention one or more issues (n=2,534)

This difference is marked in all sizes of company and across all European countries, although executives in Australia and particularly China are more modest about having enough knowledge in their function. Also, China’s biggest gap is in staffing. A number of other differences between China and the European countries are presented in the China panel on page 27.
Metrics – The Key to Influencing Strategy

Looking at the challenges again it is surprising to see the relatively low score for transforming HR into a strategic partner. However, this could be explained by the fact that the vast majority of the companies in our survey already have HR components in their corporate strategic plan [80% on average across countries and segments].

And for the majority of companies where HR is part of the overall corporate strategy, measuring and evaluating key performance indicators (KPIs) becomes more important: 72% as opposed to 57% of companies without HR components integrated in the plan.

Graph 8. Importance of KPIs

<table>
<thead>
<tr>
<th>Country</th>
<th>% of HR executives for which measurement and evaluation of HR performance is (very) important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>84%</td>
</tr>
<tr>
<td>China</td>
<td>80%</td>
</tr>
<tr>
<td>Italy</td>
<td>78%</td>
</tr>
<tr>
<td>Spain</td>
<td>72%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>70%</td>
</tr>
<tr>
<td>Average</td>
<td>69%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>69%</td>
</tr>
<tr>
<td>Germany</td>
<td>63%</td>
</tr>
<tr>
<td>France</td>
<td>61%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>59%</td>
</tr>
<tr>
<td>Australia</td>
<td>55%</td>
</tr>
</tbody>
</table>

Overall, 67% of HR professionals state that the measurement and evaluation of HR performance information is important or very important compared with 18% that think it is unimportant. About two-thirds appear to be satisfied with current measurement processes. When comparing the overall results of the different countries, there is a relation between the importance of tracking and evaluating KPIs and satisfaction: the higher the
importance, the less satisfied companies are with the way they currently measure HR performance.

**Graph 9. Measuring HR performance**

![Graph showing the relationship between the importance of measurement and evaluation and the satisfaction of HR executives.](image)

- % of HR executives for which measurement and evaluation of HR performance is [very] important.
  
  *Sample: All companies (n=2,642)*

- % of HR executives that are [very] satisfied with their current way of tracking and evaluating HR performance.
  
  *Sample: Companies which think measurement and evaluation is [very] important, (n=1,733)*

The companies in our survey are moving to a greater understanding of the importance of better workforce data. This enables HR to tackle the challenge of talent management and make a more strategic contribution to business decision-making.

The importance of the link between HR and the business is also underlined in recent global research undertaken by ADP®. The survey of 800 heads of HR, senior HR executives and other senior executives in the US, Canada, Western Europe, China and Australia, concluded that organizations where HR plays an active role in the business and those where HR is a component of the strategic plan enjoy 15% higher levels of satisfaction with the HR function.

Our survey responses on metrics also show that where HR is closer to business strategy, the importance of metrics is clearer. And the deeper into the process of measurement a company goes, the more it appreciates the significance of metrics and the more detail and depth it demands.
“Automation is the most popular solution to the talent management challenge.”

Solutions

More People, More Knowledge

So how do HR professionals feel they should respond to the challenges facing them? All of the actions they favor contribute to saving time and bringing in knowledge so that HR executives can move HR to a higher plane in terms of its contribution to the corporate strategy.

Graph 10. Overcoming the HR challenges

- Automate one or more existing HR processes: 40%
- Delegate more HR tasks to managers and/or employees: 33%
- Engage external consultants: 30%
- Hire more HR people permanently: 29%
- Outsource one or more existing processes: 25%
- Hire more people temporarily: 23%

% of HR executives considering the activity as a solution to their challenges

Sample: All companies (n= 2,642)

Out of the six actions presented to manage the HR challenges in the next 1-2 years, automation of one or more existing processes was the highest ranked, with 40% of HR executives choosing that option (see graph 10).

Graph 10 also shows that the second and third most popular solutions to current challenges are about moving some of the work outside the internal HR function: 33% opting to delegate more HR work to the line and 30% wanting to engage external consultants with specialist knowledge. Nearly as many (29%) want to hire more permanent HR staff – unlikely to be an option for many companies at this stage in the economic cycle – 25% to outsource and 23% to hire more temporary HR staff.
There are some interesting country differences within these figures. For instance, the UK put hiring more permanent HR staff as number two on its list, while The Netherlands had delegation at number one, automation second (34%) and hiring more HR people near the bottom (14%).

