

6th European HR Barometer

Trends and Perspectives on the Human Resources Function in Europe
Executive Summary 2011



Foreword



We are pleased to present the key findings of the sixth edition of the *Pan-European HR Barometer*, designed and carried out by Aon Hewitt on behalf of the European Club for human resources (EChr).

This regular survey was launched in 2005 with a view to gaining a better understanding of the role and impact of the human resource (HR) function in top companies operating in Europe. Over the years, and particularly in the current business environment, the survey has reflected the growing importance of people management policies, and their accurate execution, as key drivers of sustainable business performance. It continues to show also the relevance of HR policies designed to fit global corporate strategies: these need to be coherent and intelligible across national boundaries, while coping with different local regulatory frameworks and cultures to enable effective delivery in each operation.

The diversity and importance of the companies together with the broad experience and origins of the HR directors responding to this year's survey, offer fresh insights into human resource practices and directions beyond a specific industry or nationality.

The study sheds light on European trends related to:

- Recent achievements and new business prospects
- Business drivers of the HR function and top priorities for the years ahead
- Impact of HR activities on business performance and ways to improve it
- Future changes foreseen by HR, and
- HR leaders' views on relevant European Union (EU) activities.

On behalf of Aon Hewitt and the EChr we are grateful to all participating organisations and HR professionals for taking the time to share their views and perspectives.

We hope that the survey results give you useful insights into emerging HR experiences and that they will stimulate your own ideas and practices.

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The European and Global Context

The overall picture emerging from this year's European HR barometer mirrors the improved macro-economic landscape without hiding the climate of uncertainty and the challenges that remain to be faced at the turn of the new decade.

Global recovery is strengthening but its progress remains uneven between and within regions and countries. Steady growth of GDP is set to continue in emerging economies, with advanced economies lagging behind emerging ones in the business cycle¹. At the centre of Europe several countries show relatively strong recovery with external surpluses, while the "periphery" continues to be weakened by a combination of external deficits, weak fiscal positions and growth rates. In addition, geo-political risks stemming from the political situations in North Africa and the Middle East are a further source of concern that may have far-reaching consequences on rising energy and production costs and inflation. This could ultimately affect growth well beyond the two shores of the Mediterranean region².

Global GDP (excluding the EU) is projected to grow by some 4.75 percent in 2011, while real GDP is forecast to grow by 1.8 percent in the EU³. In the euro area, where on average GDP is forecast to grow by 1.6 percent, Germany's robust and broad-based recovery is expected to continue with real GDP projected to expand by 2.4 percent in 2011. France and the Netherlands are expected to recover at a more modest pace with growth projected at 1.7 percent for 2011 as a whole. An even lower rate of GDP is projected for Italy (1.1 percent) and for Spain (0.8 percent). Outside the euro area, GDP growth in Poland and the UK is respectively projected at 4.1 percent and 2.0 percent. Headline inflation for 2011 is expected to reach 2.5 percent in the EU and 2.2 percent in the euro area.

One of the biggest challenges comes from the deep and wide deterioration in public finances. By the end of 2010, government debt in the euro area increased by 18 percent compared to 2007, and by more than 30 percent in the US and Japan⁴. The new plans being adopted by the EU and the G20 countries at the behest of the governors of central banks and Ministers of Finance show that there is a greater sense of urgency to ensure sustainable public finances and more effective economic governance⁵. The rigorous implementation of such measures is rightly seen as an imperative to greater market confidence, monetary and financial stability, and sound economic growth. For the most exposed countries—those that have delayed structural changes on labour market rules and welfare systems—this will entail new changes in pensions, healthcare, labour and employment rules, and related tax regimes. Beyond this challenge, with solutions mainly driven by public policy makers, business leaders need to constantly monitor and factor into their plans a much wider range of risks that can damage the performance, reputation and in some cases even the future viability of an

1 See the paper "Global economic prospects and policy challenges" prepared by the staff of the International Monetary Fund for the G20 meeting of 18-19 February 2011 in Paris.

2 See the analysis of Professor Nouriel Roubini from NYU Stern School of business in <http://w4.stern.nyu.edu/blogs/risksintelligence>.

3 EU Interim Forecast of 1st March 2011

4 Jean-Claude Trichet, President of the European Central Bank, "The fiscal Imperative" article for OECD.org

5 See the conclusions of the EU Council of Ministers of Finance of 14-15 February and the final declaration of the G20 meeting in Paris of 18-19 February 2011.

organisation⁶. Many factors can influence these risks. They range from market volatility of commodity prices to labour market mismatch, from burdensome administrative practices to changes in statutory requirements, from rising environmental and social concerns to the changing aspirations of citizens, to mention just a few.

