



## Global Human Capital Survey

### Executive summary

People, it is often said, are a business's greatest asset. If that's true, what are the world's leading organisations doing to protect and develop those assets?

We wanted to know the answers to two simple, but powerful, questions: 'What are the people strategies of the world's leading organisations?' And 'How do those organisations administer their Human Resource (HR) functions?' To find the answer called for what was probably the world's biggest-ever survey of HR policies and practices, and the value they bring to business.

The results of the survey can now be found in our recently published Global Human Capital Survey. The first part of the survey provides a summary of emerging trends. These are supported by statistical charts and illustrated, where appropriate, with case studies drawn from many years' experience of working with clients in the HR arena.

The second section provides more detailed statistical information on the survey results and will be an invaluable source of reference for participating organisations that wish to benchmark themselves against comparable organisations by region or industry.

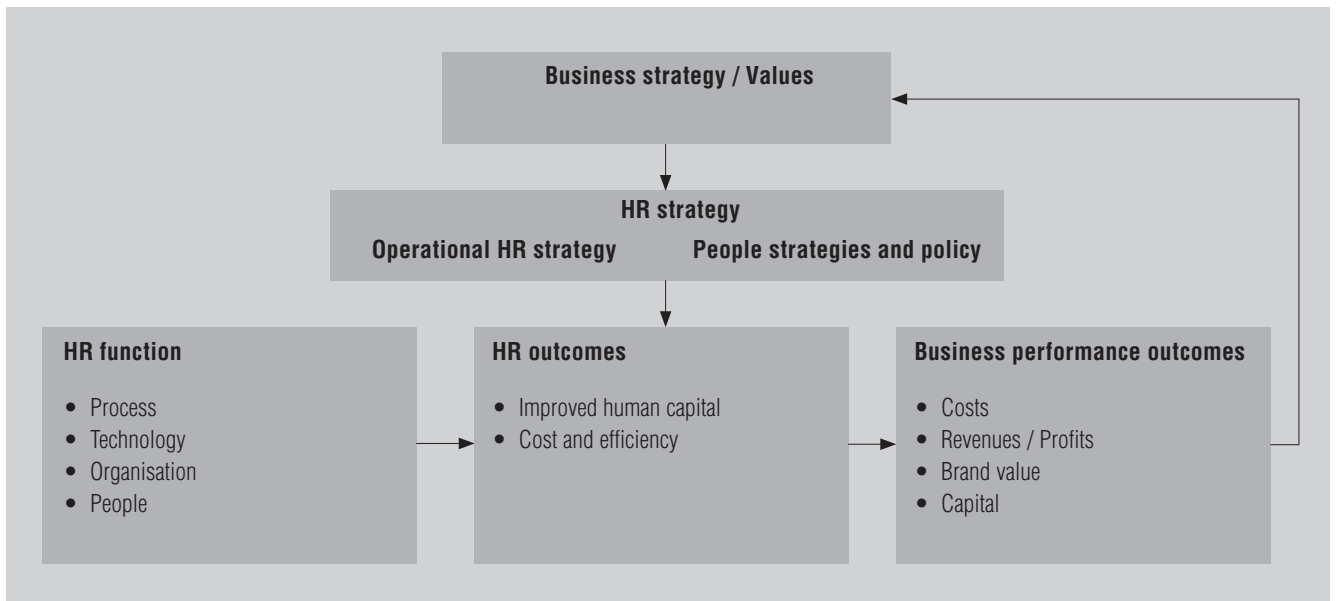
This summary focuses on the main results from section one. For more information on how to obtain the full report visit [ibm.com/services/humancapital](https://ibm.com/services/humancapital).

The survey concentrates on six key areas of concern for the HR professional.

- The global view: HR in different regions
- Does HR strategy make a difference?
- Are HR policies and practices related to HR outcomes?
- The potential benefits of a well-developed service delivery model
- Can the value of investing in HR Technologies be demonstrated?
- How HR affects business performance.



*The model of the survey*



The model supporting this survey concentrates on improving organisations' business and market performance and HR's contribution to these improvements. The survey was constructed to measure the variables in this model.



## ***Survey findings – a brief review***

### **The international dimension:**

#### **Common practices, different approaches**

The obvious, and primary, advantage of a global survey is the ability to review and interpret data on a worldwide basis. The responses have given an insight into the extent to which various HR practices are applied internationally and how HR functions are shaped in different parts of the world.