Germany also had hiring more HR people at number two, while Spain had it at number six. Possibly these differences may reflect national trends in downsizing HR departments over the last few years.
Focus on China

China, as might be expected, differs in some respects from the eight European countries in the study.

Talent management is still the number one issue, but there is slightly less anxiety about recruiting qualified and experienced people. The key concern among most HR directors seems to be retaining and developing them.

The most commonly mentioned problem is developing high potentials, which 37% are worried about, nearly matched by the 36% who opt for retaining qualified people. Next comes creating a performance culture, mentioned by 32%, followed by HR cost savings (30%) and hiring experienced and qualified people (29%).

There are some interesting differences between the small firms or subsidiaries with a workforce of less than 500, whose responses are in line with the overall results outlined above, and those managing medium to larger companies. Among those employing between 500 and 1,000 people, saving costs in HR becomes more of a priority, replacing concerns about a performance driven culture while retention is the biggest challenge mentioned by 46%. But in organizations with more than 1,000 employees, retention disappears from the top three concerns, HR costs remain a priority and controlling the wage bill climbs up to number three.

One-third of the multinationals taking part in the survey (which represented 37% of the total), were American-owned and only 36% headquartered in China compared with a greater tendency in other countries for global corporations to be based in the home state.

In the light of the American influence, perhaps it isn’t surprising that 67% plan to outsource some aspect of HR in the next year or two: a great deal more than in Europe. 38% already do outsource which is slightly higher than most European countries.

There is one other noticeable difference with Europe: most HR departments in all countries say they have enough people and knowledge within the function to deal with the challenges they are facing, but they often lack the time to do what they want to do. China more often deals with a shortage of people and knowledge as well.

A picture emerges of a country with more manufacturing industry than in Western Europe. As the move to a knowledge-based economy is less advanced, so the search for qualified and experienced people is less pronounced, although for those running the factories and workshops, rapid growth is leading to more competition for labor and escalating wages. Meanwhile, it appears the smaller suppliers and service sector firms are desperate to hang on to the qualified people they have and further develop them to move their businesses up the skills/knowledge spectrum.

One final point: it’s interesting to note that only 14% of HR executives in China mentioned legislation as being a worry compared with 46% in Poland, perhaps reflecting the less developed employment regulatory environment.
Automation & Integration

Automation is the most frequently mentioned solution to challenges. Clearly, while this is linked to time-saving, it must also reflect the need often expressed by HR directors to improve workforce data in order to take a more strategic role in the business.

Current Practice

It is worth noting that the levels of automation the companies in our research have at present is perhaps lower than one might expect, given around two decades of fast developing software designed for the HR market. Asked how much of various activities were delivered at least partly manually (meaning using paper and general purpose software such as Excel), more than half the respondents listed most HR processes [see graph 11].

The most automated HR functions are payroll, time and attendance management and core HR administration. In other words, the most time-consuming administrative HR tasks are first to be automated.

Graph 11. How HR functions are performed

Sample: Companies which currently perform one or more functions (n = 1,946)
The functions most likely to be automated in the next 1-2 years are performance management, recruitment and training & development. These are not surprisingly also the most important challenges in HR.

The Accenture case study provides an example of how an automated job referral tool with LinkedIn is being deployed to ensure that Accenture maintains their talent pipeline. (See case study on page 31).

The research also shows that HR executives see further opportunities for improving and saving time by even more automation of payroll and time and attendance management processes, although they are already the least manually performed functions.
As Suzanne Broekhof, Marketing Projects Director for ADP ES International, explains: “This strong intention to automate more of the HR functions combined with the almost equally popular choice to delegate more HR processes (33%) confirms that companies are looking for HR solutions that allow managers and employees to perform part of the administrative HR functions.”