The greater confidence of managers in Europe's economic prospects was confirmed by the economic sentiment indicator (ESI) released in February 2011 by the European Commission. ESI resumed its upward trend in the European Union countries and within the euro area. A significant rise in positive sentiment in the services sector was the main driver of the improvement. Confidence in industry and construction also contributed to the overall improvement, as well as confidence among euro area consumers⁷. In parallel, the current level of the Business Climate Indicator (BCI) for the euro area is very close to historical peaks (only two basis points off the May 2000 peak), suggesting that the recovery in industry will continue in the coming months. The indicator's overall stability was the result of managers reporting improvements in exports, domestic order books, and expected production levels⁸.

On the labour market front, the situation seems to be stabilising from an overall EU perspective, but wide local differences are still evident and youth unemployment continues to rise having reached its peak at 21 percent on European average, and highest at 43 percent in Spain. The cessation of rising unemployment has been mainly driven by the recovery of temporary work demand, a decrease in restructuring activity and greater business confidence in economic growth. Nevertheless employment is down by 399,000 people compared to February 2010 and by 5.7 million people relative to its peak in the second quarter of 2008. Despite the stabilisation of the regional unemployment rate at 9.6 percent in February 2011, half of that ratio represents the long term unemployed who will be difficult to re-integrate into work. In nine EU Member states unemployment rates are higher than a year ago with peaks around 15 to 20 percent in Spain and the Baltic States. Conversely, Germany and Belgium have witnessed significant falls in youth unemployment reflecting more effective governance and a knock-on effect of stronger and quicker economic recovery⁹. Meanwhile, the simultaneous increase of unemployment rates and job vacancy rates continues to reveal a gap between the skills and expectations of job seekers and the requirements for available jobs.

Ultimately, even more than last year, the need to overcome the double challenge of putting fiscal policy back on a sustainable path, without undermining the prospect of growth and job creation, remains firmly on the policy agenda. According to the progress report on the 'Europe 2020' policy programme, in 2011 a majority of member States is more likely to move from cyclical demand management to structural reforms. These should enhance flexible working arrangements, adjustments in wage and labour related taxes with real wage growth re-aligned to labour productivity, and revised social benefits schemes with incentives to stay or return to work¹⁰.

⁶ For an assessment of political risks see Aon latest political risks map that reviews 211 countries. Accessible at <http://www.aon.com/2011politicalriskmap>. For people-related risks analysis see Aon people risk index at <http://www.aonpeoplerisk.com>

⁷ The ESI indicator increased strongly, climbing by 1.4 points to 107.2 in the EU and by 1 point to 107.8 in the euro area. See European Commission, Directorate General for Economic Affairs, ESI, 24 February 2011.

⁸ European Commission, Directorate General for Economic Affairs, BCI, 24 February 2011

⁹ European Commission, Labour market fact sheet, February 2011

¹⁰ See the first Annual Growth Survey, issued by the European Commission in January 2011 and setting out clear economic priorities for the EU member States in three main areas: macro-economic, structural reforms, and growth enhancing measures. EC COM (2011) 11 final of 12 .01.2011

To overcome resistance to reform, notably in those countries with the greatest need, three factors will play a key role. Firstly, peer review and external pressure, along the lines finally being set within the new EU framework of economic governance and policy coordination. Secondly, the acknowledgement that longer-term structural changes are not necessarily in conflict with short-term electoral considerations¹¹. Third, the growing acceptance that such reforms are definitely necessary. At the top of the list for public policy intervention, Europeans have recently placed in order: the improvement of education and vocational training, the reduction of public debt/deficit, the promotion of entrepreneurship¹². Meanwhile there are still very few who believe (4 percent) that the retirement age should be revised upward, showing that information and education around working patterns, financial security and benefits at retirement still have a long way to go.

HR Leaders' Views and Perspectives

Key Results

- HR leaders' confidence higher in 2011
- Greater focus on key human capital assets
- Better tracking and tackling of employee engagement
- Deploying and leveraging HR IT integration
- Improving assessment and communication on the value of HR programmes
- Awareness of HR delivery gaps
- Struggling to anticipate and address emerging issues
- Valued HR-CEO partnership, but HR cooperation networks remain too inward-looking
- Positive perception of EU activities in decline
- Lack of knowledge on key planks of EU policy but desire to know more and to influence the EU agenda

¹¹ See the review made by Marco Buti, Director-General of the European Commission for Economic and Monetary Affairs, at the high level seminar on the political economy of crisis-induced reforms, IMF, Paris, 3 December 2010.

