

2007 HR Trends Report: People to Profitability



Abstract:

The executive opinion of HR has changed. It is no longer seen only as a people-oriented, back-office business process; instead, executives see it as a potential source for developing a competitive advantage and increasing revenue on their overall path to profitability. The aspect of HR most closely linked to the bottom line, and thus most interesting to executives, is strategic HR.

The report will show findings for the following key areas:

1. Top executive concerns for 2007
2. HR's potential effects on a company's competitive positioning
3. Strategic HR

The trends and initiatives discussed herein are supported by the "HR Trends 2007" survey, which received responses from more than 500 executives of small and medium-sized companies in the first quarter of 2007. The industry best practices described herein are supported by the best practices of those surveyed, the suggestions and research of industry thought leaders, and the extensive experience of the TriNet research team.

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A Change in the Executive Suite

The shift in the way executives see the HR function is evident in the way they're redeploying staff and transferring key functions from the back office to the executive suite. For example, an increasing number of HR professionals share in the decision-making process at their company; this number can be as high as 82 percent according to *Human Resources Executive*.¹ In addition, executives' growing interest in HR can be seen in their concerns for 2007. According to their responses to TriNet's survey, talent management is the second greatest business concern for 2007, with revenue leading by a small margin (23 percent and 29 percent respectively).

The elevation of the HR function has most likely been caused by a number of factors, including macroeconomic trends in the marketplace such as the War for Talent, generational issues, and the flattening of the economic world. The War for Talent has received considerable media attention elsewhere; in regards to generational issues, the problem has been caused by the transition from a boomer workforce to a more mixed workforce. This new workforce includes Gen X and Y in management and executive positions, and it has motivated executives to evaluate the way their employees work and what benefits they provide, both in terms of compensation and non-compensation. Nearly half (44 percent) of HR professionals polled by the Society of Human Resource Management (SHRM) reported that the aging workforce was likely to have a major impact on the workplace, and 8 percent predicted this would cause radical restructuring.

Demographic trends most likely to have a major impact or cause a radical restructuring of the workplace		
	Major Impact	Radical Restructuring
Aging population driving an increase in health care costs	59%	13%
Aging of the workforce	44%	8%
Demographic shifts leading to a shortage of skilled workers	43%	14%
Retirement of large numbers of baby boomers around the same time	43%	21%
Growth in the number of employees who have both eldercare and child-care responsibilities	38%	4%
Increase in the age at which individuals choose to retire	38%	8%
Generational issues: recognizing and catering to Gen X and Y	34%	6%

*Information courtesy of SHRM

The third issue that has affected executives' perception of HR is the flattening of the global marketplace. This global interconnectivity, a theory proposed by Thomas Friedman in *The World Is Flat*, creates the need for flawless management and communication from, between, and with employees. This is especially relevant for companies that have global teams and outsourced providers.

These trends continue to converge and align human resources with the executive suite. Strategic HR, especially talent management, is the area most interesting to executives because it can play a critical role in revenue, their company's competitive positioning, and their overall business strategy.

¹ According to a poll published in the "Human Resource Executive Forecast 2007," published November, 2006.

Methodology

The trends and initiatives discussed are supported by the “HR Trends 2007” survey, which was answered by more than 500 executives of small and medium-sized companies via email in the first quarter of 2007.