Graph 13. Automation Plans

<table>
<thead>
<tr>
<th>Function</th>
<th>% Currently Automating</th>
<th>% Would Like More Automation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll (administration)</td>
<td>64%</td>
<td>30%</td>
</tr>
<tr>
<td>Time &amp; Attendance Management</td>
<td>59%</td>
<td>32%</td>
</tr>
<tr>
<td>Core Human Resources Administration</td>
<td>55%</td>
<td>27%</td>
</tr>
<tr>
<td>Performance Management</td>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>Compensation Management</td>
<td>49%</td>
<td>23%</td>
</tr>
<tr>
<td>Employee Training &amp; Development</td>
<td>33%</td>
<td>34%</td>
</tr>
<tr>
<td>Recruitment</td>
<td>30%</td>
<td>33%</td>
</tr>
<tr>
<td>Succession Planning / Organization Development</td>
<td>36%</td>
<td>23%</td>
</tr>
<tr>
<td>Health and Safety Management</td>
<td>35%</td>
<td>20%</td>
</tr>
</tbody>
</table>

- % of HR executives currently automating [part of] the function
- % of HR executives that would like more automation of [part of] the function

Sample: Companies which currently perform one or more functions (n = 1,946)

“The intention to delegate HR processes to the workforce is slightly less common among larger companies (>1,000 employees) than with smaller ones, which can be explained by their already higher level of automation and adoption of ESS/MSS-technology.”
Accenture Case Study

Search Automation and LinkedIn to Win the War for Talent

A novel use of new technology to tackle the talent war has been developed by Accenture with LinkedIn.

Thomas Mulder, HR director for Accenture in The Netherlands, says that recruiting experienced people has become harder and more complicated than hiring graduates. To overcome this, the global consultancy had already set up a referral scheme under which a member of staff got a bonus if a person they referred for a new job got to the interview stage and another bonus if they got the job.

Accenture worldwide has now teamed up with LinkedIn to extend the referral program. Staff who use LinkedIn, with an Accenture email address, get sent names of any of their LinkedIn contacts who might fit the profile of a current job vacancy at Accenture, to encourage the employee to think about recommending those people.

This works by using the latest word-matching software. LinkedIn is fed the details of posts Accenture wants to fill and the software then matches key words in the job description to key words in contacts’ details. The scheme, known as the LinkedIn Referral Engine was launched by Accenture and LinkedIn in March 2011.

The engine sends periodic emails with referral suggestions to an employee’s inbox and enables people to see potential matches on their LinkedIn homepage, evaluate the suggestions, decide whom to refer and then complete the referral process on the Employee Referral Program homepage.

Mulder says that 33% of new hires are now referrals from colleagues. And these recruits tend to stay with Accenture the longest. So the scheme tackles one of the company’s biggest problems – not just the recruitment of well qualified, experienced staff, but the retention of younger people.

In connection with the push towards automation, it is clear from the research that integration of HR tools and technology is hugely important for executives. Asked what is most important when selecting a new HR system or service, integration was the most common motive, chosen by more than 40% of respondents. Flexibility in using the system and service provided ranked second.

The need to integrate HR with the business which was noted earlier in this report is paralleled by the need to integrate HR tools. Integration of systems designed for specific HR functions supports the search for more sophisticated workforce statistics and a greater understanding of the fluctuations in employee morale, leading to higher levels of staff engagement and improved retention and productivity.
HR Outsourcing

The survey shows that there is an increased demand for HR outsourcing.

Current State of HRO

Overall an average of 10% of the companies in our survey outsource one or more HR processes to an external service provider.

The functions most commonly outsourced are training and development, with 17% saying they outsource (part of) this function, payroll and health and safety management (both 14%) and recruitment (13%). Again, country differences are interesting, with only eight per cent in Switzerland and four per cent in Germany outsourcing recruitment compared with 22% in Italy. The top training outsourcer is Poland at 29% followed by Italy at 26%. However, in France, only 11% outsource training.

