

3rd European HR Barometer



Trends and Perspectives
On the Human Resource Function in Europe
2008

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Foreword

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

This regular survey was launched in 2005 with a view to gain a better understanding of the role and impact of the human resource function in top companies operating in Europe. It reflects the growing importance of people management policies as a key factor of business success, and the relevance of the trans-national dimension into corporate strategies.

The increasing number, diversity and importance of the companies involved have been contributing to offer new insight on human resource (HR) practices and directions beyond sectorial or geographic borders. We are pleased that this new “barometer” has inspired other complementary initiatives of investigations that will continue to be required for deepening the analysis about HR from a European and global perspective.

The survey report sheds light on European trends related to:

- the business drivers of the HR function;
- the impact of specific HR activities on the business performance;
- the needs expressed by HR to improve its performance;
- the future changes expected by HR; and
- the way HR perceives and takes advantage of relevant European Union activities.

On behalf of Hewitt Associates and the EChr we are grateful to all participating organisations and HR professionals for taking the time to share their views, concerns and perspectives. We are grateful to Jean-Pascal Arnaud, Catherine Chouard and Claire Isnard for their useful comments and suggestions on the survey.

We hope that the survey report gives you useful insight into emerging HR experiences and that it will stimulate your own ideas and practices toward the development of a more strategic role for the function.

Leonardo Sforza
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Head Research & EU Affairs, Hewitt

Bernard Lairre
Secretary General, EChr
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Executive Summary

The HR Barometer, designed and carried out by Hewitt Associates on behalf of the European Club for human resources, is the first survey of its kind aiming to explore the emerging role and impact of the Human Resource 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 goal of capturing critical aspects of the HR function and the perspectives of HR professionals on some topical subjects, such as Corporate Social Responsibility, that are being faced by leading edge companies. Given the impact of European Union activities on people policies, a specific section of the Barometer is devoted to gaining HR insight on these EU activities.

About the Survey

The survey was carried out in November 2007 among top companies operating in Europe. In this third edition, fifty-three organisations from a wide range of sectors of economic activity and with a combined total of 2.2 million employees completed the on-line survey. Of these, 81% are listed companies, with the majority having their shares listed on a European stock exchange and 21% listed on both US and European stock exchanges. The majority of companies' workforce is based in Europe with 25% employing less than 5,000 people, 20% between 5,000 and 10,000 people, 41% up to 100,000 people, and 14% an even larger workforce. Two-thirds of survey respondents are executives and directors with exclusive responsibility for HR at European or global level. The majority of respondents have a total of more than 20 years of professional experience, at least half of which in HR. From a demographic perspective, 57% of participants are at least 45 years old and 69% are male.

Key Survey Findings

There is a broader consciousness that economic growth, social development, and environmental protection are three interdependent and mutually reinforcing pillars which sustain our society. From a corporate perspective, this does not challenge only our traditional production and consumption models, it is likely to reshape our organisational structures, our managerial approaches, and our mindset as consumers, employees and investors. The world of business, its environment, and the forces underpinning both, are changing at a rhythm that accelerates every day, while gaining further complexity. The wide range and magnitude of variables that a company needs to tackle, even before they are fully understood, requires more flexible, better connected and open organisations and more informed and engaged employees, in order to be prepared for, adapt to, or even invent, change more quickly and with greater agility.

In this context, the need to get the "people equation" right –from integrating talent management and competency development, to matching the needs of a multi-generational and diverse work force– is high on the agenda of successful business leaders and of policy makers. Although the scope of such goals and the way to reach them may differ from one company to another, in substance, the determining factors of the equation remain similar, with HR expected to be at the forefront of the solution.

To what extent are HR professionals conscious of this paradigm and delivering against such expectations? Where they will concentrate their time and resources in the near future, and what should be improved or changed to have a better impact on the performance of their organisation?

This year's barometer shows that there is an increasing awareness of HR professionals about the new horizon of their mission, and the need to gain new competencies and responsibilities. Meanwhile, respondents recognize that the results of their activities in 14 out of 24 HR domains are lagging behind business expectations. HR's awareness of its limits in terms of performance is already a positive step towards fulfilling current gaps. There are three main strategic working patterns where companies in general are still struggling, while leading organisations that have already tackled them are gaining the most.

First, HR continues to be in a reactive mood. The anticipation of more internal and external factors that have a critical impact on people management policies often remains an aspiration. For example, while talent management is widely recognized as the HR activity with the highest positive impact on the business, very little consideration is given by survey participants to directly related activities, such as

work force planning or analysis of demographic trends and new employee expectations. By identifying on an on-going basis critical people-related issues that allow the organisation to reach its business targets more effectively, HR becomes the ideal change agent partner on the board. Then, by adapting its policies accordingly and by embedding its renewed practices into business operations, HR contributes to making change happen while gaining the trust of the lines of business.

Second, HR does not embrace an integrated approach for its rich and multi-oriented range of topical areas of activity (such as recruitment, compensation, performance review, labour law compliance, learning and development, internal communication etc). These and the many other business initiatives with a material people component continue to be treated too often in isolation, or even worst as a “to do list” with completion becoming sequential or random depending on custom or urgency of the moment. With technical and even geographic barriers in the market place falling, the ability to develop cross-functional, cross-cultural and boundary-free partnerships across the organisation, notably with the involvement of external third parties, become a competitive advantage. This is a more common practice in other functions and operations. It is starting to be the benchmark of reference for HR in leading companies.

Third, there is lack of internal mobility and of professional development (across functions, operations and countries) that better take into account changing production paths, the internationalization of business, and the ambitions, expectations and life styles of the global work force. Only 15% of survey participants mentioned the availability of structured career development plans that ensure job mobility to another department of the organisation for all middle-managers and above. An even smaller proportion of participating companies (4%) integrate “high potentials” from other functions into the HR team for a given period of time. Without specific incentives and a clear business direction on this front, it may be difficult for HR, as well as for other functions, to escape to the professional trap of “inertia” or intellectual complacency that reduces the opportunities of improving business and HR acumen.

HR cannot address its gaps alone. There is a shared responsibility among the different corporate functions to define and leverage the people equation that fits best with corporate values and business targets. It is up to HR to inspire the people agenda and enable its smooth implementation. In this respect, the HR “community” and the corporate world’s journey of transformation do not stop at HR nor at the conventional borders of the business. Gains may be made by being open to and challenged and enriched by the wider community of researchers, academicians and practitioners that have made of people management analysis their main area of work and investigation.

In particular, the results of this year’s edition reveal the following.

- Respondents foresee a positive outlook for growth, investment, and job creation in their organisation during 2008. Fifty-eight percent of companies expect to increase both revenue and investment by at least 10%. Sixty percent of companies expect an overall increase in the workforce, while 25% expect to maintain the same size globally. For 12% of companies, this would imply a shift of direction for new investment from Europe to other regions.
- Cultural and organisational changes, together with labour shortages and tough productivity targets, are the factors expected to influence HR’s agenda the most over the period 2008 to 2010.
- For the majority of participants, the development of a risk management policy related to people issues is considered to be the most compelling HR priority.
- Almost half the respondents (46%) consider the need for a greater and timelier involvement of HR in business strategic decisions as the main pre-condition to improve its impact on the business. This implicitly acknowledges the limited margin of manoeuvre that HR continues to have in many organizations, still being confined to the execution of decisions that are part of their core business which are made without its full involvement.
- For 61% of participants, talent management, consistent with the last two years’ editions, is the area where HR has the greatest impact on business performance.
- When judging its own performance, in four out of ten organizations, HR recognises the need to improve its services to match business expectations better. The weakest fields—where HR feels it delivers below target—are those that require a more proactive and anticipatory approach. Specifically, these fields are demographic changes, work-life balance programmes, new competency mapping, HR due diligence, and post-merger integration.

- HR expects to embrace new competencies and responsibilities over the period 2008-2010, while some traditional HR activities will be transferred to and handled at the level of the lines of business.
- HR seems to be well involved, on the ground, in socially responsible corporate initiatives. Generally speaking, it focuses on implementing the labour standards of the International Labour Organisation, and applying employee-friendly measures intended to minimize the negative impact of corporate restructuring on employment.
- A large majority of HR executives (seven out of ten) have a generally positive perception of the impact of the European Union but often lack knowledge about the specific EU activities that matter most to HR and make little use of them.

HR job satisfaction and trust

The research also reveals HR directors' high level of satisfaction with their jobs, their loyalty to their employer, and their trust in their CEO. Eighty-five percent of participants indicated that they like their company and their role, while only 7% would give up their HR role and move to another function. As a new sign of the times and reflecting the increasing internationalisation of business and managers' behaviour, 40% said that they would be ready to change their country of residence. For the second consecutive year, respondents gave their CEO the highest confidence rating, just before their peers and employees within the company. Policy makers and the media are lagging far behind and continue to lose credibility in the eyes of HR professionals.

HR and the European Union

With regard to the activities of the European institutions, despite the renewed policy focus on human capital and the wide range of EU initiatives aiming to support its development, the HR business community appears far from being aware of and able to leverage most EU opportunities. It is striking that four out of ten organisations do not know about the EU subsidies available for employee training and professional development, nor about the European Research & Development programme supporting innovative actions in human capital. Moreover, most initiatives designed to improve EU knowledge sharing and help HR managers find a direct answer to daily practical questions are not known nor used by a large majority of respondents.

The situation is a little bit better with EU legislative developments, but 37% of respondents still are unaware of the EU pension fund directive, which allows cross-border affiliation and the establishment of pan-European occupational pension funds.

This also is a domain where the EU and the Member States' relevant bodies, together with other important professional players such as business associations and trade unions, need to make a true qualitative leap in the way they make individual business operators as well as citizens in general better aware of the rights and opportunities opened up by the European integration process.

In conclusion, the views expressed by HR professionals do not seem to differ from broader business considerations developed by other functions, but their policies may have far reaching consequences for the business. They confirm that HR has integrated imperatives emerging from the global corporate world into the rationale of its function. However, HR continues to struggle to translate these imperatives into an integrated HR framework; that is, consistently adapted to new organisational patterns and people's behaviours at work. The "race to the top" shows that by placing people issues and the related policies underpinning management at the cross-roads of the business transformation process, successful companies have upgraded stakeholders' trust, created shareholders' value, and contributed to the guarantee of sustainable growth in the communities within which they operate.

This survey and the element of analysis presented in the report do not aim to be comprehensive nor representative of the overall European business context. There are a number of different corporate experiences and people-related issues which merit much greater investigation. Eventually these findings will encourage other organisations, business schools and more companies to deepen knowledge sharing on HR policies and practices.