Figure 2: Company Size of Respondents, Based on Number of Employees

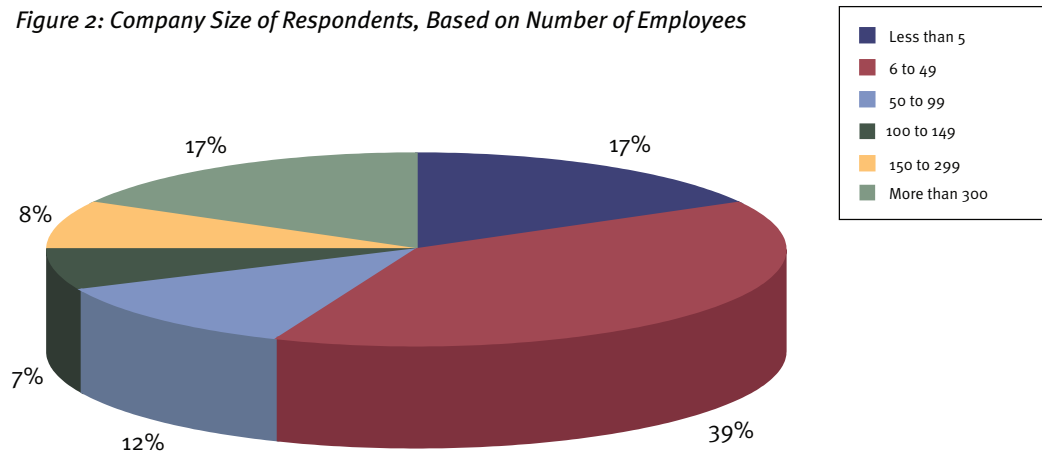


Figure 3: Primary Industry of Respondents

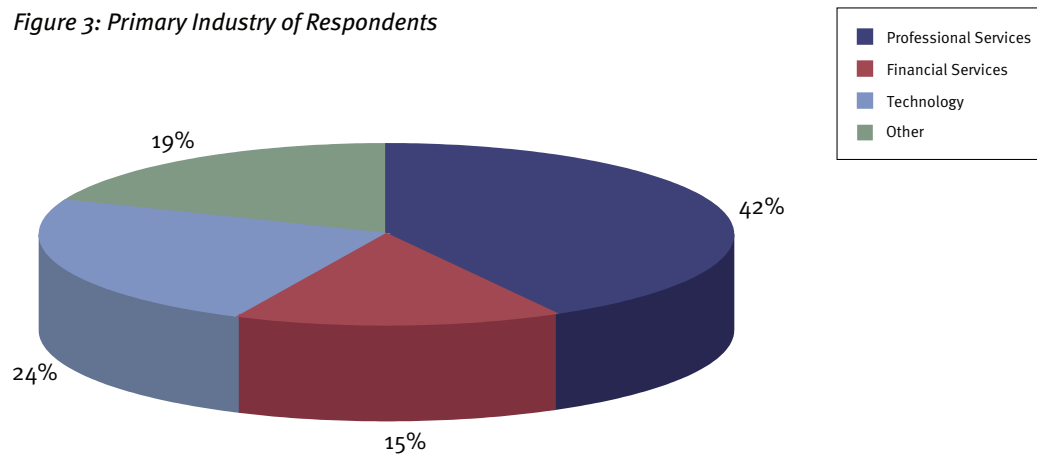
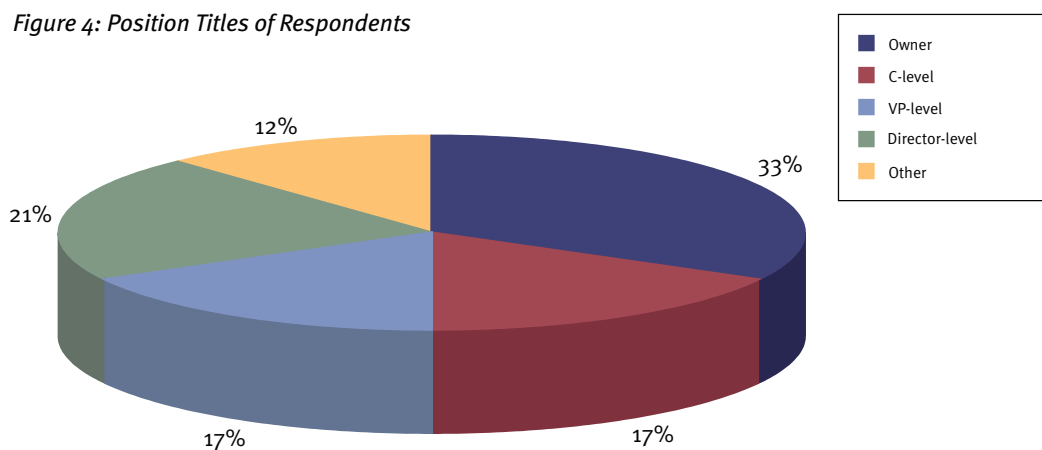


Figure 4: Position Titles of Respondents



2007 Business Concerns

For both larger and very small companies the attraction and retention of talent is more important than increasing revenue.

