A Higher Calling

Three Key Trends Driving the Need for Higher Value HR

Fidelity Employer Services Company

Today, human resources professionals face steady, unrelenting pressures to constantly contain costs while creating cost-effective human capital strategies mapped to organizational goals. These concerns represent both an opportunity and an obligation for HR leaders to develop and deliver a higher value of services and business solutions for their organizations. If HR wants to play a key role in strategically driving innovation, productivity, and profitability across the enterprise, it needs to shed its skin as a mere cost center slugging away to contain its employee-centric budget.

A recent best-seller – The World Is Flat, by *New York Times* columnist Thomas L. Friedman – purports that globalization is leveling barriers to competition from anywhere to anywhere: not just in the goods trade, but in services, too. In a recent article[1], Friedman states that "We have gone from the Iron Age to the Industrial Age to the Information Age to the Talent Age." As a result of these trends, HR management is becoming an even more vital management function – and ready to take advantage of its opportunity to advance its business or organizational agenda.

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Three Fundamental Shifts Now Enable HR to Drive Enterprise Results

For many HR professionals, the Talent Age has more than arrived, putting them clearly at the fulcrum of three overarching tectonic shifts in the HRO environment. The drumbeat in HR departments everywhere is echoed by the constant challenges of rising employment costs, government regulations, and evolving workforce demographics. These trends affect the entire organization – not just HR – and can play a major role in driving enterprise profitability, competitiveness, legal compliance, customer service, and more. Here's why.

First, employment costs are rising across the board, especially health care costs, which are up by more than 60 percent per employee just since the year 2005[2]. That is nearly three times faster than the general rate of inflation over the same period. Companies are responding by increasing deductibles, co-pays and co-insurance, offering disease management programs, dropping coverage for retirees, and developing consumer-driven health programs that use health savings accounts and high-deductible insurance to make employees themselves more sensitive to health costs.

Many Defined Benefit (DB) pension plans are underfunded today. New regulatory changes now mandated by the Pension Protection Act of 2006 will give funding requirements a more direct, yet still somewhat unpredictable impact on a company's bottom line.

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Smart move.

This ongoing and aggravating volatility is clearly driving the need for plan sponsors to reexamine their workforce savings strategies. Many healthy, profitable companies may now consider freezing or terminating DB plans today. Some are seeking "hybrid-type" Defined Contribution (DC) retirement plans that provide "DB-like" elements that promise more predictable costs to the employer and further strengthen the DC retirement savings system.

A second set of challenges stems from changing regulatory and compliance requirements. These include significant changes stemming from Sarbanes-Oxley to pending reforms in DB pension funding rules to accounting changes being considered by the Financial Accounting Standards Board. Other matters now requiring senior-level scrutiny and oversight include HIPAA electronic benefits enrollment and related data privacy issues, changes in employment law, and escalating executive compensation. This increased complexity, and the likelihood of more changes coming soon, all add to the HR management burden.

The third and most powerful of the converging forces HR professionals face is meeting the changing needs of current employees while also preparing to deal with demographic shifts that will significantly reshape the American workforce. Let's examine this third trend in more detail.

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Finding Talent Amidst Changing Demographics

A vital understanding of workforce demographics is the key to success in any HR leadership function to best manage the clearly foreseeable talent shortage on the horizon. With 76 million Baby Boomers approaching retirement age in America today, Boomers will soon be pulling the retirement rip-cord at the rate of roughly 8,000 a day. Soon thereafter, the 46-million-strong "Baby Bust" will be cycling through the workforce and also dreaming of retirement.

According to succession planning expert William J. Rothwell, as many as 20 percent of the senior leaders in the Fortune 500 companies and 43 percent of the people who own and operate the closely held businesses that comprise 80 percent of the North American economy could retire within the next five years. Moreover, the staff just below them is roughly their same age, making the available pool for succession "shallow" at best.

Looking further out, the U.S. Bureau of Labor Statistics forecasts that by the year 2015, the growth rate of the labor force will have fallen to less than zero and actually be shrinking. The core working age population – people between 25 and 55 – will decline from about 44 percent today to 39 percent. Too drastic a warning? Not when this decline translates into a shortfall of roughly 16 million people in the core working age group by 2015.

The net result: America is going to face a serious, long-term labor shortage, and if HR professionals want better succession planning, they will need more sophisticated development of middle-managers coupled with creative approaches to retain valued talent well past the traditional retirement age.

The gap between the dwindling labor force and the ongoing demand for qualified workers is what is driving the growing global search for talent. In addition to managing domestic workforce issues, HR professionals are going to have to learn to handle

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HR planning, service and benefit management on a truly global basis. To accomplish this, HR organizations will increasingly partner with key suppliers such as outsourcers that can reduce their administrative burden in areas of payroll, benefits administration, talent management, and other HR functions.