¹² EC, Eurobarometer 74, EU public opinion poll on the Europeans and the crisis, February 2011.

Better prospects for 2011

Back to growth,
with caution

Respondents foresee a more positive outlook for 2011, consolidating the recovery path underway in 2010. The key dashboard indicators relating to expected revenues, investments, employment and the likely impact of business environment on overall performance and HR programmes are back to a "green light". Nevertheless, the consequences of the crisis, although softer than in 2010, will generally continue to be felt throughout the year. This explains corporate pressure for productivity improvement and the cautiousness over workforce expansion.

Recovery path more
benign on results and
HR programmes

The views of respondents with respect to the impact of the financial crisis on 2011 business results, HR programmes and their own standards of living has substantially improved compared to previous years, although not for all companies. 23 percent of companies consider that the crisis will continue to have a significant impact on business results (compared to 56 percent in 2010 and 77 percent in 2009). The impact of the crisis is expected to continue to significantly affect HR programmes in 21 percent of companies and, to a lesser extent, the standard of living of HR leaders (10 percent). The proportion of companies considering that the slowdown of the economy will have no impact on HR activities has substantially increased from 8 percent last year to 33 percent this year.

Better prospects for
revenues and
investment growth

Revenues and investment are expected to grow at a much faster pace than in the last two years with only 2 percent of respondent organisations forecasting a decline in 2011. Target increases for the majority of companies remain in the single digit range, but the proportion of those expecting revenue growth above 10 percent has jumped from 13 percent last year to 35 percent in 2011. Similarly, an increase in investment target above 10 percent is now planned by 25 percent of companies against 16 percent in 2010 and only 4 percent in 2009.

Solid European basis
while leveraging
opportunities abroad

For 61 percent of participants the source of revenue growth is expected to shift from Europe to other regions, mainly China. This is reflected in the investments planned by 53 percent of companies: out of Europe, in particular towards China.

Moderate improvement
of employment ratios

On the employment front, the proportion of companies foreseeing a reduction of their workforce is significantly smaller now at 26 percent compared to 44 percent last year and 71 percent in 2009. Meanwhile the companies that expect to add new jobs have increased to 28 percent in 2011, up from 20 percent in 2010 and only 8 percent in 2009. 46 percent of companies are expecting to maintain the same level of employment.

Substantial achievements when coping with the downturn

The impact of measures taken in 2010 to respond to the downturn and prepare for recovery has been assessed by almost all respondents and results seem to match target objectives. 52 percent of respondents claim to have achieved all targets, while 40 percent of companies claim to have achieved more than half of their planned objectives. Only 4 percent of companies said that they missed their targets.

Persistent tension between values and daily practices

The tough business environment of the past two years appears to have influenced the level of tension experienced by HR leaders between their personal values and daily practices within their organisation. Only a few respondents (8 percent) did not experience any tension while the majority admitted to facing such tensions sometimes (48 percent) or even often (6 percent).

Securing key people resources and overall workforce engagement drives the HR agenda

Talent shortage, change, and cost pressure influence the HR agenda

The mismatch in workforce skill levels and difficulty in finding the right talent emerges as this year's most pressing issue, jumping from fifth to first position in 2011. Cost sensitivity is no longer in first place but remains a highly influential factor together with changes in the company culture and organisation. Challenging profit targets, product and process innovation and, (more prominently than in previous years), the expansion of operations in new markets, make up the top tier of the list.

Need to refresh HR processes, metrics and competencies

These internal and external factors are expected mainly to have an impact on HR processes, the way the HR function measures its added value to the business and the new business competencies to be developed by HR. HR headcount seems to be less under scrutiny than in 2009 when HR did not escape a reduction of resources in its own department.

Enhanced HR focus for developing leaders, engaging people retaining talents

The top three priorities on the HR agenda for the 2011-2013 period have remained stable over the last two years with an even greater focus on core human capital assets, namely: leadership development (mentioned by 54 percent), employee engagement (50 percent) and talent retention (44 percent). As a 4th priority the focus will be on implementing an integrated HR IT system throughout the organisation. The reduction of labour costs remains among the top ten priorities but has moved down to 9th position (8th in 2010).

HR in search of support

The areas of activity where HR feels least able to deliver against business expectations largely mirror the priority ranking for the years ahead. In particular respondents seem to be in search of support with regard to building a pipeline of leaders for the future (24 percent) better assessing HR activities and added value (22 percent), talent retention at every level of the organisation (20 percent), and employee engagement (18 percent).