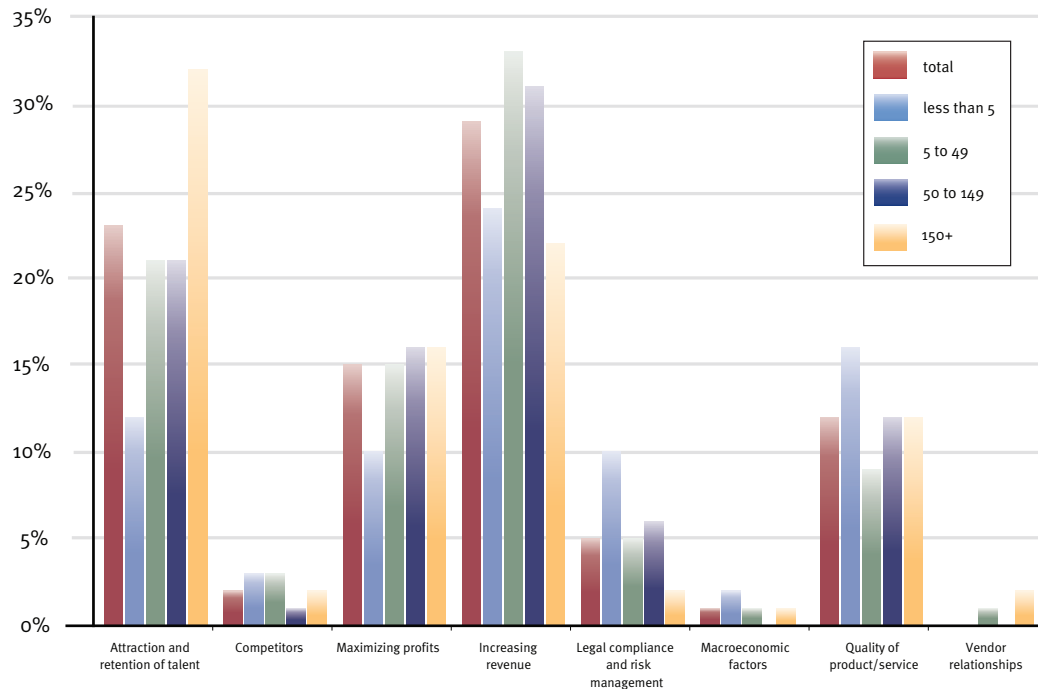
Revenue is the top priority for executives in 2007. Talent management, more specifically the attraction and retention of talent, came in second, with a small margin of 6 percent separating the two.

HR's Role in Revenue

Even though revenue slightly beat out talent in terms of business priorities, other data indicates that SMB executives clearly understand the link between their people and the bottom line. This is especially true when companies have an executive or management spot to fill: succession planning, a growing concern for companies of all sizes, must be aligned with the company's high-level goals and enacted throughout the organization in order to ensure continuity in the business.