Leonardo Sforza

Charts Index

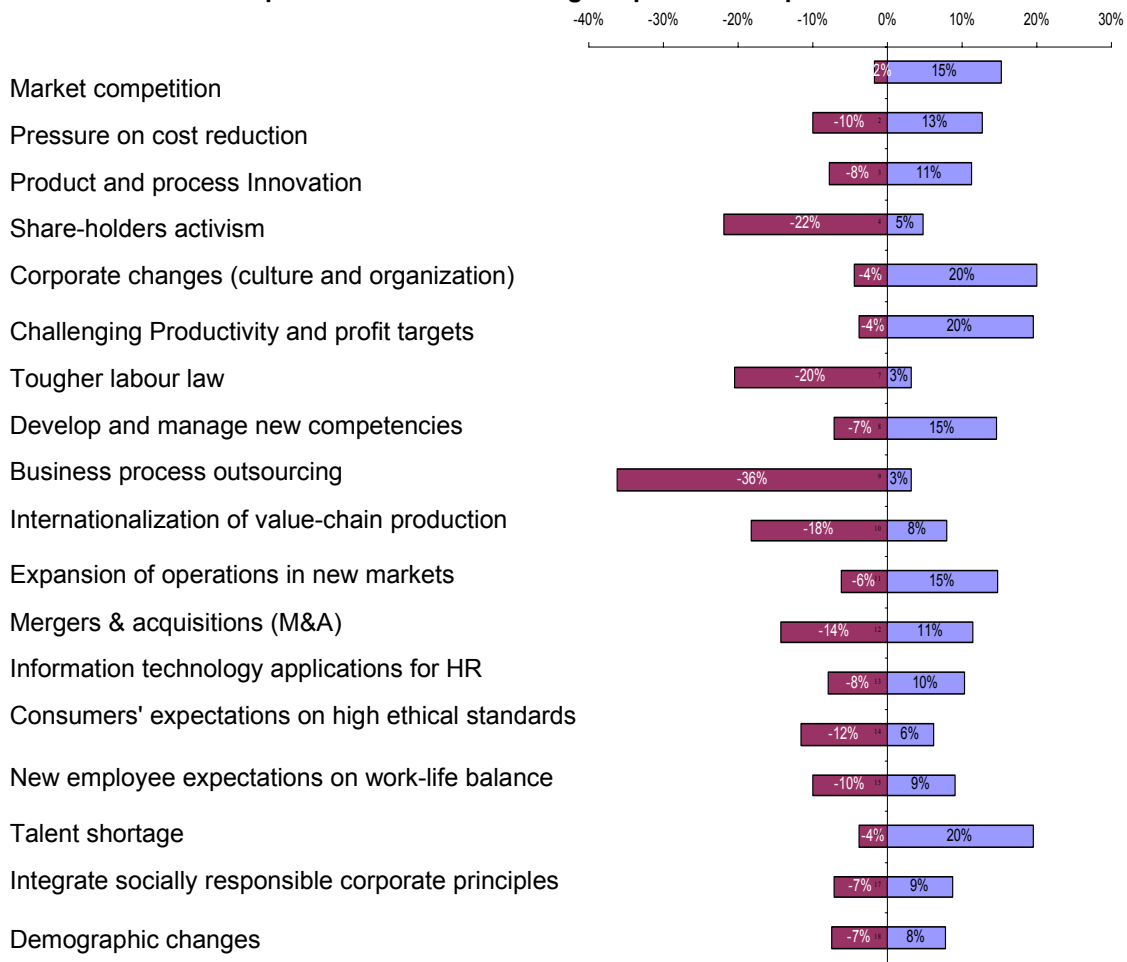
1. Most and least important factors influencing HR policies and practices
 2. HR priorities 2008-2010
 3. HR related activities with highest positive impact
 4. Most used tools to measure the impact of HR activities
 5. People related issues not driven/delivered by HR
 6. Overall self assessment of HR delivery versus business expectation
 7. HR specific activities requiring greater improvement (>50% of respondents below target)
 8. Best performing HR specific activities (>50% of respondents on or above target)
 9. Top HR needs to better fulfill its mission
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 16. Corporate identity and national roots
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- Structural data on participants

I. What Drives HR

Change, Labour and Productivity Gaps Drive HR

A wide range of internal and external factors influences the HR agenda. Some of them, such as changes in the company culture and organization, together with challenging productivity and profit targets and talent shortages are seen as being the most influential in shaping HR's role and activities. On the other hand, the externalization of business processes, followed by employment regulatory requirements and share holder activism, are considered by survey participants as marginal or not critical for HR. In this respect, HR is affected mainly by general internal business priorities and by what underpins its main goal—namely, helping the organisation face productivity and labour force gaps. Meanwhile, HR seems to underestimate the importance of factors which are not under the control of the organisation but are likely to have a direct impact on both the effectiveness of HR policies and business performance. For example, only 8% of respondents have considered demographic changes as critical for their HR policy. Similarly, few consider consumer expectations for ethical standards as being compelling factors for HR.

1. Most and least important factors influencing HR policies and practices



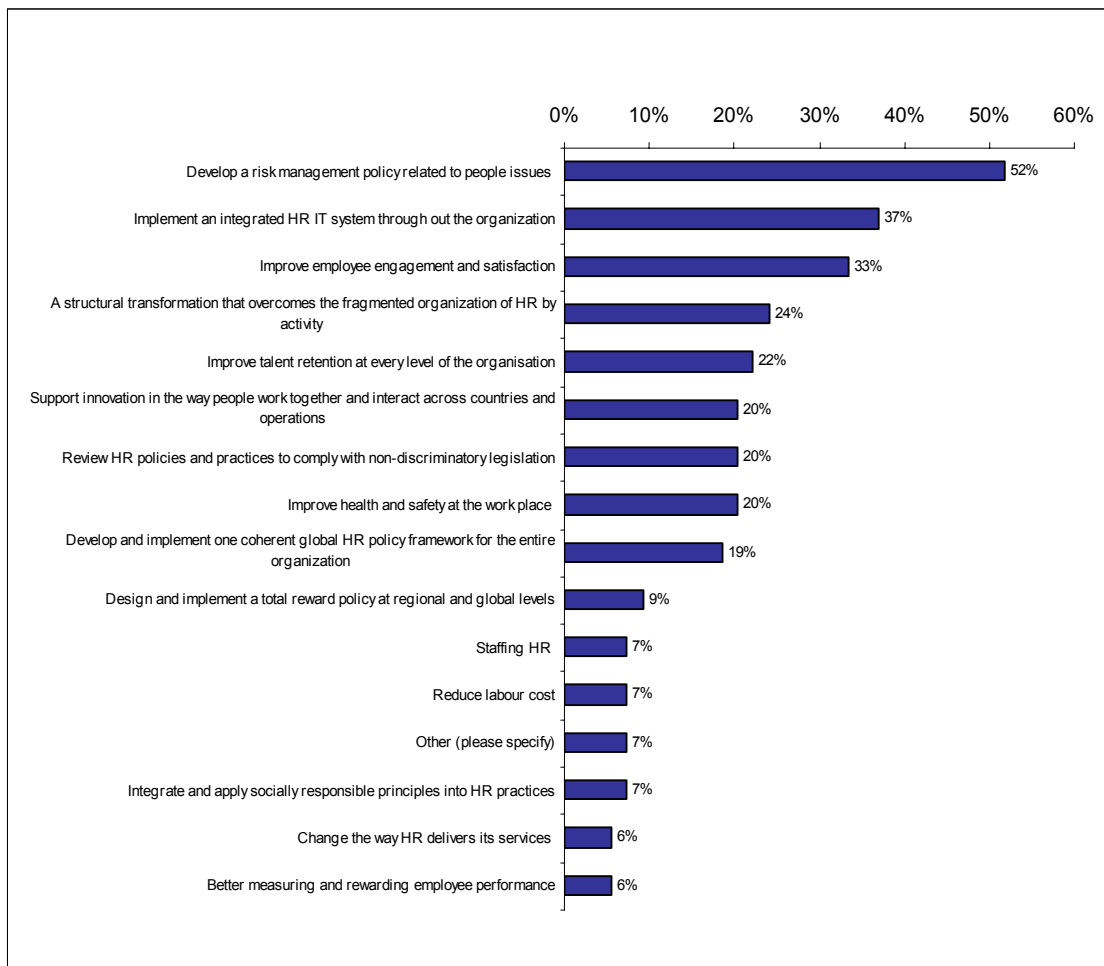
Least Influencing | Most Influencing

Risk Management Policy High on HR agenda

For the majority of participants, the development of a risk management policy related to people issues is considered to be the most compelling HR priority for the period 2008-2010. This involves a wide range of risks, including reputational risks related to employee or management misconduct; financial risks related to underlying employment liability; or the difficulties that an organisation may have in attracting and retaining the right people, thereby putting at risk the capacity to develop new products and expand in new markets. In previous editions of the barometer, this was at the bottom of the priority list, mentioned by less than 13% of participants

The implementation of an integrated IT system for HR is the second most mentioned priority, showing that HR is still looking for more coherent and efficient technological platforms that would improve service to its internal network of business correspondents and direct users of HR services throughout the entire organisation. The improvement of employee engagement and satisfaction rose in importance compared to last year and emerges as the third priority for HR. These top priorities in three complementary areas show a further reorientation of the HR agenda, combining new business imperatives with core HR areas of expertise where HR can add real value. First, by mapping and reducing people related risks, HR can contribute to protect the financial security of the business. Second, by leveraging new information and communication technology tools, HR can speed-up its processes and be instrumental in the development of an interconnected, less fragmented, organisation. By focusing on HR practices that assess and upgrade employee engagement, HR becomes a true partner of different business operations in the achievement of improved productivity and sustainable growth.