True partnership
and HR-IT integration
in demand

HR leaders continue to emphasise the same factors that would improve their own ability to make a greater impact on business results. A greater and timelier involvement of HR in strategic business decisions remains the number one concern for 46 percent of respondents. More practical requirements are more prominent compared to previous years, in particular the availability of an integrated HR-related IT system (indicated by 40 percent this year). The need to gain business-related expertise to do a better job is the third top HR concern.

Performance evaluation
and reward considered
most impactful
HR activity

Evaluating and rewarding performance emerges this year as the area where HR's contribution can make the biggest impact on business performance (indicated by 52 percent of respondents). This is followed by leadership development (46 percent), and talent management (44 percent).

HR doing better, but
often delivering below
business expectations

When judging its own performance against business expectations, HR delivery has matched corporate targets more frequently than in previous years. Nevertheless HR continues to acknowledge that there is large scope for improvement. In 15 HR-specific activities the majority of respondents admit to performing below expectations. The most frequently mentioned areas of excellence continue to be those related to statutory compliance issues, such as health and safety at work, employee data-privacy, industrial relations, diversity/equality and executive remuneration.

HR pains with
emerging needs

The weakest fields where HR assesses itself as delivering below target are: mapping and management of competencies, management of intergenerational diversity of the workforce, and anticipation of employee expectations. In these areas none of the respondent organisations consider themselves to deliver beyond targets. The widest gap between best performers and worst performers is in relation to work-life balance programmes (83 percent delivering below target) and diversity of workforce and management (75 percent delivering below target). On employee communication—an area that emerged as the weakest last year with no out-performers—respondents have done a little better, however there are still 56 percent of companies where HR delivers below target.

Employee satisfaction
and engagement surveys
lead employee
communication plans

Given last year's concerns about employee communication, this year we probed more deeply into corporate plans in this area. The most frequently mentioned actions to improve two-way communication with employees are in relation to the assessment of employee satisfaction and expectations at work (mentioned by 69 percent of respondents); to information on financial targets and key performance indicators (65 percent); and to greater explanation of the business rationale for corporate changes (61 percent). These preferences are mirrored in the choice of most popular supporting tools: 71 percent of companies plan the use of engagement surveys, and 67 percent of companies plan upgrading intranet communication facilities, together with enhanced discussion group facilities (63 percent).

Employee Engagement most used metric by HR

Employee engagement emerges for the second consecutive year as the most commonly used among all HR metrics, followed by the number of days of training delivered per employee and by people-related indicators as decided jointly with business operations. Meanwhile 29 percent of respondents are still looking for relevant quantitative tools. The proportion of companies that do not use HR metrics at all because of lack of resources remains significant (12 percent).

Upgrading expertise in leadership and talent development

A majority of respondents expect significant changes in HR capabilities and competencies within the next three years, in particular in relation to functional expertise on leadership and talent development (60 percent), change management (57 percent), and strategic advice to management (52 percent). However, only 19 percent of respondents expect changes in risk management. This is an area that seems significantly underestimated by HR leaders and that would benefit from much greater attention given the broad spectrum of people-related risks that may undermine corporate reputation, performance and safety.

Solid cooperation and trust, but HR engagement declining

HR-CEO cooperation positively valued

The CEO maintains top position for the highest level of cooperation with HR leaders. The quality and level of cooperation with the lines of business and other key corporate functions such as Finance is also considered positively. The weakest linkages are still with the department responsible for Investor Relations: 25 percent of respondents consider this to be poor, while another 39 percent has no relationship at all. Cooperation with business schools and professional associations is also quite poorly rated by 37 percent of respondents.

Corporate peers most trusted

The quality of the level of cooperation with top business executives is reflected in the high perception of HR activities by the CEO. 83 percent of respondents think that their CEO has a high or very high perception of what HR does. This high level of appreciation does not filter down to the broad employee base and their perception of HR. Only 43 percent of respondents indicate a high or very high rate.

HR generally satisfied but disengagement increases

This year, the highest confidence rating goes to HR's own peers within the organisation (73 percent), just ahead of the CEO (69 percent), and of the employees in the company (55 percent). Trust in European Union institutions continues to weaken (down to 6 percent compared to 11 percent last year), while at the bottom of the trust index, is government with only 2 percent of favourable opinions. Trade Unions have gained some ground with 8 percent positive opinion, compared to a mere 1 percent last year.