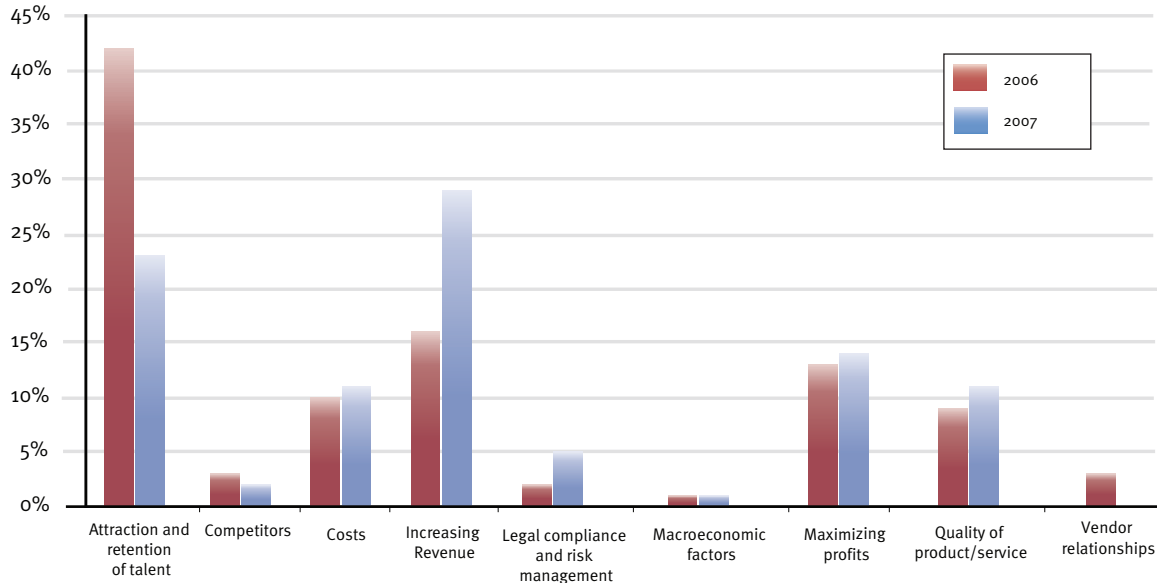
It's also notable that revenue and the attraction and retention of talent vied for first when respondents were segregated by company size. For both larger and very small companies (more than 150 employees and less than five employees), the attraction and retention of talent appears to be more important than increasing revenue.

Figure 5: Main Concerns of 2007, Segregated by Company Size



For all companies, it is clear that balancing talent needs with the revenue needs of the company is critical.

Figure 6: 2006 vs. 2007 Business Concerns



In 2006, more respondents reported that the attraction and retention of talent was their key concern. However, the two leading concerns, talent and revenue, have persisted.

Competitive Positioning and HR

Respondents also suggested that they see talent management as an opportunity to increase their company's competitive position rather than an executable task led by line managers. Talent management, one element of strategic HR, encompasses key areas of HR such as recruitment and retention, performance management, succession planning, and executive coaching. The hiring focus for industry leaders is not on the numbers game but rather on finding and retaining the right people for their team.

Retention Motivation

With the positive economic environment comes a more mobile employee that can and will change jobs for better benefits, higher pay, or more rewarding work. SMB executives are tasked with finding ways to retain their current staff. In 2006, nearly 22 percent of employees changed jobs, according to a recent MetLife study.² The number of employees that change positions is not expected to drop in the near future. In fact, that same study found that nearly 75 percent of employees anticipated a positive hiring market that has come to fruition in 2007. A recent study by SHRM discovered that nearly 75 percent of employees said they are likely to change jobs this year.³ In essence, employees know that they will be paid more elsewhere, and they are ready to go while employers are attempting to boost internal retention.

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² The information is taken from the MetLife annual Employee Benefits Benchmarking Report, published in May, 2006.

