



3G HRM

The Next Generation for the
Human Resources Profession



Assisting **Organisations** to Acquire & Retain the **Best Talent** through
the Development & Integrated Delivery of **Innovative** People Management
Systems and Solutions

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Integrated
Talent
Management
Solutions



innovative
years



Only 18% of executives are very satisfied with the overall performance of their HR function.

Survey of 244 executives across 6 countries and over 15 industry segments

Accenture High Performance Workforce Study, 2005.

What is 3G HRM?

The changing work environment requires a superior response from the Human Resources function.

Three key markets that are vital to business success are financial, intellectual and human capital markets.¹ Financial capital was originally one of the primary strategic drivers of business growth, as seen by the rise of the role of the Chief Financial Officer. Intellectual capital, as captured in the products and services offered by organisations, is reflected by the strength of the Research and Development, Sales and Marketing and Information Technology divisions of large businesses. Yet the importance of human capital is really only moving further up the corporate agenda in response to the skills shortage now impacting businesses globally.

The convergence between the challenges confronting business, the need for top talent to deliver, and the emerging shortage of just that talent, calls for the next generation of HR solutions, 3G HRM that is strategic, influential and credible. Still evolving, the human resources profession has been evolving over the past three decades. The function was born out of the first generation need to administer the 'people transactions' of organisations, such as payroll, staff records management and compliance: Personnel Administration. Its journey carved a path to the second generation needs for more complex specialised and technical skills: Human Resources Management.

The third generation of Human Capital Development has now arrived – '3G HRM'. Neither static nor isolated from the business reality, the future of human resources lies in its ability to yield return on human capital through approaches that refresh and engage the organisation's population, not exhaust and deplete it. This will require smart, business aligned systems and approaches that complete the workforce jigsaw puzzle and reveal the full potential of human capability in the delivery of strategic business outcomes.

This paper considers how the changing workforce landscape has impacted on the shape of the Human Resources function. As a result, HR practitioners now relate differently to line managers and require a more diverse skill set than their first and second generation predecessors. Only by considering these shifts, can we start to unravel the impediments to the delivery of a truly value adding HR function.



¹ Boudreau & Ramstad (2005)

Representation of Human Resources

The very titles of those sitting around the executive table are a clear reminder that HR is not held in the same esteem as the other support functions – there are Chief Financial Officers, Chief Information Officers, Chief Operations Officers, but very few Chief Human Resources Officers.

Consider the Balanced Business Score Card², designed to encourage a balanced view of all contributors to organisational effectiveness. There is clear acknowledgement of the “people” component as an equal and fundamental contributor: so why is representation at the executive level so limited?



HR Representation on Board of Directors	1995 (n=837)	2005 (n=1146)
No representation	55%	42%
HR representative	17%	25%
Representative with HR as part of their responsibility	28%	33%

Recent research has shown that there is a shift towards greater HR representation at higher levels of the organisation, but this shift has been slow.³ Over the decade to 2005, HR has increased its representation on the Board of Directors by 8% to 25%, while including HR as part of the Board Member’s responsibility has increased by 5% to 33%. The lack of an HR dedicated role at the Board level in over 75% of organisations surveyed only 2 years ago indicates that the strategic value of HR is still not widely recognised. There has been talk about “strategic HR” for years, but the data shows it is not actually happening.

HR Representation on the Senior Management group at the Enterprise Level	1995 (n=821)	2005 (n=1372)
Yes	56%	68%
No	44%	32%

It is encouraging however that there is a 68% HR representation on the Senior Management Team at the enterprise level, yet again, the increase over the past 10 years has been very gradual, only moving 12%.

This same research has shown that HR is making a sound contribution to the strategic decision making process in 49% of cases, whether or not they directly affect HR matters. Only 7% are reacting to strategic directions and requests from top management.