2. HR priorities 2008-2010

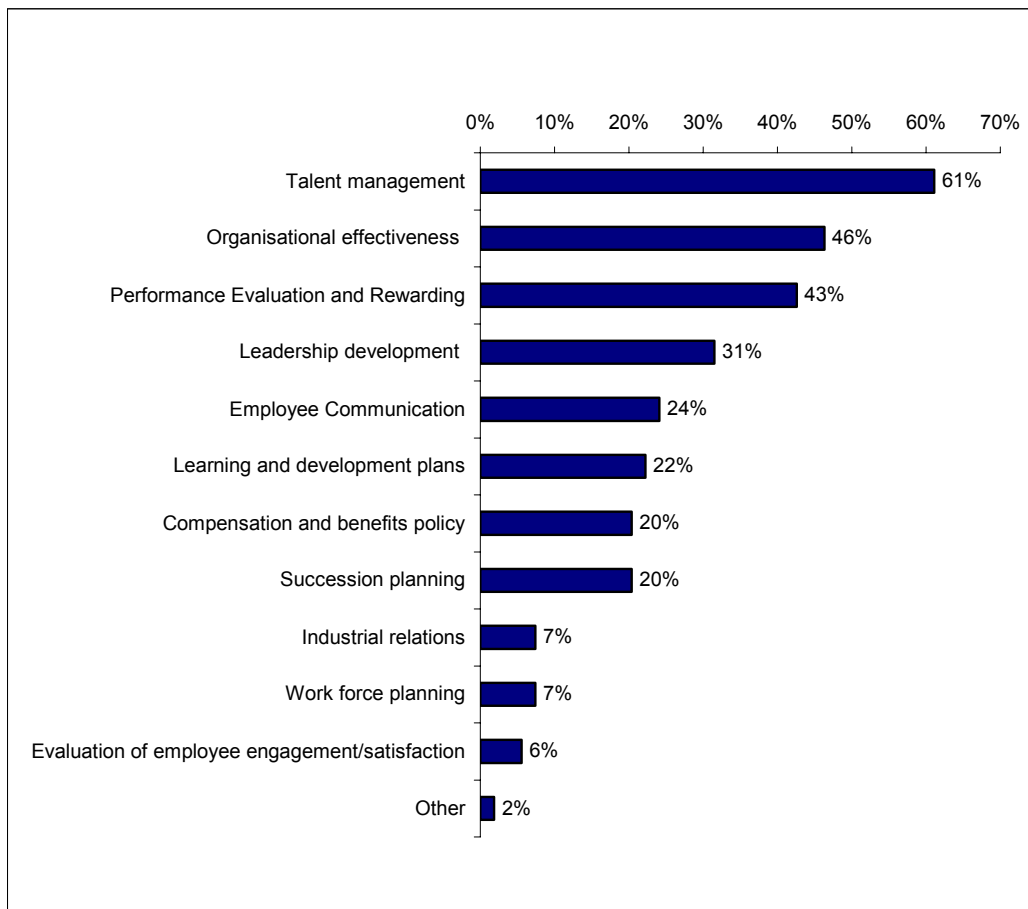


II. Where HR Adds Value and How It Is Measured

Talent management most impactful HR activity

The management of talent continues to be seen, by an even larger proportion of participants (61%) when compared to previous editions (47%), as the HR activity that has the highest positive impact on the performance of the company. Paradoxically, activities correlated to talent management such as work force planning and evaluation of employee engagement and satisfaction are at the bottom of the scale, as they are mentioned by 7% or less respondents. Also, industrial relations are indicated by less than one out of ten participants, confirming the trend seen in previous years which may reflect the reduction of negotiating power and of employee representatives in social partner negotiations.

3. HR related activities with highest positive impact

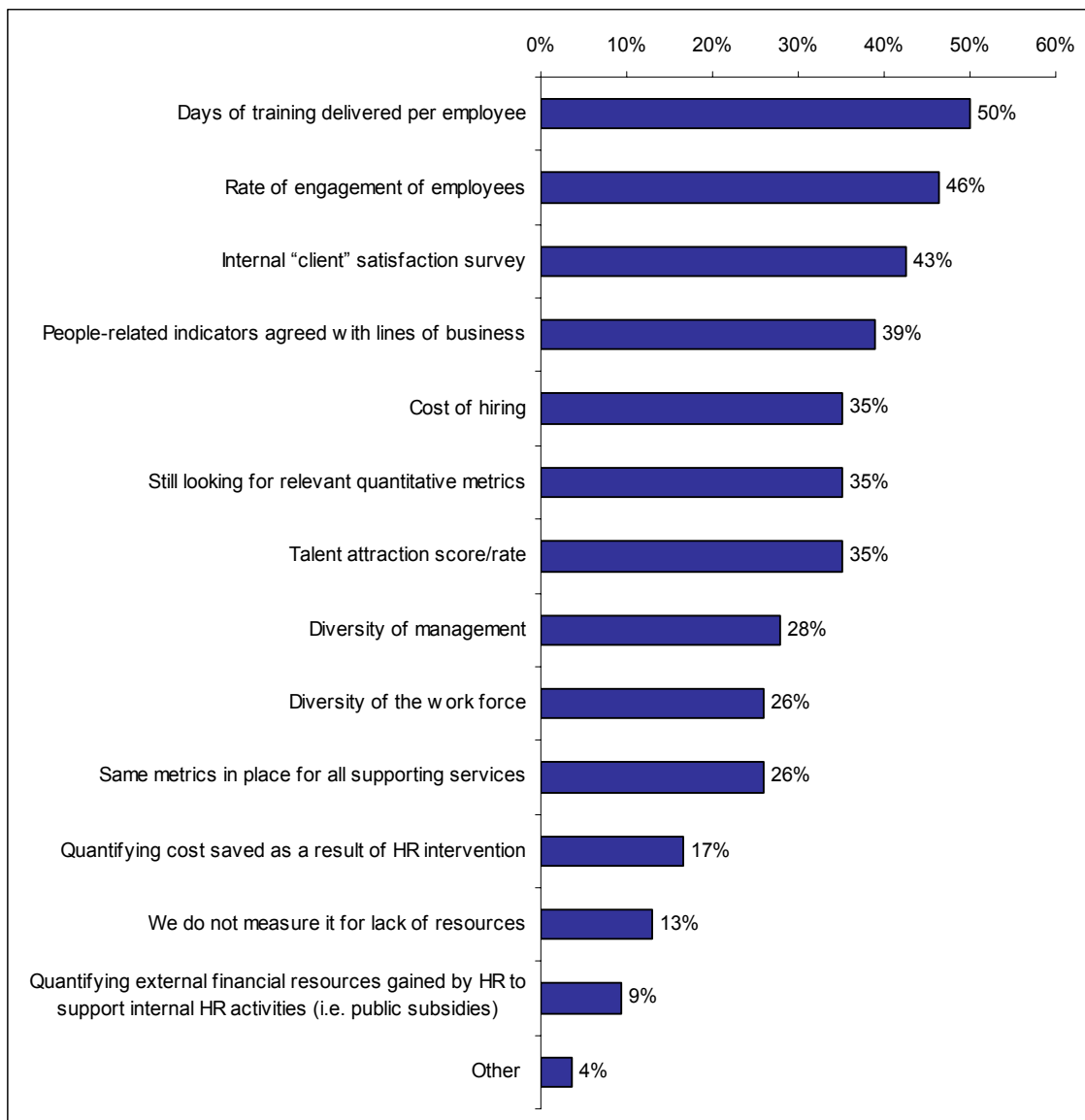


A wide range of metrics, not always adapted

A number of quantitative and qualitative indicators are used by 83% of participants to assess the impact of HR specific activities on the business. While 13% of participants do not measure HR performance claiming a lack of resources, 35% is still looking for more relevant tools that would allow them to better quantify their added value. A traditional, easy to obtain, metric such as the days of training delivered per employee jumped from 25% last year to 50% this year, at the top of the list of the most often used indicators. Two other well articulated tools follow, which aim for a picture of the level of satisfaction of the two main users of HR services: specifically, employees, through the so called “engagement survey,” which allows the measurement of the level of commitment, passion and satisfaction at work, and the different functions and departments through internal surveys designed to gain insight on the level of appreciation and satisfaction for the support provided by HR to fulfill their respective missions.

The increasing trend towards the use of same metrics for all supporting functions including HR is notable, as mentioned by 26% of participants.

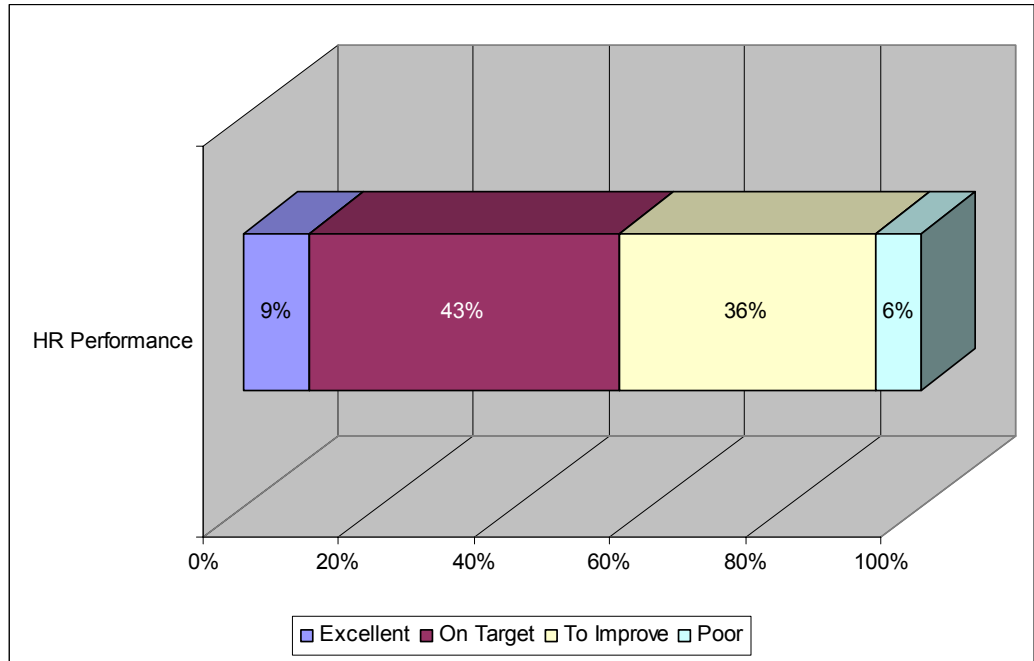
4. Most used tools to measure the impact of HR activities



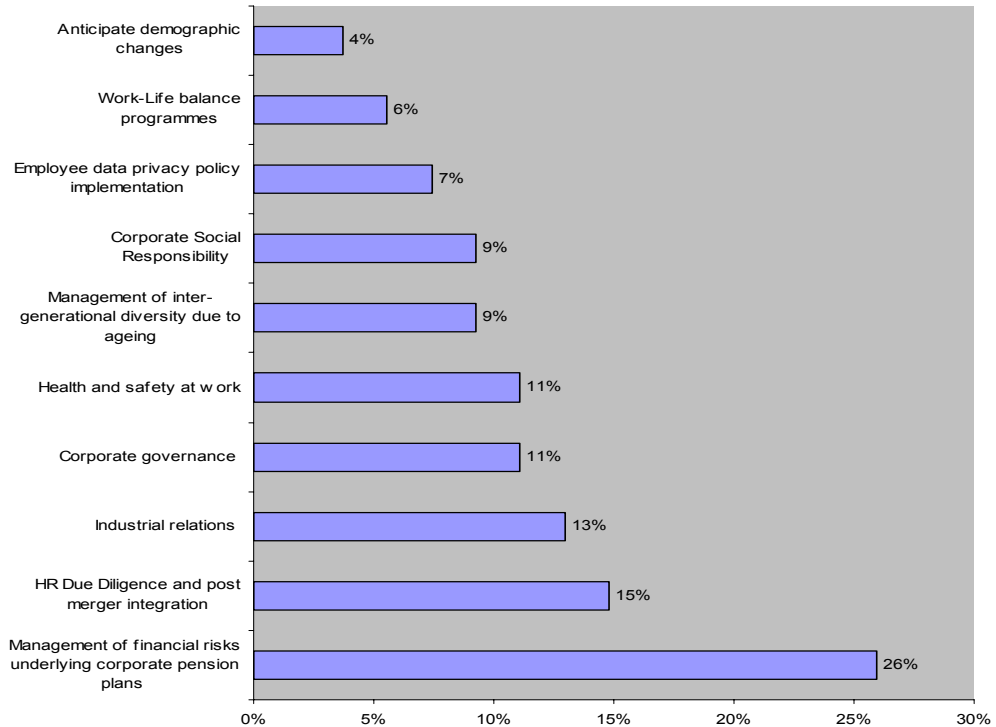
Material gaps between HR delivery and business expectations

When called to assess the level of realignment between what HR delivers within the organisation and what the business expects from HR, only a slight majority of respondents (52%) believe that they match or outperform those expectations. For 14 out of 24 HR specific areas of activity, the majority of respondents are delivering below target, while in some people related area—such as the management of financial risks underpinning occupational pension promises or HR due diligence and post merger integration—which are important from both a financial and business perspective, there is still a significant proportion of companies where HR is not driving or delivering a specific contribution.