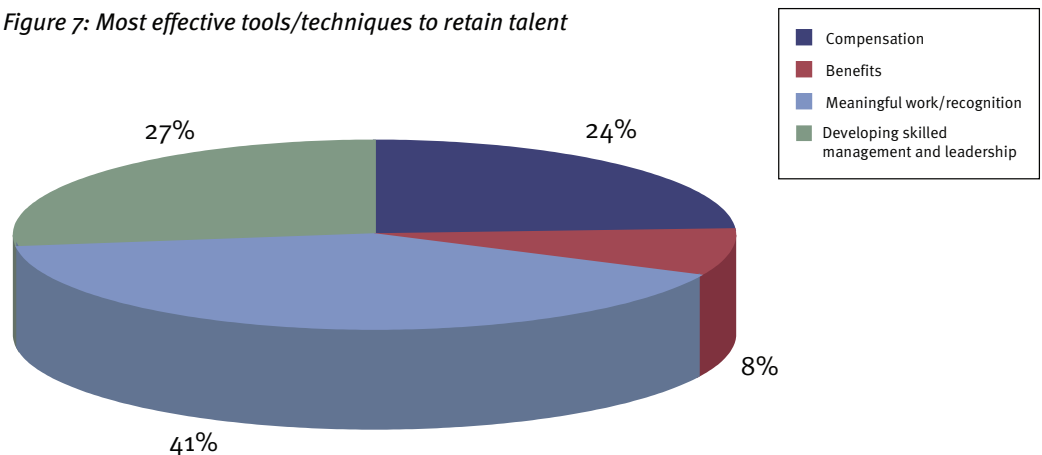
³ This information is from the "2006 Job Satisfaction Survey report" by SHRM.

The greatest retention-related concern for an SMB executive is competition from the large firms.

The right formula for increasing employee retention is a hotly debated topic, and often executives and employees are not in agreement. According to TriNet's survey, executives believe that meaningful work and recognition are the primary assets a company can use to increase retention (40 percent), but employees report various reasons for staying. In the past year, two major research firms, Towers Perrin and SHRM, asked employees what they were looking for and found different priorities. According to Towers Perrin, more traditionally valued job attributes like meaningful work and a positive managerial relationship were the most powerful motivations for staying. However, SHRM found that compensation is most important to employees.

The opposing viewpoints are most likely a reflection of the positive employment market after an extended recession: retained employees feel underpaid compared to new hires. Once this foundational issue is dealt with, employees can again focus on meaningful work and benefits.