According to a McKinsey Global Institute study[3], the current offshoring trend will not only continue, but deepen – all while creating value for U.S. companies through offshoring in three ways: cost savings, repatriated earnings and new jobs created by the investment of capital savings. This trend expands HR's role and now provides HR professionals the opportunity to master a new discipline of global workforce management, deploy new HR technologies, and take advantage of the new Web-enabled global trade in human talent that will actually help supply some of the shortfalls in talent for America's economy.

Solving the challenges of rising employment costs, growing regulatory requirements, and changing workforce demographics gives the entire HR community the opportunity to elevate the HR function and make HR an indispensable strategic contributor in the organization.

Creating a Higher Value HR Function

To offer higher value to the leaders of their organizations, HR must move from a day-to-day operational focus to a long-range focus on human capital as the driver of enterprise results. This means evolving from spending time on activities such as merely hiring, paying, promoting, and delivering benefits to anticipating needed skills, succession planning, and making long-term decisions that will critically depend on HR and talent management systems.

"Higher value HR" means contributing to the enterprise's bottom line – growing revenue, improving productivity and reducing costs. It is manifested in the design of health benefits that actually mobilize employees and engage them in their own health decisions. It means optimizing the use of human capital and playing a key role in helping top management decide to either sustain DB plans – or design transitions to DC plans that will best serve employees, as well as the CFO.

To date, HR has been successful in outsourcing a great deal of routine "administrivia" that once took up so much of an HR department's time and energy: payroll, benefits transactions, and health insurance claims. But remember, purely administrative costs account for not much more than 5 percent of total HR costs – and that is the old view of HR that has to change. For HR to make a difference, it must focus its energy on the remaining 95 percent.

What HR Can Learn From Finance

Compare and contrast the evolution finance managers have gone through in recent years. At most firms, these professionals have moved up from being seen as merely "accountants" or so-called "bean-counters" to suppliers of genuinely strategic analytics to the C-Suite. How did that happen?

First, accountants became more valued because the deployment of financial capital grew to be more important relative to physical capital as the service economy evolved. Second, the function evolved because the accounting profession developed common standards – Generally Accepted Accounting Principles (GAAP) – that were commonly accepted across entire industries. Common standards, in turn, enabled CFOs and other senior finance professionals to develop higher-value analytics that were specific to their own firms.

HR professionals today might draw some conclusions from that model and then build consensus around the concept of "Generally Accepted Human Resources Practices." The goal would be to have the routine infrastructure in place to do for human capital investment what finance colleagues have done for financial capital. From there, the profession will be in a position to move beyond the HR equivalent of "bean-counting" and offer senior management a real "inventory" of human capital assets and ideas on how this "talent capital" can best be deployed across the enterprise.

Leading HR organizations from both private and public sectors should strive to have the tools and processes to master not just the basics to manage and manipulate data on numbers of employees, ages, compensation, and retirees, but to be in command of a full suite of talent management tools and systems that track recruitment, performance, and leadership development programs – all mapped to the skill sets needed in the future that will keep their organizations competitive.

If HR professionals embrace the many faces of change driving organizational decisions today, effectively manage human capital and drive for measurable results, they can make higher value contributions to their organizations than ever before – and elevate the status of the HR profession in the process.

About Fidelity Employer Services Company

Fidelity Employer Services Company provides human resources and benefits services to more than 20 million employees through the administration of more than 11,000 retirement, pension, health and welfare, human resources administration, and payroll programs.[4]

Fidelity helps leading companies successfully manage HR from recruitment to retirement. By optimizing workforce administration and improving employee productivity, we focus on delivering long-term results to help you achieve a "Total HR Advantage℠."

Our heritage in financial services and retirement planning gives us processing skills, deep insights and operational knowledge. With resources and financial perspective, a commitment to superior customer satisfaction and continuous performance improvements, we deliver the power of Fidelity to meet your HR needs.

Our comprehensive suite of services includes Workforce Administration, Talent Management, and Benefits Administration.

For more information on Fidelity's HR Outsourcing services, visit www.fidelity.com/totalhr.

[1] "A High Fence and a Big Gate", Thomas L. Friedman, *The New York Times*, April 5, 2006

[2] Kaiser Family Foundation, 2004

[3] "Who Wins in Offshoring", Vivek Agrawal and Diana Farrell, *The McKinsey Quarterly*, 2003 Number 4

[4] As of December 31, 2006

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#442730.2.0