The nature of HR work leads to a degree of commonality in HR practices. However, even in such a basic activity as recruitment it seems that cultural differences lead to different approaches in the use of employment agencies, assessment centres, psychometric testing and the contrasting deployment of face-to-face and telephone interviews. One size does not fit all. However, staff performance reviews, for example, are common throughout the world and classroom training is still the most common environment for personal and professional development.

There are, of course, numerous differences in the way practices are applied and the outcomes to which they lead. Within Asia Pacific there is more commitment to the importance of personal relationships. In the Americas, the arrangement between employee and employer is more transactional in nature. In Europe, Middle East and Africa the situation is more fragmented and employee-centered. The responses from South and Central America reveal the ravages of a severe economic downturn and the consequent involuntary shedding of large numbers of jobs.

#### **How an HR strategy influences policy, service delivery and business performance measures**

The key business issues most often mentioned were enterprise-wide cost reduction, customer satisfaction and revenue growth. These were followed, at some distance, by quality improvement and leadership development.

The most commonly reported HR issues were leadership development, organisational and cultural change, increasing productivity and learning, and training. During an economic downturn, it was remarkable to find HR and business strategies to be so divergent, and to see leadership ranked as the most important HR issue.

Having an explicit HR strategy is the key to an HR effective function – but it doesn't seem to lead to higher levels of efficiency or productivity. From the responses, it emerged that an explicit HR strategy is related to better HR practices. This is reflected in a higher level of satisfaction with the performance of HR practices and more favourable HR outcomes such as optimising staff turnover and levels of absenteeism. However, there was no significant correlation between having a strategy and the size and cost of the HR department.

There appear to be three key success factors:

1. Have a documented HR strategy
2. Link it formally to the business strategy and,
3. Apply an effective performance management system.

### **The value of an HR function to an organisation lies in the whole programme, not in one or two best practice processes**

There appeared to be very little direct relationship between the application of individual best practices such as 360° feedback or coaching facilities, and HR outcomes such as staff turnover or rates of absenteeism. However, a difference emerged when packages of practices were applied. For example, absenteeism was less if organisations applied a number of development approaches in their performance management system. It was also found that the average length of service was related to a combination of the number of issues reviewed in performance appraisals and the number of training days. Performance management also emerges as a general best practice that has a beneficial effect.

The survey's main conclusion is, and others have also found this, that the effectiveness of the HR policies and practices lies in their alignment with each other and with the business strategy. The most desirable situation will be unique for every organisation.

### **A well-developed HR service delivery model leads to more satisfaction and reduced costs**

The summary simplifies a complex state of affairs.

However, the core conclusions from the analyses of service delivery models and self-service are:

- Organisations that implement shared services, self-service or portal functionality benefit from more strategic and consultative HR staff and fewer administrative HR staff
- Service delivery models such as self-service can demonstrably influence HR cost
- Local HR and shared services through professional support units are the most common service delivery channels
- HR outsourcing is more widespread than in the 2000 survey
- The use of self-service is increasing
- Increasing self-service functionality can decrease the ratio of full-time HR professionals to full-time employees (the HR FTE ratio) and increase employee satisfaction.

### **The value of investing in HR technologies can be demonstrated**

HR management systems (HRMS) were originally developed as a tool to automate administrative processes and deliver increased efficiency in the form of reduced HR headcount and lower costs. One might have expected to find extensive use of bolt-on applications for training, recruitment and competency management. In fact, their most common uses were in training and health and safety, with just over half of companies using them. Users reported no problems in main systems accommodating 'best of breed' solutions.

Payback periods on HRMS technology vary widely, from six years to just 12 months. The average payback was three years, which is typically the predicted time span.

Business to employee systems and the application of portals are currently a low priority, but are seen as key issues for the future.

### **How HR affects business performance**

The survey's findings have produced several conclusions that provide insight into how HR affects levels of profitability. For example, organisations that invest most in HR are associated with higher revenues per employee. However, many benefits are indirect and care must be taken not to overestimate the role of human capital management in building sustainable business performance.