Figure 7: Most effective tools/techniques to retain talent

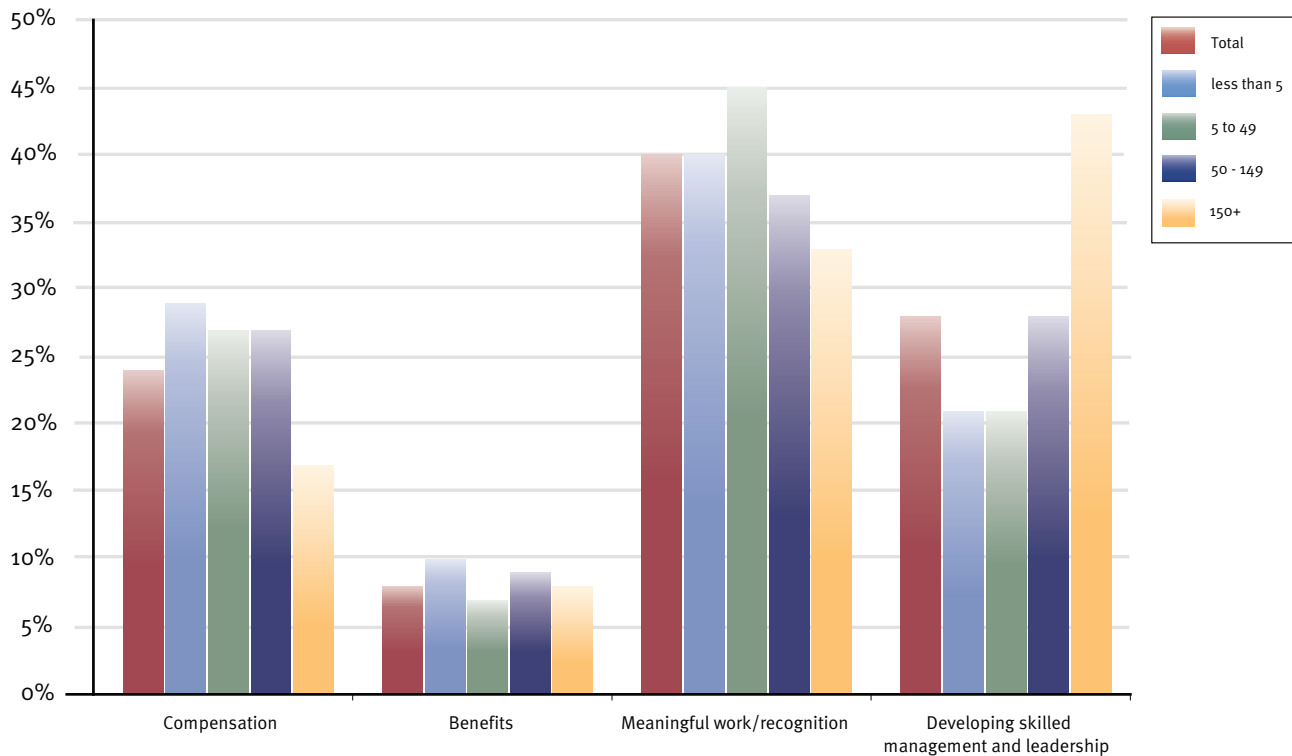


Retention Concerns

The greatest retention-related concern for an SMB executive is competition from the large firms. The popular opinion that larger companies typically provide better compensation and benefits is a major concern, but the SMB can still compete. People go to smaller companies with higher growth because of the leadership and the culture. Benefits and compensation are always important—but if you have a highly qualified executive who could work at IBM or Cisco, he or she is going to work at Startup.com or even a Texas Community Bank because of the people, the leadership, and the vision.

In TriNet's survey, those executives at firms with 150+ employees expressed less concern about compensation. Instead, most of their concerns were focused on developing skilled management and leadership. This is a reflection of two HR issues. First, the larger companies are also aware of the perceived (and possibly actual) increased compensation they offer. Second, the emphasis on succession planning demonstrates the recognition of the generational change in management and the need to begin training executives to maintain the continuity of more established firms.

Figure 8: Most Effective Tools/Techniques to Retain Talent, Segregated by Company Size



The Importance of Strategic HR

Strategic HR has become more than just a corporate buzzword—the interest in strategic HR displayed by survey respondents is evidence of the transition of HR from the back office to the boardroom. While the desire for strategic HR exists in companies of all sizes, according to the recent survey, the implementation is not as universal.

The likelihood of a strategic HR plan is directly related to the size of the company. According to the “2006 Strategic Management Report” by SHRM, only half of the professionals polled said their organization had a strategic plan in place. Smaller companies with few or no HR personnel were the least likely to have a strategic plan in place. The strategic plans in question were for “delivering strategic initiatives through the alignment with the overall strategic business plan of the organization.”⁴ Most respondents believed that such a plan focused primarily on talent management and employee communication.

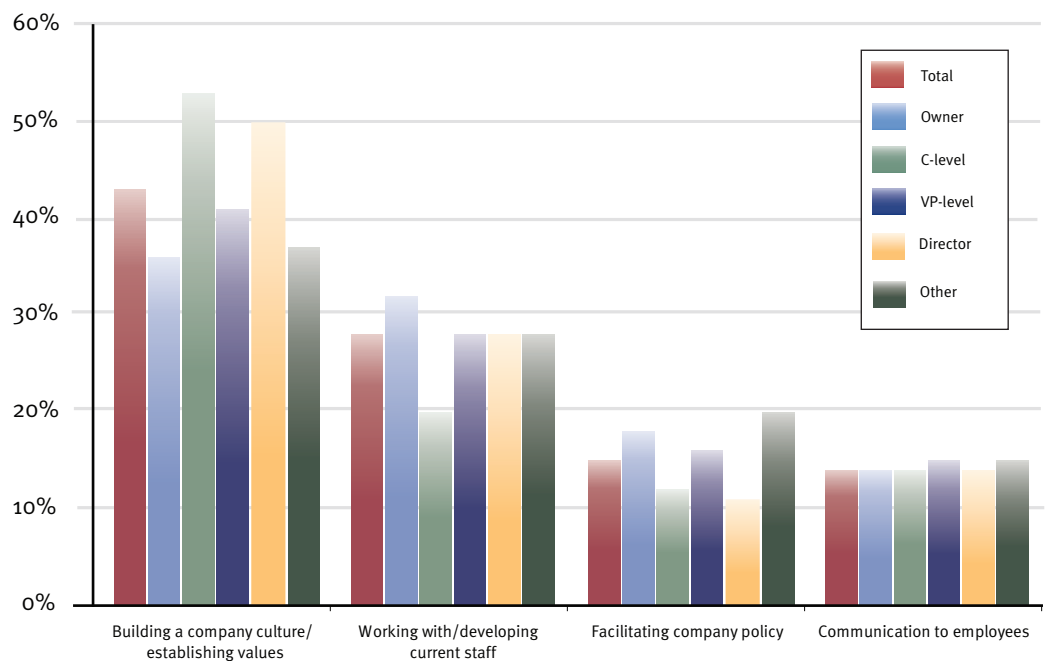
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⁴ Stated in the “2006 Strategic Management Report” by SHRM.