5. Overall self assessment of HR delivery versus business expectation

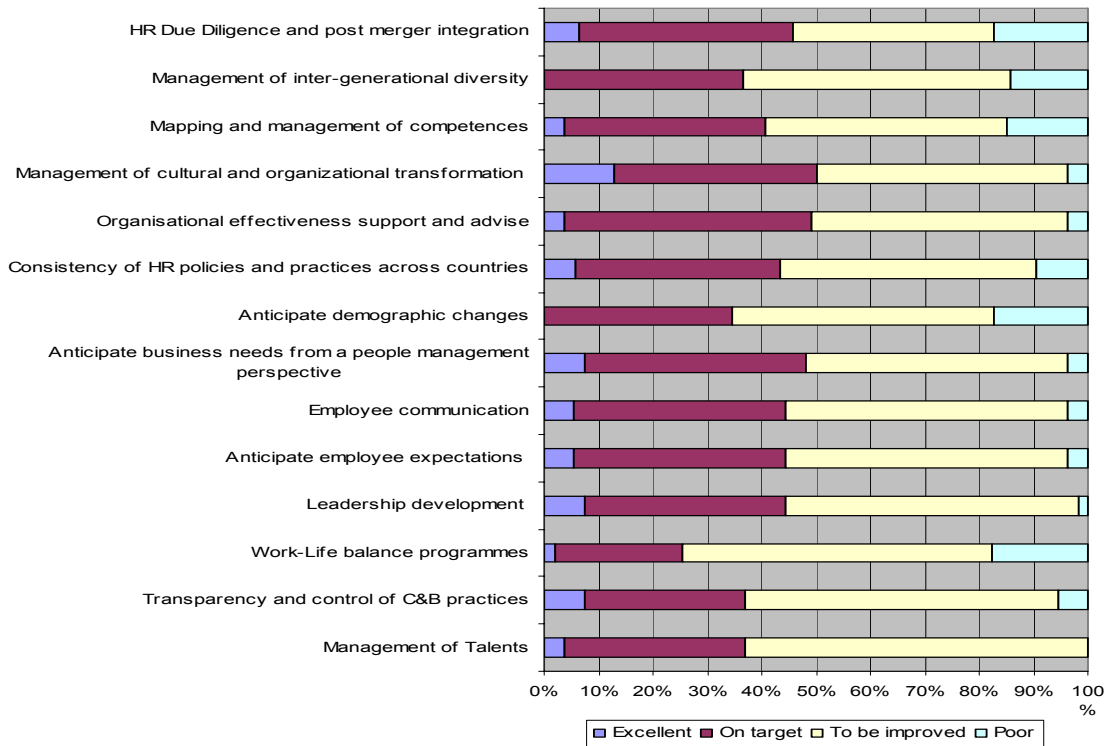


6. People related issues not driven/delivered by HR

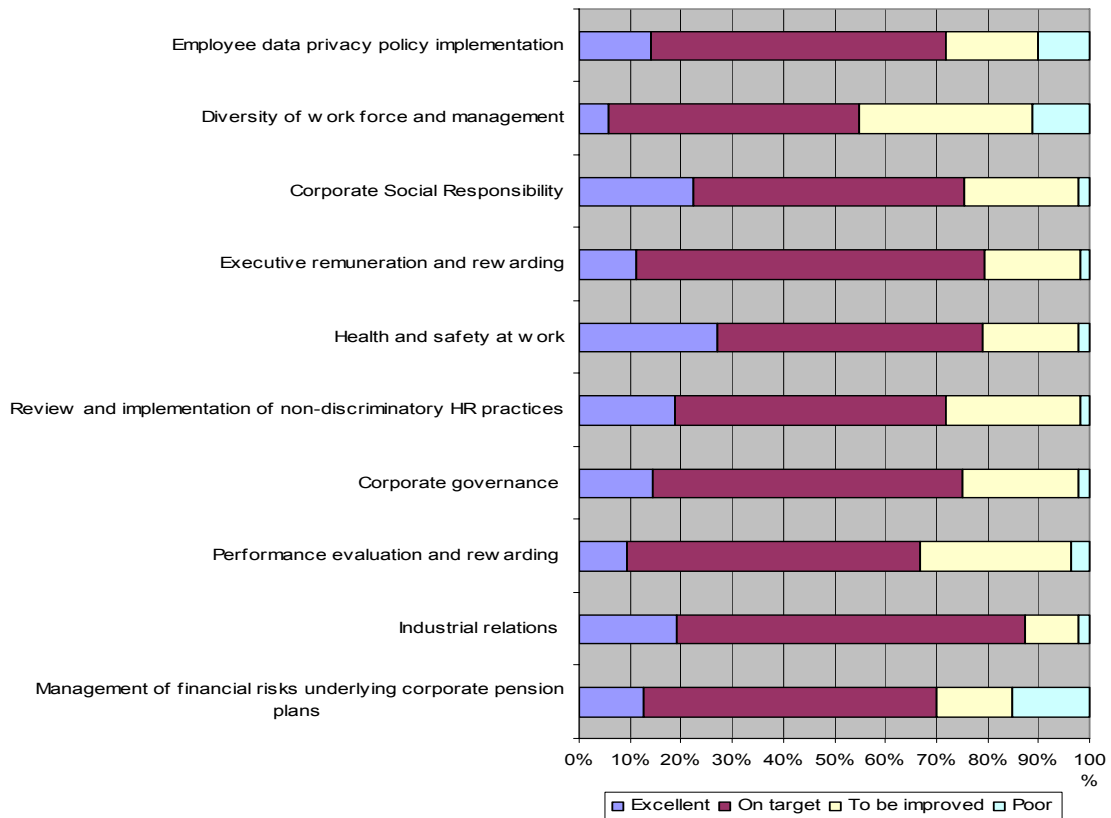


Areas that seem to require more substantial improvement are related to work-life balance programmes, anticipation of demographic changes, management of inter-generational diversity, mapping of competencies, and HR due diligence and post merger integration. Companies seem to be in better shape in the field of industrial relations, in guaranteeing health and safety at work, and in relation to executive remuneration.

7. HR specific activities requiring greater improvement (>50% of respondents below target)



8. Best performing HR specific activities (>50% of respondents on or above target)

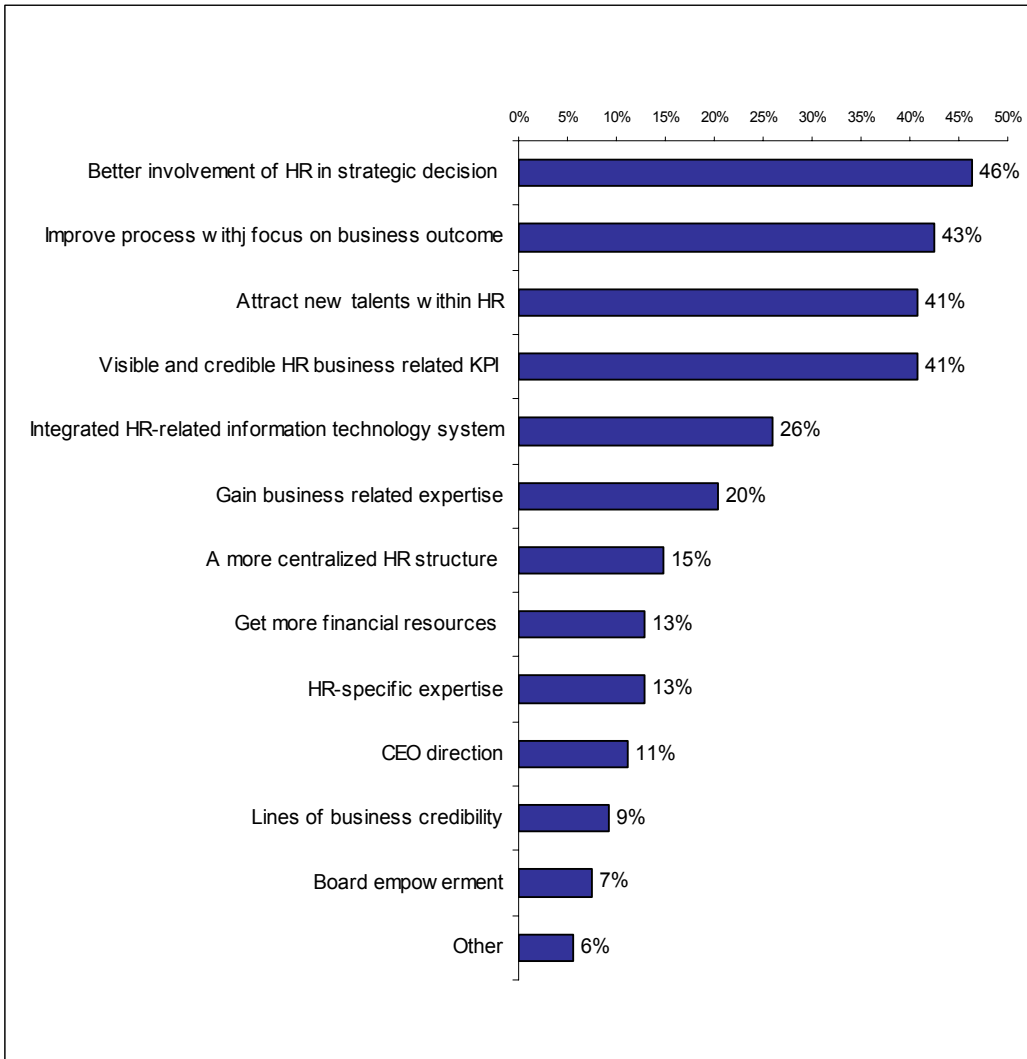


III. HR Needs

HR still waiting for the call

Forty-six percent of HR respondents place at the top of their wish list the need to be better and earlier involved in strategic corporate decisions that have an impact on people management. Other most mentioned needs include a reorientation of HR processes that enable of business outcomes rather than just address business administration; the attraction of new talent to the HR function; and the development of more effective key performance indicators.