² Kaplan & Norton (1996)

³ Sheehan, Holland & De Cieri (2006)

The Changing Workforce Landscape

The market for talent is changing:⁴

- The global workforce is growing rapidly – over 3 billion people are either working or looking for work (mostly in developing countries).
- In 2005, the services sector represented 40% of global employment (40% agricultural, 20% industrial), and continues to increase.
- The increased demand for more highly educated and skilled workers in developed economies, particularly in the services sector, has also seen associated wage increases over the past 15 years.
- The number of people 60 years and over is growing faster than all other age groups and workforce participation rates above 50 years of age have increased worldwide.
- Labour force participation by women continues, particularly in middle and high income countries (women represent just over 50% of the workforce).
- Skills shortages are emerging worldwide and there has been an associated increase in international labour migration in response to this.

Workforce Shortfall by 2020 (millions)	
U.S.A.	17.0
China	10.0
Japan	9.0
Russia	6.0
Germany	3.0
France	3.0
Spain	3.0
U.K.	2.0
Australia	0.5
Total	60.0

Between 1991 and 2003, the services sector was both the world's fastest-growing sector in terms of output and the sector with the most job-intensive growth.

International Labour Organisation (2005)

With the increasing focus on corporate governance and the need for organisations to be more accountable, the importance of risk management has been echoed in the growing size of risk and compliance teams. From the HR perspective, Workforce Risk Management is high on the corporate governance agenda for a number of reasons:⁵

- the emerging importance of human capital
- the looming talent shortage and its impact on business continuity
- the need to maximise workforce performance and productivity to remain competitive
- the adverse impacts of corporate fraud and organisational betrayal

⁴ International Labour Organisation Report (2005)

⁵ WRDI Institute

Vacancy Risk

*scarce skills
& capabilities*

Readiness Risk

*accelerate
leadership talent*

Transition Risk

*loss of key players
/succession*

Portfolio Risk

*maximise strategic
talent leverage*

Human Resources teams have a critical role to play in managing four key types of workforce risk.⁶

- Vacancy Risk: no prioritisation of hard to fill positions or scarce skill sets; risk of turnover not identified.
- Readiness Risk: limited understanding of successor experience or skill level; limited view into development pipeline.
- Transition Risk: no benchmarking against the external labour market; no selection criteria focused on compatibility or leadership ability.
- Portfolio Risk: does not account for organisation-wide goals, nor account for changing business needs.

Because these risks are now understood at the executive level, the HR function has gained recognition in terms of the key role it has to play in contributing to long term business success.

⁶ Corporate Leadership Council (2003)

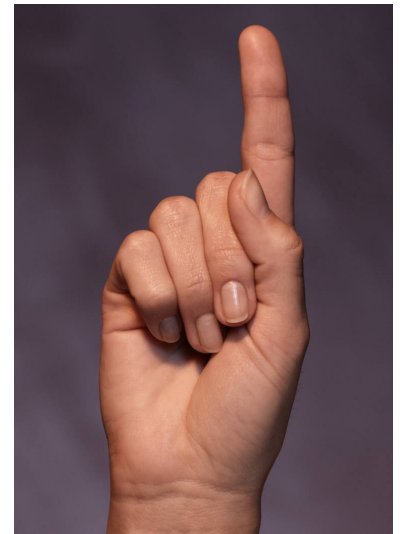
The Changing Human Resources Function

The HR function has been likened to a business within a business⁷ - it has:

- products and services to offer
- competitors - such as outsourced providers
- customers - who can be satisfied or dissatisfied (all staff) and costs to deliver their products and services
- and costs to deliver their products and services

First Generation HR

The structure of the HR function should reflect the services and/or products that it provides to its customers. These products and services can be offered at 3 levels that reflect the evolution of the HR function over the last 15 years. The first generation of HR, "Personnel Administration", remains the foundation of the function across organisations of all sizes, and is predominantly a **support** role. It provides the core administrative transactional HR services, such as leave processing, salary packaging, recruitment and training. The repetitive, high touch nature of these activities has meant that the development of HR Information and e-Learning systems have allowed employees and managers to attend to numerous HR requirements independently of the HR department.