The level of satisfaction of HR leaders with their role and employer remains high with seven out of ten declaring they like both and are not ready to make a move. However the proportion of those ready to change job and move away from HR has increased from 8 percent last year to 22 percent this year. The proportion of those aiming to change company has also increased from 13 percent last year to 29 percent this year.

HR and the European Union: less confident and lack of knowledge

Positive opinions on EU activities prevail over negative, but declining

For the first time, HR executives expressing a generally positive perception of the impact of the EU on their country's economy, on their company's performance and on their own lives, are no longer in the majority although they do remain twice as many as those with a negative opinion. Most worrying for EU policy makers is the increasing proportion of respondents (this year 59 percent) that do not see any impact of the EU on their own living conditions.

EU Single Market Agenda largely unknown

Anticipating some key EU policy developments relevant for HR and due to be finalised in the near future, we asked HR leaders about their knowledge and opinion of the draft Single Market Act (SMA). The SMA is a comprehensive framework aimed at removing cross-border barriers and bottlenecks and enabling freedom of establishment and movement of capital, people, goods and services throughout the EU countries. The results confirm the widening communication gap between business and EU policy makers: 59 percent of respondents have never heard of the draft SMA and would like to know more. 19 percent have heard about it but are unable to describe its main elements, while another 19 percent consider that they should be more involved in future policy developments in this area. Among those who know about the SMA and are able to express an opinion, 4 percent support its principles and 4 percent are against the new measures, while a further 12 percent are sceptical about the likely impact of the SMA on business. The proportion of those who don't care and are not interested is quite limited (8 percent).

In conclusion, this year's survey results suggest that HR leaders have emerged—generally with success—from a critical period of transition from crisis to recovery. They plan to increase their focus on the most critical human capital assets that will be instrumental to leading and developing the business. However, they continue to struggle to address emerging workforce issues and to anticipate business needs. This may explain the recurrent and increasing complaint, made by almost half the respondents, that HR is involved too little and too late in strategic business decisions that affect HR policies and practices.

A culture of HR excellence is widely seen as a critical factor for sustainable business success. The translation of theory into daily practices is already a reality for leading edge organisations, irrespective of the sector or location of activity. A renewed joint engagement by HR professionals, line of business leaders and managers could bring that target within reach for a much greater number of organisations.

The findings and remarks presented here are not intended to be exhaustive or representative of the wide, diverse and complex European business landscape. The aim of this survey is to share updated business insight and food for further thought that may help to improve people management practices.

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Leonardo Sforza

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About the Research

The European HR Barometer is the main survey of its kind aiming to explore the evolving role and impact of the HR function from a Pan-European rather than from a national perspective.

Each year the survey involves top HR professionals from leading companies operating in Europe with the aim of capturing the most critical aspects that would improve the effectiveness of the HR function. A specific section of the Barometer offers HR views on relevant European Union activities that have an impact on people policies.

The 6th European HR Barometer survey was carried out between December 2010 and end of January 2011. In this edition, fifty-two organisations completed the online survey. They operate in a wide range of sectors, generating together 400 billion euro of revenues in 2010 and with a combined total of 2.2 million employees. 76 percent of participating organisations are listed companies. 45 percent have their shares listed on a European stock exchange and 20 percent in the US.

The majority of the companies' workforces are based in Europe, with 63 percent employing more than 10,000 employees. Survey respondents encompass 13 different nationalities. 52 percent are executives and directors with exclusive responsibility for HR at European or global level. 40 percent of respondents report directly to their CEO and 25 percent to another member of the Board. 85 percent of respondents have a total of more than 15 years of professional experience. From a demographic perspective, 72 percent of participants are at least 45 years old and 83 percent are male.

About Aon Hewitt

Aon Hewitt is the global leader in human capital consulting and outsourcing solutions. The company partners with organisations to solve their most complex benefits, talent and related financial challenges, and improve business performance. Aon Hewitt designs, implements, communicates and administers a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies. With more than 29,000 professionals in 90 countries, Aon Hewitt makes the world a better place to work for clients and their employees. For more information on Aon Hewitt, please visit www.aonhewitt.com.

About the European Club for human resources (EChr)

The Club was launched in 2001 by Senior Executives of global corporations with a European headquarter and which are market leaders in their sector of economic activity. The mission of the Club is to stimulate debates and exchange of practices on Human Resources issues. Through its studies, working groups and seminars, the Club contributes to promote a European approach to the management of HR and support the strategic role of HR executives in the management of change. For more information, please visit: www.europeanclub-hr.eu