Owners valued developing their current staff almost as much as building company culture (36 percent and 32 percent respectively).

When TriNet asked business executives what aspects of strategic HR were most important to their business, they pointed to building a company culture. (However, the elements considered did not include aspects of talent management such as recruitment, retention, or employee selection. For the purposes of this report, talent management is considered separately.) Owners valued developing their current staff almost as much as building a company culture (36 percent and 32 percent respectively).

Figure 9: Primary Element of Strategic HR, Segregated by Respondent Role



Culture building is traditionally a function of the executive suite and remains interesting to the C-level, although it is now commonly a shared function with HR. Jack Midgley, Ph.D. and TriNet vice president of human capital consulting, is a proponent of culture development by way of cultivating new leadership from within:

The real solution to finding and keeping great employees is a culture of effective leadership, with teams of leaders trained and empowered to grow the business and motivate employees.

This is a task for executive leadership, and it requires relentless focus on developing the mid-level and senior leaders. Helping the mid-level leaders build a company's culture is a direct and highly effective way of building a talent-rich environment with a seasoned, experienced management pool.

Staff development and/or workforce planning is the second most important element of strategic HR to respondents surveyed. This is critical to the executive team for the continuity of the business, but also important throughout the organization. A variety of approaches are used to manage staff development and workforce planning, including executive coaching, assessments and ongoing education.

Incorporating Strategic HR

Strategic HR is important to executives, and their survey responses suggested that they value the outcome of the alignment of HR with strategic business initiatives. Despite this, nearly all were resistant to transition away from their in-house HR arrangements or current HR providers because they fear uncertainty, legal complications, and an insurmountable administrative hassle. The potential benefits of a strategic HR provider partnership is unexplored due to business fears. Other issues that they perceive as being more closely related to their success, such as revenue and current business initiatives, were more important to them.

However, companies that partner with an HR outsourcing provider that offers strategic HR guidance are poised to succeed because they are empowered to recruit and retain top talent through improved talent management and employment branding. The most successful relationships involve a company partnering with a provider that specializes in its industry. Providers with knowledge of its customers' industries are uniquely positioned to anticipate strategic HR issues and help resolve high-level problems. The benefits of aligning with an HR provider that understands its customers' industries are explored in the recent Gartner report by HRO SMB analyst Robert Brown, "Investment Services Firms Can Benefit From HR Outsourcing" (November, 2006).

Upcoming Reports from TriNet

Throughout 2007, TriNet will continue to deliver best practices and HR trends information. Visit www.trinet.com for the latest updates.

About TriNet Group, Inc

Founded in 1988, TriNet offers premium HR outsourcing support for companies in the industries of technology, financial services, and professional services. TriNet currently helps more than 1,500 customers throughout the United States and Canada reach their growth and revenue objectives by deploying high-caliber payroll, benefits, and human capital consulting services.