Second Generation HR

Personnel Administration continued to evolve as the need to understand the business objectives and relate directly to the needs of business managers became more important if the HR function was to survive. Second generation "Human Resources Management" meant working more closely with the line managers to truly understand their challenges and needs from the HR function. In this model, generalist HR managers are the major interface between HR and the business unit. They have dual reporting lines and are typically supported by corporate HR specialists and/or outsourced providers. Their role is to provide true Human Resources Management services, to see themselves as **business partners**, developing HR systems that facilitate the implementation of business plans, particularly those around change management, and overseeing talent management for their particular business unit.

Some of the obstacles to the effectiveness of this model are the frequent lack of business understanding by HR Managers, the conflicting priorities often associated with dual reporting and the lack of HR administrative support available. Internal competition for a limited number of specialist corporate resources has also been an impediment. The significant conceptual shift that occurred at this time is evident in the renaming of the function from Personnel Management to Human Resources Management, as well as the emergence of both HR Generalists and Specialists.



⁷ Lawler (2005)

Third Generation HR

More recently, the increasing war for talent and critical role that retention has to play in organisational effectiveness, has seen the need for the third generation of HR: '3G HRM'. This **strategic partner** role is the least developed HR role, but the most valuable to corporate sustainability. The 3G HR Manager is expected to contribute to business strategy at the organisational level, based on considerations of human capital, organisational capabilities, readiness and strategically differentiating HR practices. They *must* have 'a seat at the table', working alongside senior executives to be able to make an impact. Establishing credibility is vital, as is a focus on business solutions rather than HR process.

Shifts in business needs due to disruptive technology, world events and new competitors, planned changes to business such as entry into new markets or product lines, are only effectively managed by having key talent on board. However, shifts in external labour supply, ability to attract external talent, and managing a variable internal talent pipeline are all issues that lie within the HR sphere and hence HR Managers can play a key role in helping the business to adapt to constant changes.

The Strategic Partner / 3G HRM role differs from the Business Partner role in that it is *not* about implementation but about thought leadership in the people management realm. It can contribute to overall organisational effectiveness, not only through the HR Management services offered and delivered by HR Managers, but also through the development of systems and strategies around⁸:



⁸ Lawler (2005)