9. Top HR needs to better fulfill its mission

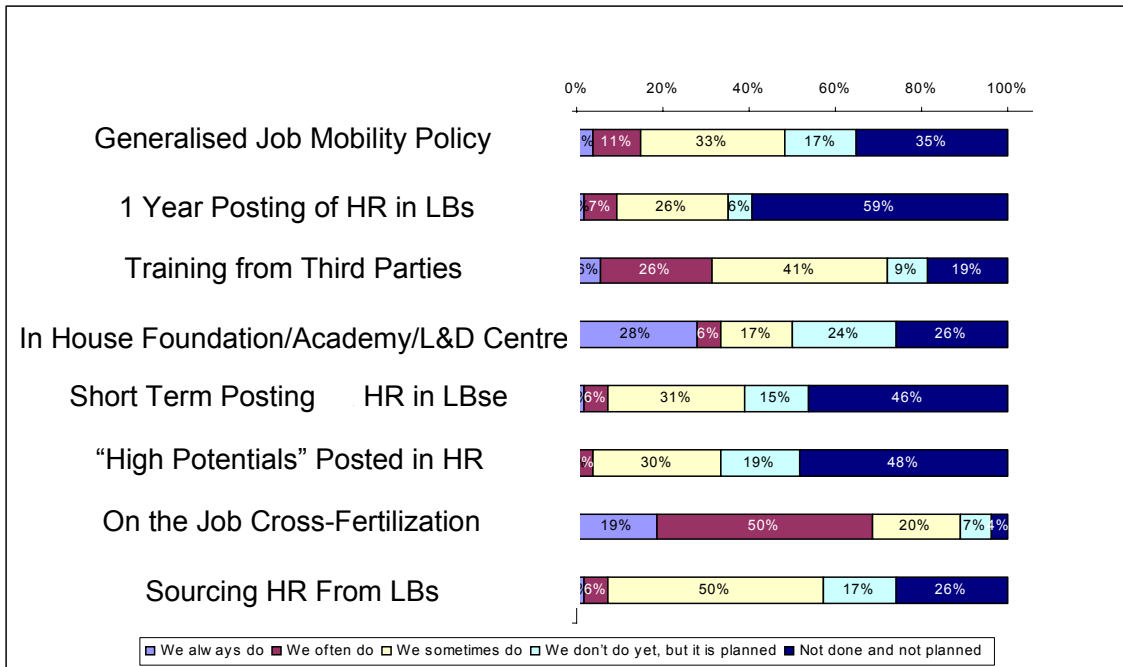


HR understanding the company environment by doing

In last year's edition, respondents indicated the need to improve their business related knowledge and expertise as a top priority. This year we have explored what companies are doing to resolve this gap, which continues to be mentioned by 20% of HR professional in the current survey.

Gaining business knowledge on the job by being involved in cross-functional teams, as well as in-house learning and development, emerge as the most typical opportunities offered to HR to better understand their corporate and competitive environment. Very few organisations have put in place a generalized policy of job mobility from HR to lines of business and vice-versa.

10. Corporate practices aiming to improve business acumen of HR professionals

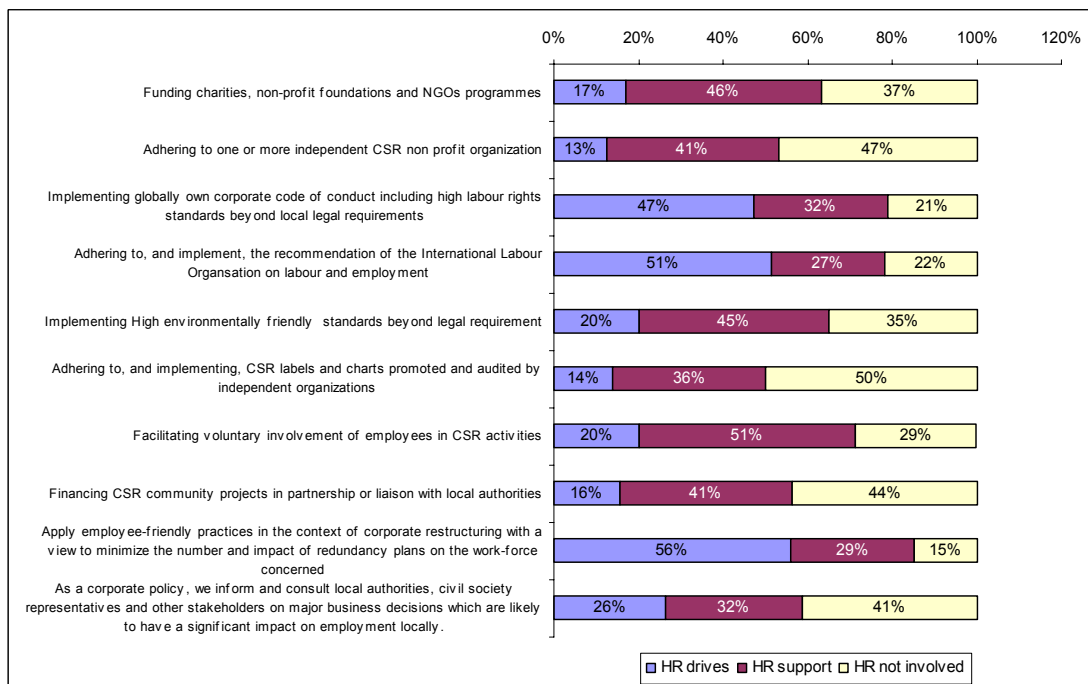
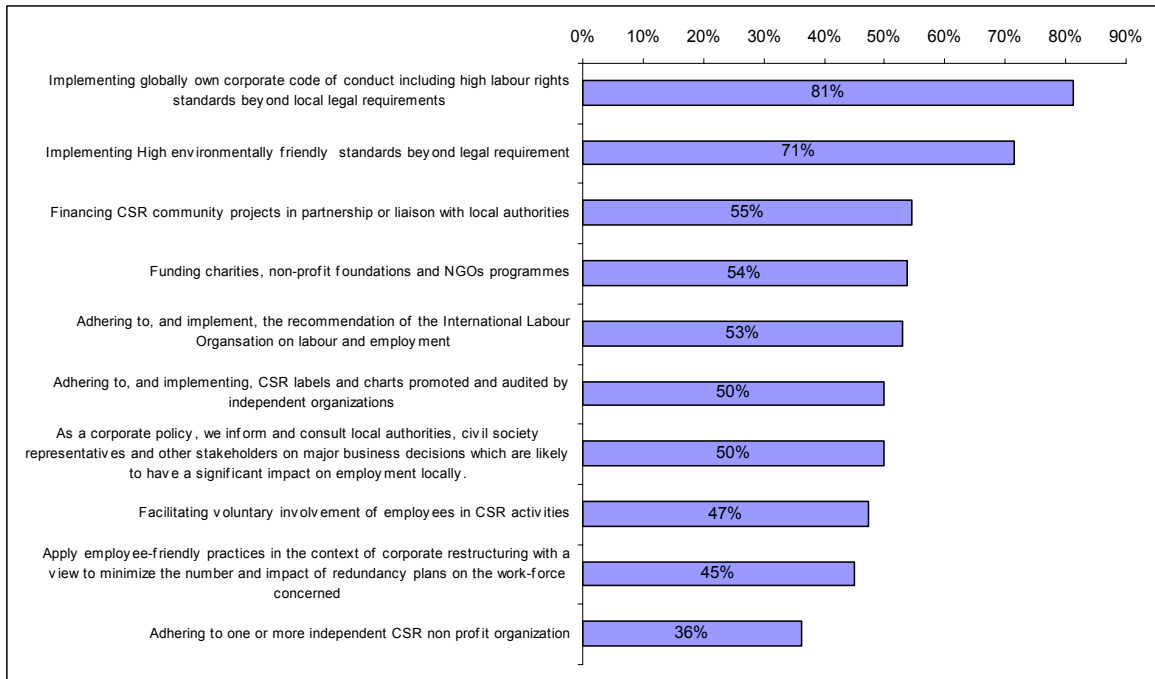


IV. Corporate Social Responsibility and HR

HR is serious about CSR

An increasing number of organizations is engaged in socially responsible activities (CSR). In this context, the practice that is most frequently mentioned (81%) is the global implementation of a corporate code of conduct which includes high labour standards that exceed local regulatory requirements. In this respect, HR often has a driving role. The implementation of high environmentally friendly standards is the second most mentioned CSR practice (71% of participants), with HR also in a supporting role. An area where HR seems less involved (50% of cases) is in relation to a company's decision to adhere to and apply CSR labels and charts which are audited by independent bodies.

11. Corporate Socially Responsible (CSR) initiatives undertaken by companies

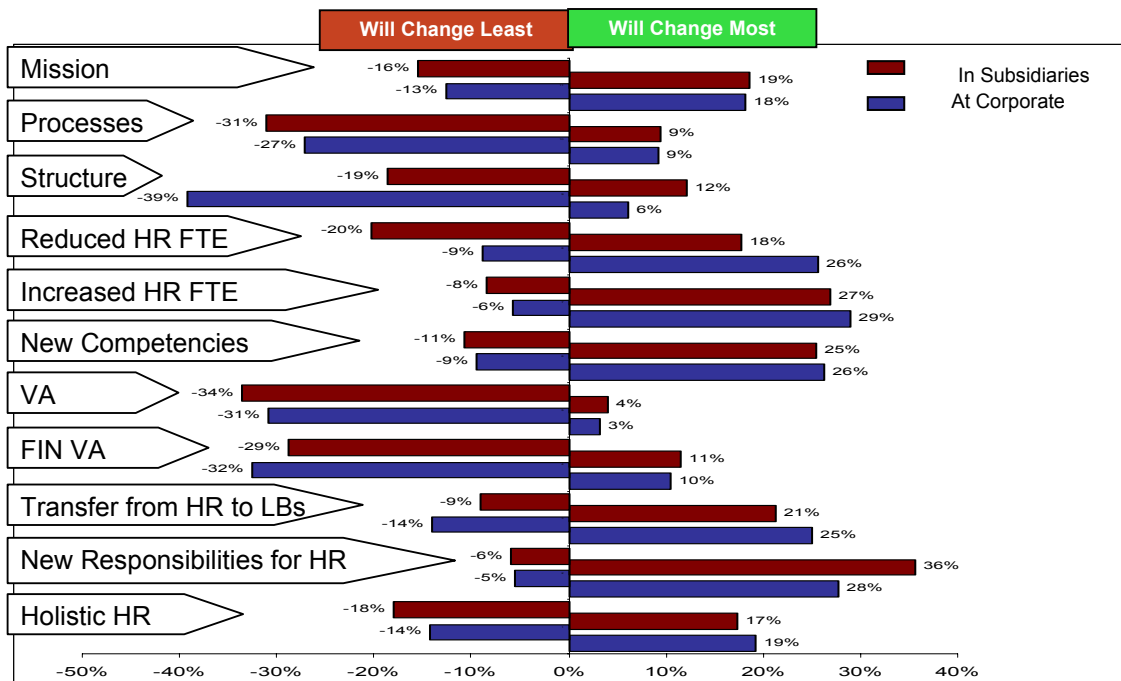


V. Future Changes in HR

New shift of responsibilities and competencies for HR

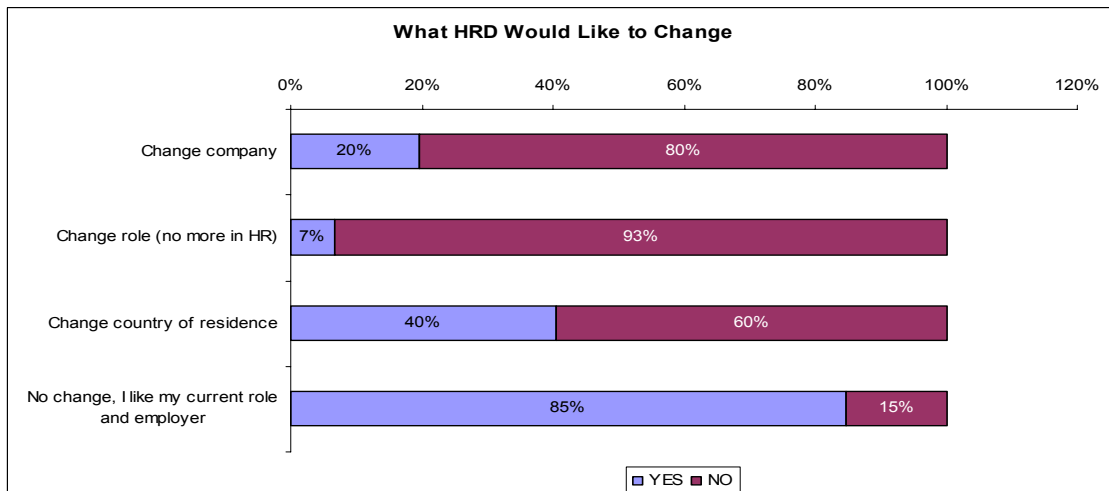
The way HR adds value to the business and the current structure and processes are expected to remain generally the same at both corporate and subsidiary levels through 2010. What is expected to change most are the new responsibilities that HR will be expected to manage, accompanied by the need for developing new competencies. In terms of the actual human resources needed, some companies expect to reduce their HR work force, more at corporate than at subsidiary level. This may be driven by the anticipated transfer of some responsibilities from HR to lines of business. Meanwhile, another 25% of respondents expect to increase the number of full-time equivalent (FTE) positions in HR which may reflect the need to integrate new competences and responsibilities