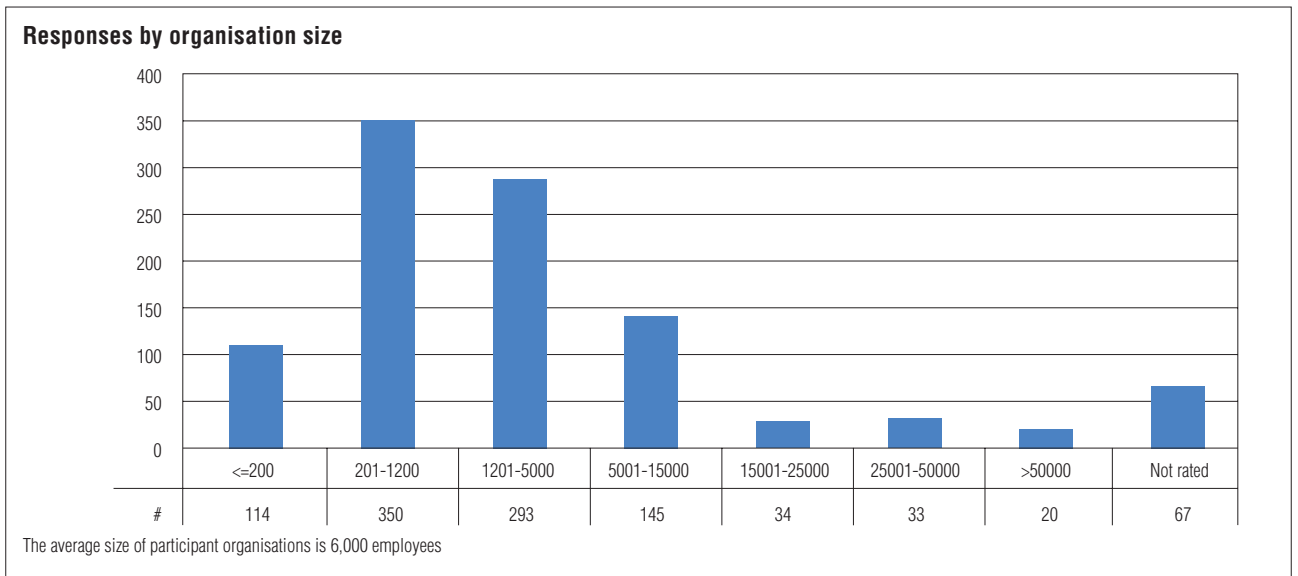
Traditional measures of HR show a strong link to better profitability, particularly in commonly measured factors such as staff retention and absence due to sickness. The survey's findings demonstrate that the greater the average length of service in an organisation, the worse the level of performance becomes. Continuous renewal of the workforce might seem to be a key to enhanced profitability.

However we should be careful here. Successful businesses are often growing businesses too and growth brings a drop in average length of service. Conversely, unsuccessful businesses restrict hiring, and so increase their average length of service. In addition, many organisations adopt the philosophy of 'last in, first out' during restructuring, which further increases the average length of service.

Absence due to illness is not only a commonly measured HR concern; it's also the most powerful HR-based predictor of business results. HR practices in their turn influence both absenteeism and length of service. Therefore, it is justifiable to conclude that HR practices indirectly contribute to business success.



**Methodology**



PwC Consulting (prior to its recent acquisition by IBM)\* and PricewaterhouseCoopers carried out the survey, commencing in April 2002. With the help of 1,300 participants a database of 1,052 valid cases was built for producing the analyses presented in this report, and to determine specific benchmarks for clients. The companies surveyed came from 47 countries in four continents. Between them, they employ more than 6,000,000 people.

\* The Global Human Capital Survey was carried out jointly by PricewaterhouseCoopers and PricewaterhouseCoopers' global management consulting and information technology services business, PwC Consulting. Please note that IBM recently completed its acquisition of PwC Consulting. As a result, PwC Consulting is no longer a part of the PricewaterhouseCoopers network of firms and is now a part of the IBM Global Services business unit. IBM (including IBM Global Services) and PricewaterhouseCoopers are not the same organisation, and neither governs or is affiliated with the other, or any affiliate, subsidiary or division of the other. The survey's findings are being used by IBM pursuant to an agreement with PricewaterhouseCoopers.



***For more information***

We believe that the findings of the survey will enable our clients to improve the overall performances of their organisations. We know from past experience that this report will stimulate further debate and discussion about how the HR function should be measured, reported and valued. We look forward to hearing your thoughts and ideas.

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