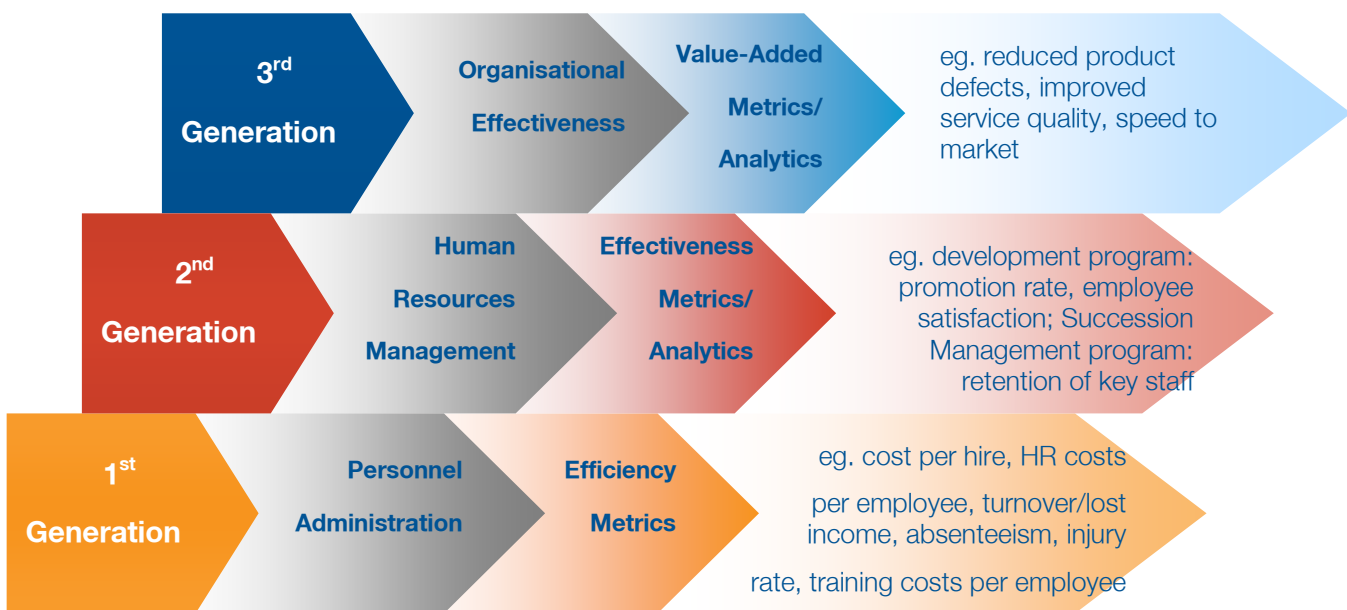
3G HRM: Organisational Effectiveness



The Evolution of HR Metrics

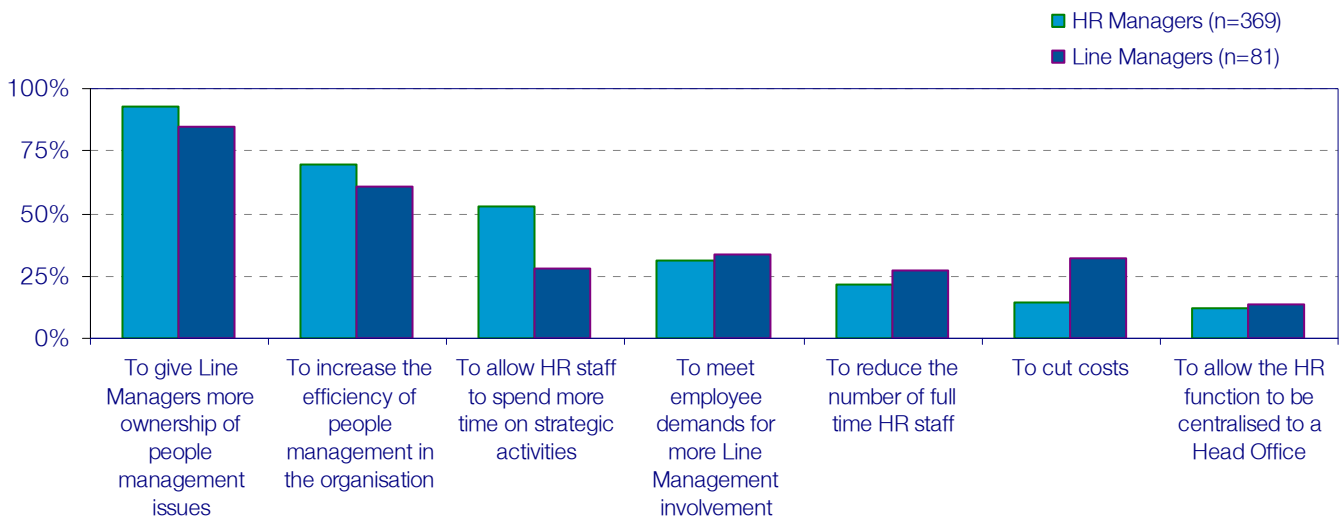
The use of HR metrics is integral to building credibility and illustrating the value that HR can add. Not surprisingly, HR metrics have evolved in parallel to the 3 generations of the Human Resources function. First generation HR called for “efficiency metrics”, where the focus was on the costs associated with recruiting staff and ensuring that they met their productivity targets. Some of the early indicators reported on by the Personnel function were headcount, absenteeism, turnover, recruitment, training, terminations, OH&S and workers compensation and became known as Workforce Metrics. All worded in a negative language that reflects the view of staffing and its associated costs. Not until the Second Generation of HR evolved, did business analysts report on broader statistics, such as staff movement (including recruitment, internal movement, separation), employee wellbeing (including absenteeism, OH&S) and workforce profiles (eg. age, tenure and occupational groups). It was the earliest attempt to measure the alignment of HR programs with the business strategy. The discipline also became referred to as “Workforce Analytics” because it used metrics to proactively identify potential problems/opportunities, and transformed HR data and measures into relevant insights into how organizational performance could be improved. Such “effectiveness metrics” are very powerful when identifying “hot spots” and measuring the impact of HR initiatives.