12. Expected changes at corporate and subsidiary levels in HR



For the third consecutive year, survey participants expressed an overwhelming attachment to their role and employer; only 7% would be ready to change roles and 20% to change companies. There is a greater desire (40%) to change country of residence while continuing professional experience.

13. HR wishes for change



VI. HR Trust Index

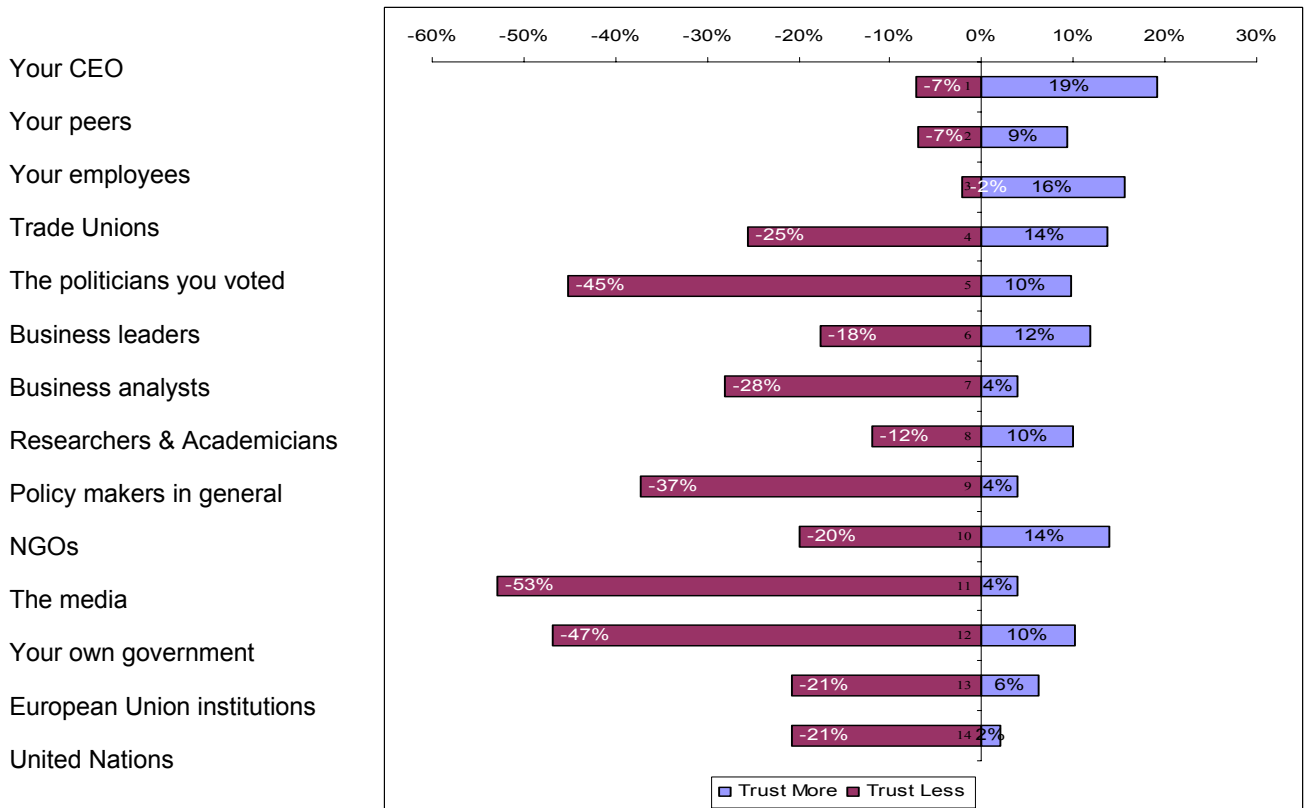
Most trusted people in own corporate word

Called to single out the most trusted person or organisation within a wide typology including international agencies, social partners, sectors and domain of activity or professions, 79% of participants mostly trust people within their company. The own CEO leads the list, followed by other executives and their company employees. Among policy makers, the UN is more trusted than the respondents' own government and EU institutions. The media, government and recently elected policy-makers are the categories than perform the worst in terms of confidence lost over a year. At the opposite end, CEO and employees continue to gain confidence.

14. HR Trust index



15. Change in trust over the last year

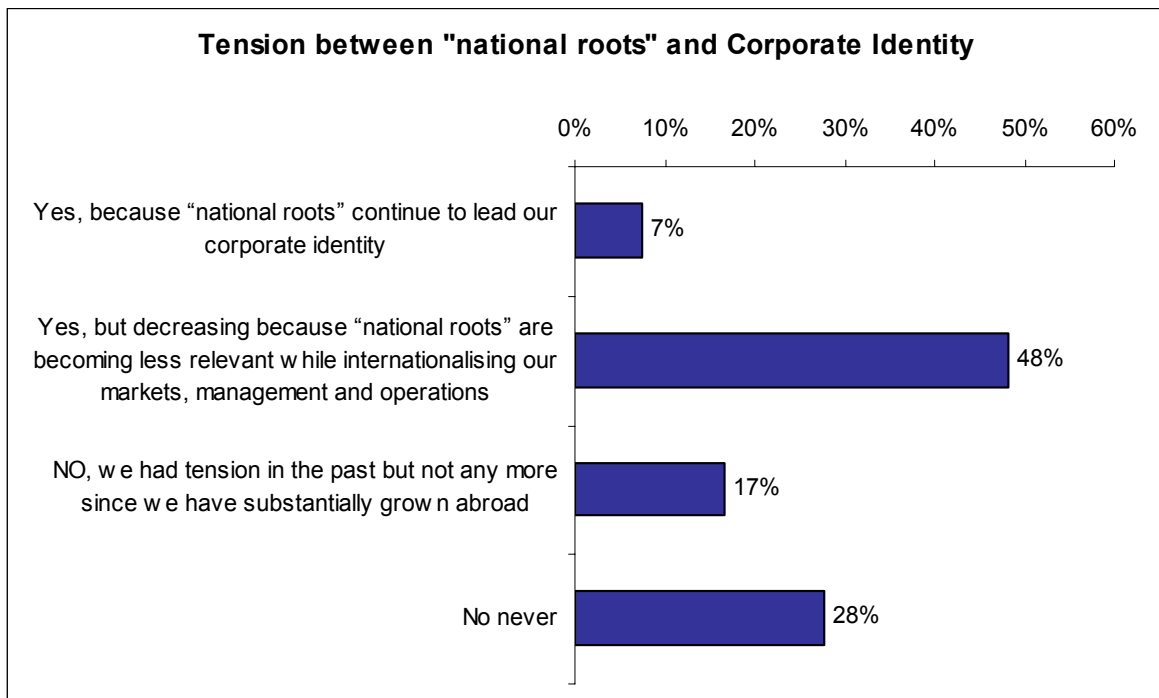
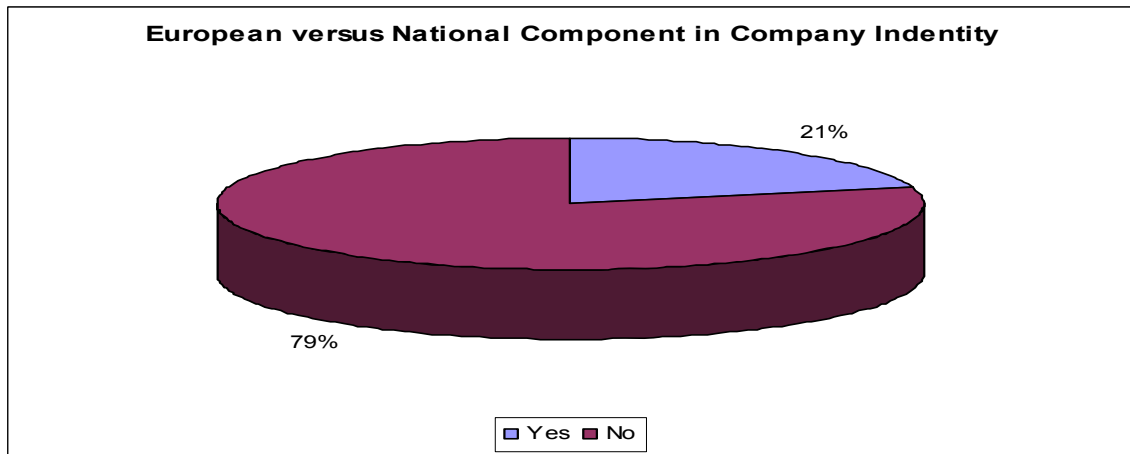


VII. National roots and corporate identity

Limited European corporate identity”

Eight out of ten participants were unable to identify a specifically European component, as opposed to national or global component, in their company values and corporate identity. Meanwhile, although decreasing as a consequence of the internationalization of markets and business operations, 55% recognize some tensions between national roots and corporate identity.