The biggest users of payroll outsourcing (which includes outsourcing to accountants) are Spain and Italy and the smallest in Europe are France, Switzerland, the UK and Poland.
### Graph 14. Outsourcing by function and country

#### Sample: Companies which currently perform one or more functions (n=1,946)

<table>
<thead>
<tr>
<th>Function</th>
<th>Australia</th>
<th>China</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Poland</th>
<th>Spain</th>
<th>Switzerland</th>
<th>The Netherlands</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Training &amp; Development</td>
<td>14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and Safety Management</td>
<td>13%</td>
<td>19%</td>
<td>6%</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Administration</td>
<td>10%</td>
<td>7%</td>
<td>6%</td>
<td>17%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruitment</td>
<td>15%</td>
<td></td>
<td>23%</td>
<td>9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation Management</td>
<td>10%</td>
<td>4%</td>
<td>5%</td>
<td>16%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Human Resources Administration</td>
<td>6%</td>
<td>5%</td>
<td>11%</td>
<td>7%</td>
<td></td>
<td>11%</td>
<td>5%</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time &amp; Attendance Management</td>
<td>6%</td>
<td>13%</td>
<td>5%</td>
<td>9%</td>
<td></td>
<td>7%</td>
<td>6%</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Succession Planning / Organization Development</td>
<td>6%</td>
<td>8%</td>
<td>6%</td>
<td>7%</td>
<td>12%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Performance Management</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
<td>2%</td>
<td>5%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Our research reveals that on average a company outsources between two and three HR processes. This indicates that HR outsourcing is a strategic choice for companies. Once they commit to it, they outsource more than one process.

**Graph 15. Functions outsourced by company**

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Number of Functions Outsourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>3.03</td>
</tr>
<tr>
<td>Poland</td>
<td>2.95</td>
</tr>
<tr>
<td>Spain</td>
<td>2.83</td>
</tr>
<tr>
<td>Australia</td>
<td>2.78</td>
</tr>
<tr>
<td>Average</td>
<td>2.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.48</td>
</tr>
<tr>
<td>China</td>
<td>2.43</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>2.24</td>
</tr>
<tr>
<td>France</td>
<td>2.23</td>
</tr>
<tr>
<td>Germany</td>
<td>2.10</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2.02</td>
</tr>
</tbody>
</table>

*Average number of functions that companies outsource
Sample: Companies which currently outsource [part of] one or more functions (n = 953)*
Popularity of HRO to Continue

The data shows there is a large number wanting to expand outsourcing (part of) the HR function.

Again, there are clear differences between countries. In the UK, 33% see outsourcing one or more HR functions as a solution to the challenges they are facing, 26% in Spain and Italy, but only 10% in Switzerland, making it the European country least interested in HR outsourcing. In other European countries, around one-fifth to one-quarter think it will work for them, while in China, 38% see it as a solution.

**Graph 16. Plan to outsource one or more function**

<table>
<thead>
<tr>
<th>Country</th>
<th>% of HR executives considering outsourcing as a solution to their challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>38%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>33%</td>
</tr>
<tr>
<td>Italy</td>
<td>26%</td>
</tr>
<tr>
<td>Spain</td>
<td>26%</td>
</tr>
<tr>
<td>Germany</td>
<td>25%</td>
</tr>
<tr>
<td>Average</td>
<td>25%</td>
</tr>
<tr>
<td>Australia</td>
<td>24%</td>
</tr>
<tr>
<td>France</td>
<td>23%</td>
</tr>
<tr>
<td>Poland</td>
<td>22%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>17%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Sample: All companies (n = 2,642)*
As most HR directors of European SMEs do not use outsourcing, what are their plans for the future? Two out of five non-outsourcing companies say they are likely to outsource one or more functions in the next one to two years. Even in the rather unenthusiastic Switzerland, 13% want to adopt HR outsourcing. Those most likely to outsource are from Spain, the UK, France and Poland. China can also be added to this list.

**Graph 17. Current and future HR outsourcing**

- **Recruitment**: 13% currently outsourcing, 41% would like to outsource
- **Employee Training & Development**: 17% currently outsourcing, 34% would like to outsource
- **Payroll (administration)**: 14% currently outsourcing, 29% would like to outsource
- **Performance Management**: 5% currently outsourcing, 31% would like to outsource
- **Health and Safety Management**: 14% currently outsourcing, 20% would like to outsource
- **Compensation Management**: 8% currently outsourcing, 25% would like to outsource
- **Succession Planning / Organization Development**: 6% currently outsourcing, 26% would like to outsource
- **Core Human Resources Administration**: 7% currently outsourcing, 24% would like to outsource
- **Time & Attendance Management**: 6% currently outsourcing, 19% would like to outsource

- % of HR executives currently outsourcing [part of] the function*
- % of HR executives that would like to outsource [part of] the function**

* Sample: Companies which currently perform one or more functions (n=1,946)
** Sample: Companies that would like to outsource more [part of] functions (n=754)
In the future companies are most likely to outsource recruitment, followed by employee training and development, performance management and payroll. Except for payroll, these are yet again the issues which are most challenging for HR [see graph 17].