16. Corporate identity and national roots

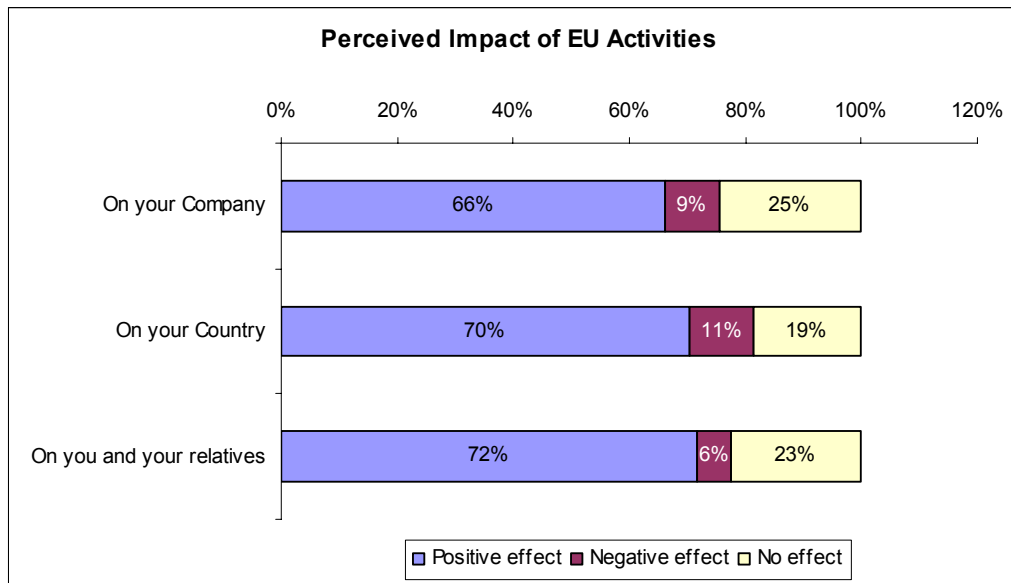


VIII. HR and the European Union

EU : a positive judgement

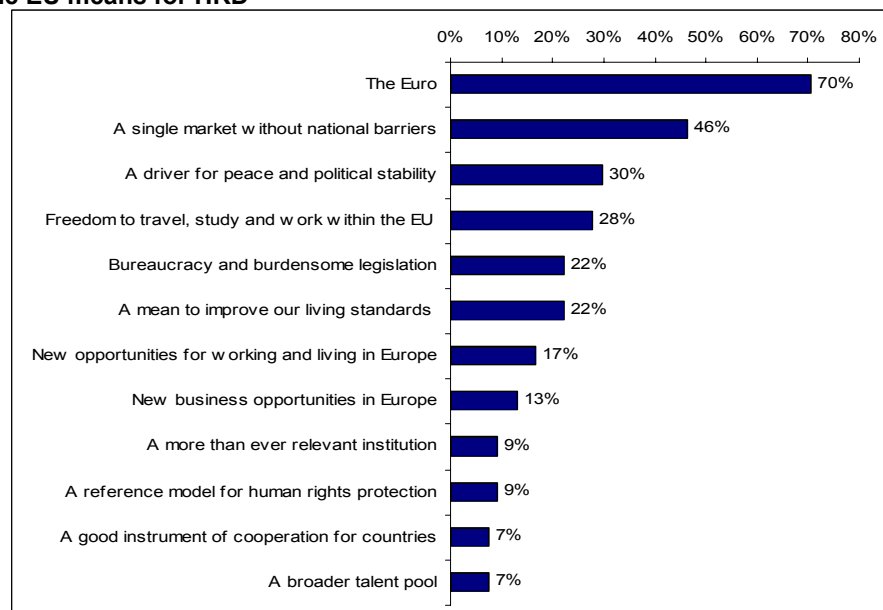
Seven out of ten respondents express an overall positive opinion about the impact of European Union activities. For the third consecutive year, the positive perception rate continues to gain ground among participants (+17% year-on-year increase). The positive effect is felt more markedly on one's personal situation, as compared to one's own company or own country economy.

17. Impact of EU activities



When thinking of the European Union, it is the European single currency that comes first to mind for 70% of respondents. The idea, as well as achievement, of a single market without barriers comes in second for HR; followed by the perception of the EU as a driver for peace and political stability, and an area where people can freely travel, study and work. Aside from these positive thoughts, for 22% of respondents, the EU still means bureaucracy and burdensome legislation. Only 7% think of the European Union area in terms of a broader talent pool. This means that only few in HR have enlarged the geographic scope of their labour market of reference for attracting new talent.

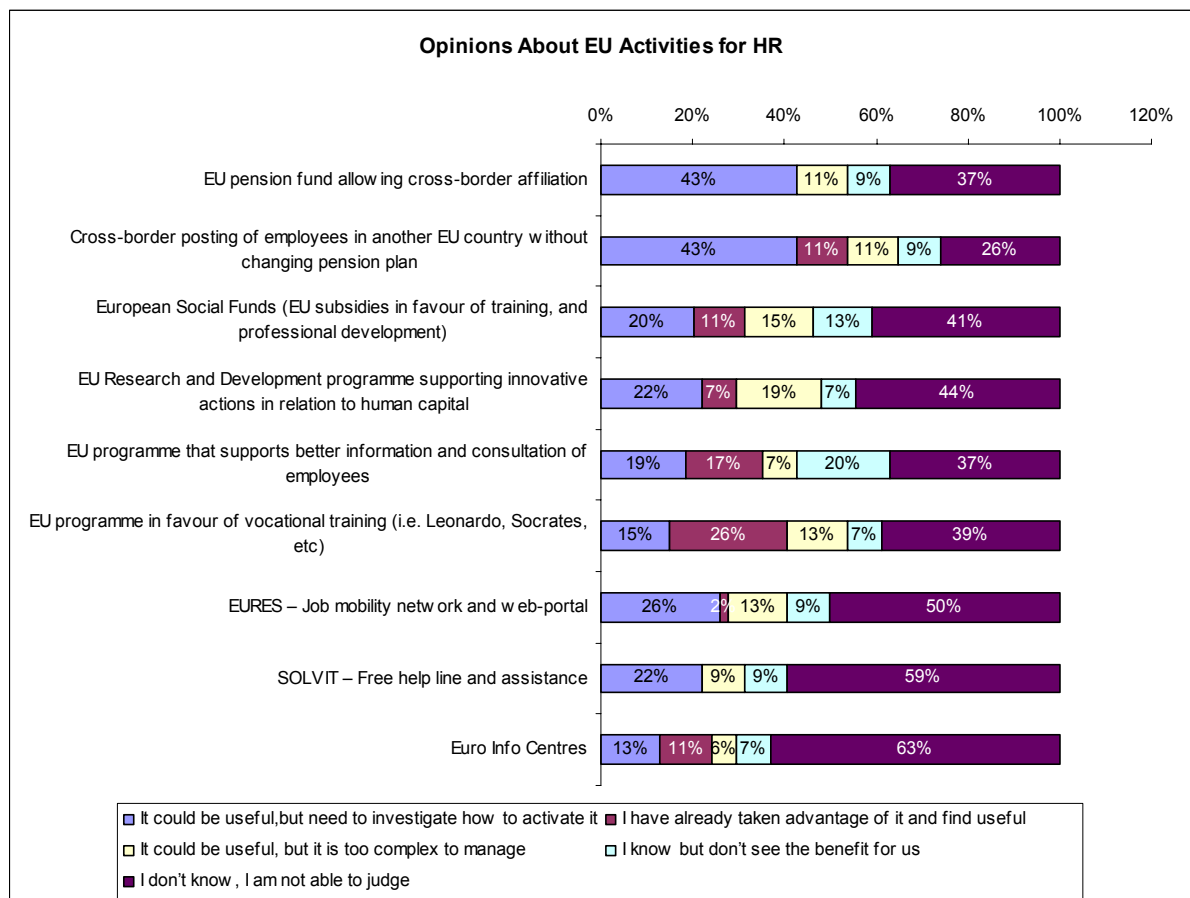
18. What the EU means for HRD



Limited knowledge about EU measures

More recent and long standing EU initiatives aiming to cope with occupational pension provisions are seen favorably by business, and in the case of cross-border postings, 11% of participants have already taken advantage of this measure which facilitates geographic employee mobility for a determined period of time while remaining with the same employer. EU programmes that support and finance training are the most used measures by participants (26% have already taken advantage of them). The least known EU initiatives, with half of participants not knowing about their existence, are those aiming to inform business about EU opportunities and rights or those such as “Eures” which could be of great support to HR when looking for information on employment statutory requirements and administrative procedures, as well as announcing new job positions available within the company or consulting the curricula posted by European candidates who are looking for a new job within the European labour market.

19. Knowledge and opinions about specific EU initiatives

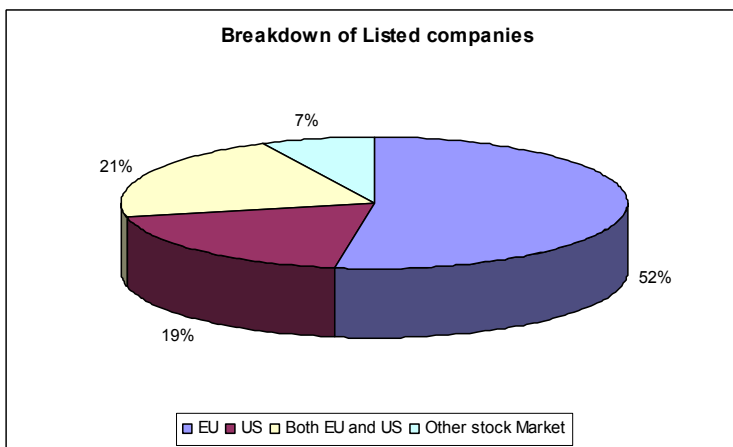
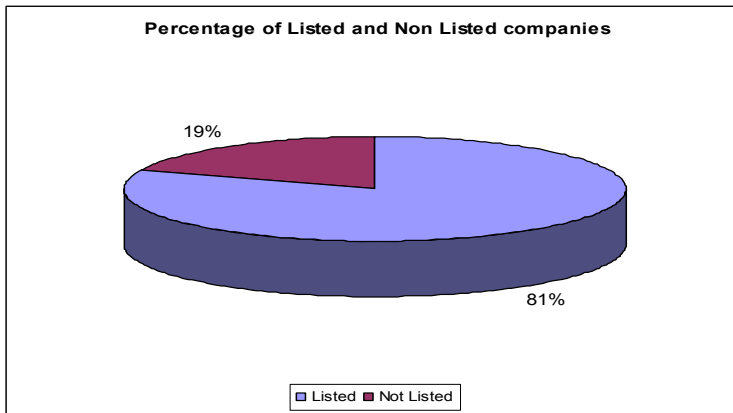


IX. Participating Companies*

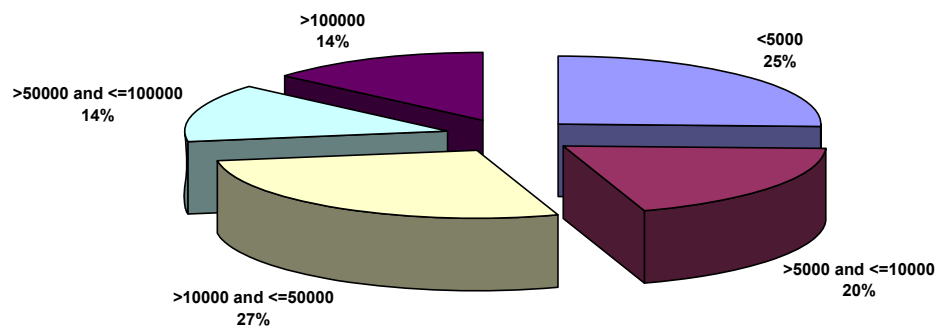
- Actaris
- Actelion
- Adecco
- AGC
- Areva
- Bobcat
- Bouygues Construction
- Chantelle
- Crucell
- Dassault Systemes
- Elior
- Ferro
- Fiat Financial services
- Finansbank
- Groupe Legris Industries
- Groupe Monnoyeur
- Iberia
- Leica Geosystems
- Levi Strauss & Co.
- Mediobanca
- Parmalat
- Prisa
- Publicis Groupe
- Radiospares
- Raiffeisen International
- Rexel
- Richemont
- Toyota