One-third of companies that already outsource plan to contract out even more in the near future although 20% say they will reduce the number of functions currently outsourced.

Of the two non-European countries covered by the survey, Australia tends to line up with Europe to a much greater extent than China. In Australia 24% see outsourcing as a solution, although 40% expect to contract out more in the next couple of years. In China however, 67% plan to outsource some aspect of HR in the next year or two and 38% already do.

This group of enthusiastic, existing outsourcers considers the main advantages of contracting out to be cost savings, improving the quality of the process, more flexibility, less worries, a greater focus on the core business, benefiting from specialized knowledge and, last but not least, saving time. All of these advantages were noted by at least 30% of the companies.

The renewed interest in HR outsourcing is a new development in the light of a history of slow growth outside of the US. But HRO analyst Phil Fersht, chief executive and head of research for HfS Research, believes it is predictable. “Most firms have already trimmed down HR as much as they can and the only ways to find new productivity improvements are through process transformation and deploying new HR IT and payroll systems,” he says.

“As a result, I would argue that we may start to see more HRO potential among some European businesses than US businesses in the coming couple of years. The main areas where companies can gain immediate efficiencies are through moving to a single provider and having lower-cost managed services support for employee care and payroll provision.”

The market across Europe for outsourced HR is more untapped than that of the US. Moreover, European companies can benefit from high quality pan-European HR solutions now on offer.
Conclusion

The picture emerging from the research is one of European SMEs understanding the need to move HR on to a higher plane in terms of its contribution to the organization’s overall strategy and searching for ways of doing this through talent management supported by improvements to the way they gather and analyze workforce information.

The competition for experienced and knowledgeable employees has remained key throughout the recession and is likely to intensify as the economy improves. Smaller organizations are aware of this challenge and the fact that a more strategic approach to HR can help to meet it, for example, by appointing “HR business partners” to work closely with business managers to provide advice in specialist areas such as recruitment and retention, as their larger company counterparts do.

SMEs historically have a harder battle for talent due to their size and more limited HR resources. As a result, the more agile their core HR processes and systems are, the more time and resources can be freed to deal with the main challenges. They may be later on to the scene in terms of automation and outsourcing, but many are starting to increase investment in these solutions as part of their development of the HR function into a true strategic partner. Their size, allowing for more flexibility, and the availability of new and, by now, proven and integrated technology might even work to the advantage of SMEs, with the new generation of employees looking for a rewarding lifestyle rather than a long-term career in an organization.

In our two non-European countries covered in the survey, a similar pattern emerges, although China forms much more of a contrast than Australia. These differences appear to be rooted in the two countries’ economic background: both have been less affected by recent economic problems than Europe. But while Australian management approaches are more European, China is more influenced by American practice and Chinese HR professionals in SMEs more often deal with a shortage of people and knowledge. This could be due to high labor arbitrage in its manufacturing based economy with people easily changing jobs for better paid ones.

Overall, the recession has clearly had an effect on HR practice, but not in the way we might have expected. Rather, it appears to have thrown some of the HR executives’ concerns into sharp focus and given added urgency to their desire to work at a more strategic level and more closely with the business.
Research Methodology

2,642 interviews (749 telephone and 1,893 online interviews) were completed by executives who have a reasonable understanding of (or are involved with) the company’s HR strategy/policy from organizations with 50 up to 2,500 employees in: Australia, China, France, Germany, Italy, Poland, Spain, Switzerland, The Netherlands and the United Kingdom using a combination of telephone and web interviews in the late summer of 2010.

Job Level

- Entry Level: 7%
- Middle Management: 52%
- Upper Management: 41%

Decision Making

- [one of] final decision - makers: 57%
- Involved: 43%

The research was conducted by Heliview Research an independent full-service market research company specialized in ICT, HR and Finance & Mobility research on behalf of ADP ES International.
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