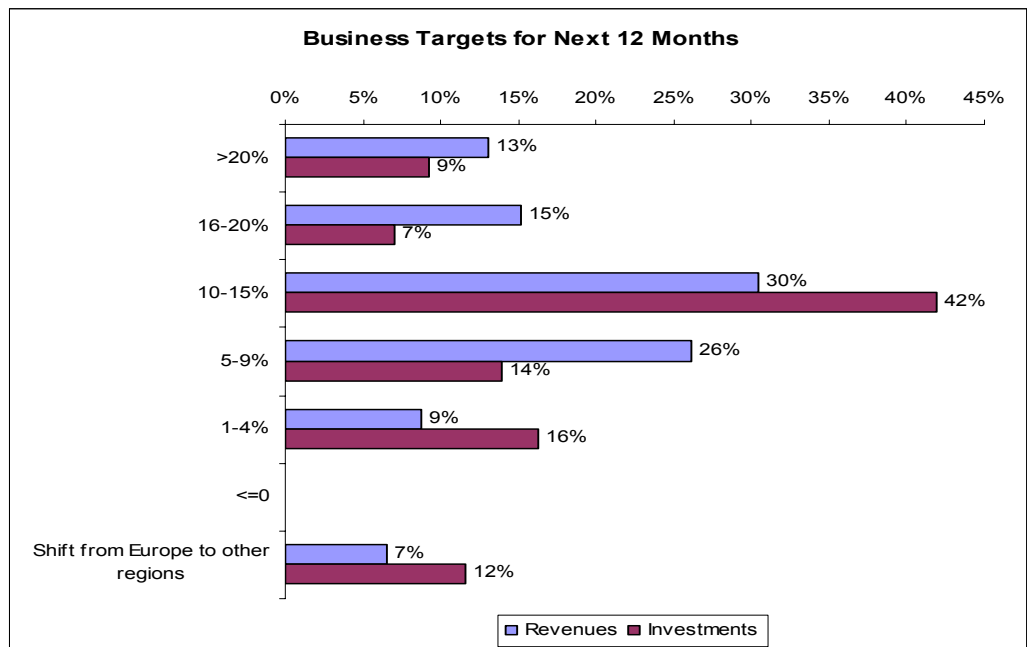
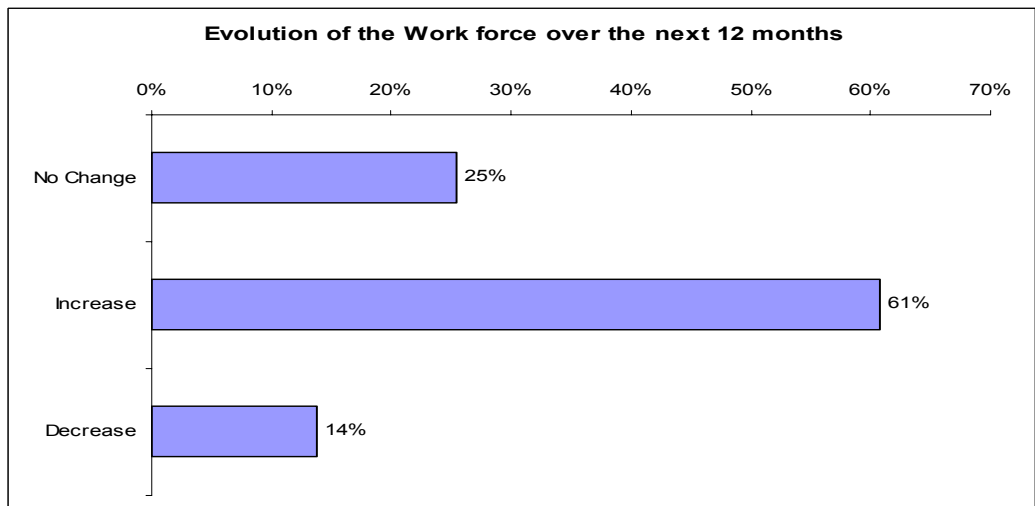
*Excluding participating companies that did not wish to disclose their name

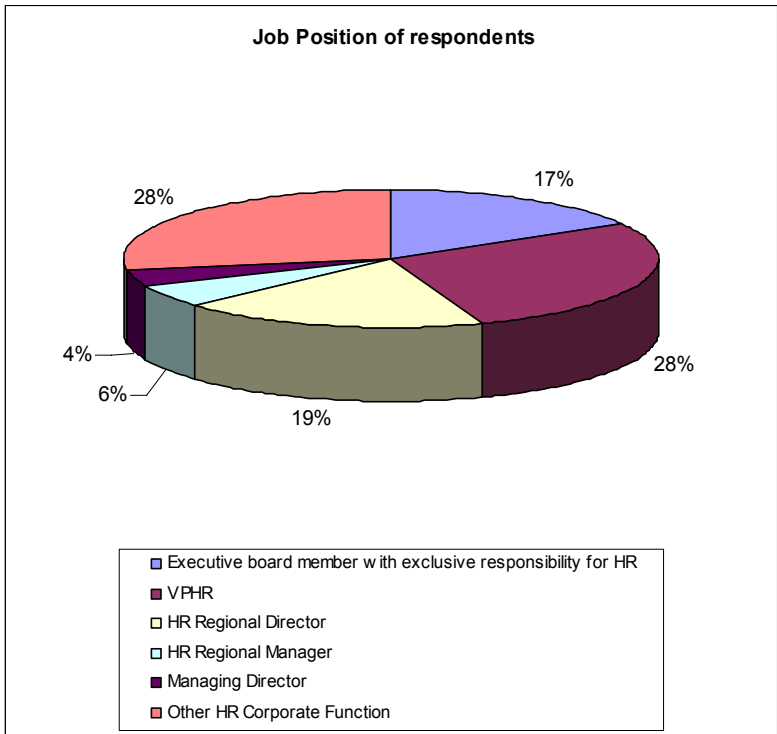
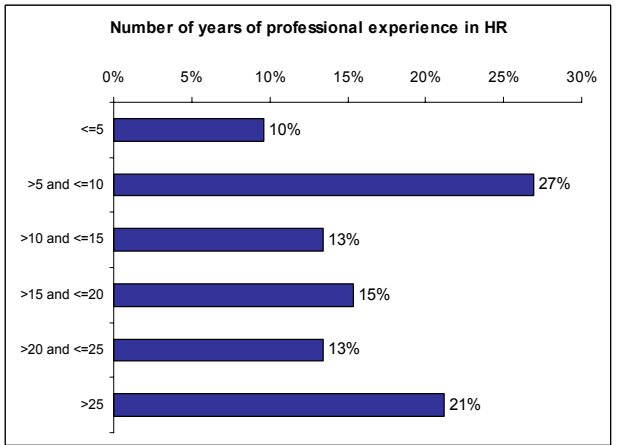
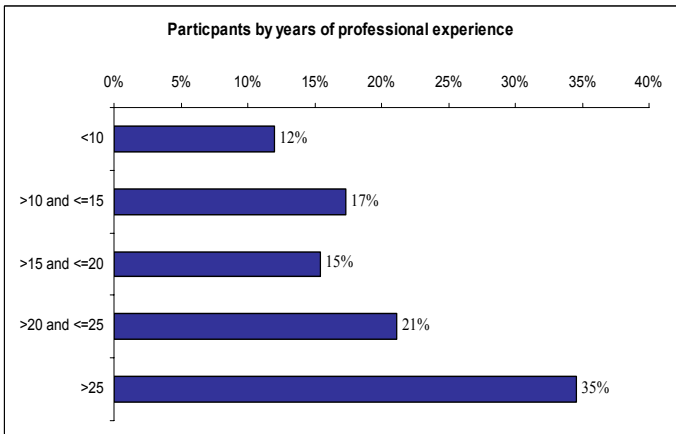
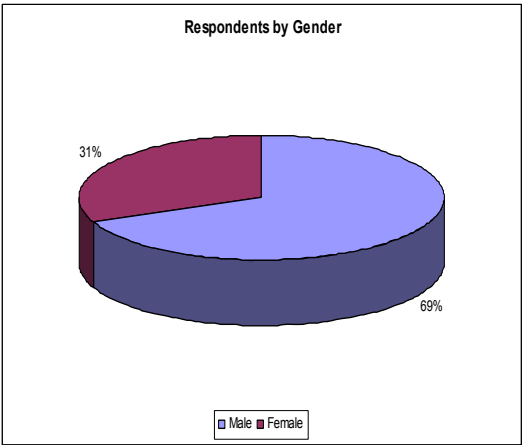
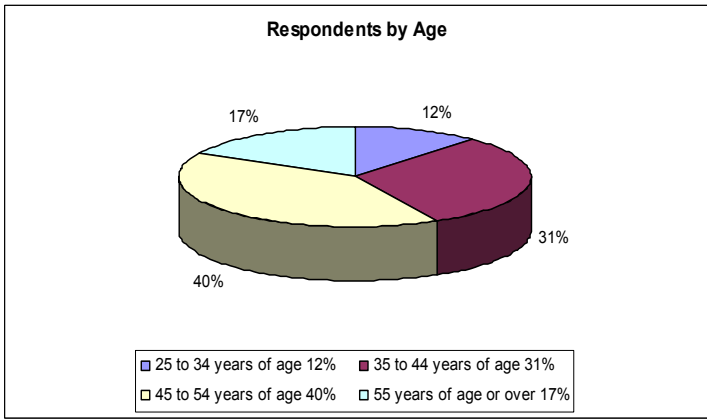
X. Structural data on participants



Companies by size for number of employees







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About the European Club for HR

The European Club for human resources (EChr) is a financially independent non-profit association based in Brussels. The ECHR brings together executives from multinational companies to share experiences and develop, from a European perspective, an international vision of human resources management. The club is a forum for the exchange of ideas and analysis about human resource policies and best practices in Europe. For more information, please visit www.europeanclub-hr.eu

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For more than 65 years, Hewitt Associates (NYSE: HEW) has provided clients with best-in-class human resources consulting and outsourcing services. Hewitt consults with more than 3,000 large and mid-size companies around the globe to develop and implement HR business strategies covering retirement, financial and health management; compensation and total rewards; and performance, talent and change management. As a market leader in benefits administration, Hewitt delivers health care and retirement programs to millions of participants and retirees, on behalf of more than 300 organizations worldwide. In addition, more than 30 clients rely on Hewitt to provide a broader range of human resources business process outsourcing services to nearly a million client employees. Located in 33 countries, Hewitt employs approximately 23,000 associates. For more information, please visit www.hewitt.com.

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