Third Generation HR has highlighted the need for even more advanced workforce analytics that allow organisations to answer the question, “What is the real impact of HR practices on organisational performance?” Such sophisticated data analysis and reporting allows business to address and solve commercial challenges through the effective implementation of corporate initiatives that draw on empirical data from all 4 quadrants of the balanced scorecard.



The Changing Relationship with Line Managers

Where does line management stop and HR management begin? More and more, line managers are being equipped with the skills and tools necessary for effective people management. A number of reasons have been cited for why this increase in line management involvement has occurred.⁹ The most frequently cited reason by both HR and Line Managers is to “give Line Managers more ownership of people management responsibilities”. There is however some discrepancy between these groups around allowing “HR staff to spend more time on strategic activities” (HR Managers consider this to explain devolvement moreso than Line Managers), while Line Managers are more inclined to believe that it is a cost cutting exercise, although in both cases only about 30% of Line Managers thought this way.



70.4% reported that line management involvement in the people management activities in their organisation had increased over the past 5 years.

⁹ Kulik & Bainbridge (2005)

This same research has uncovered some common reasons why certain functions should be devolved to the line while others not.

Devolve to Line Managers...	Don't Devolve to Line Managers...
<ul style="list-style-type: none">• To give Line Managers more ownership of people management issues• To increase the efficiency of people management in the organisation• To allow HR staff to spend more time on strategic activities• To meet employee requests for more Line Manager involvement• To reduce the number of full time HR staff	<ul style="list-style-type: none">• Lack of knowledge or expertise among Line Managers• Staff prefer people management activities to be HR's responsibility• Lack of interest among line managers to implement• Feelings of work overload for Line Managers• Concerns about maintaining standardization across units

“Presence in the business is very powerful. The HR structure should reinforce that Business Partner model. Line Managers prefer to have one HR person for all their HR needs.”

Vice President, Human Resources



The Changing HR Skill Set

The 3G HR Role Profile

The next generation of HR practitioners needs to be able to fulfill a whole new range of responsibilities that extend well beyond the original HR Position Description. To successfully drive business strategy from the human capital perspective, the 3G HR Manager needs to¹⁰:

- truly understand stakeholders' and investors' needs
- understand business processes (including financial aspects)
- be able to identify and understand market trends that might affect the organisation (and associated risks and opportunities)
- predict future HR requirements
- know of and be able to apply emerging HR related technologies and services (eg. recruitment process outsourcing)
- rechannel the competencies of poor performers
- develop and apply meaningful HR metrics (lead & lag)
- define HR decision making frameworks for the business
- demonstrate commitment to business KPIs
- benchmark performance against external best practice
- champion the HR function and its role in organisational effectiveness

An Australian survey of a sample of HR Directors¹¹ across various industries highlighted that their HR teams were mostly lacking in their ability to develop meaningful HR metrics and that they are finding it challenging to develop the right metrics in a business environment that has a short term focus.

Survey of 1,372 HR Professionals...	% who agree or strongly agree
The transition to HRM demands a new set of skills	84%
The transition to HRM has made my job more rewarding	80%
I have difficulty developing skills for the strategic part of my role	17%
I have concern that a more "business focussed" HR profession may have a negative impact on important roles that HR has previously held	15%
There seems to have been no change to my role	9%
I am now more confused about what my role is	6%

¹⁰ Kenexa (2006), HR Monthly (2007)

¹¹ Talent Edge (2007)

The 3G HR Competency Profile

Business Acumen	Possessing and using knowledge of the organisation and external market to identify potential risks, problems and opportunities. Adopting a global outlook and understanding the machinations of a diverse workforce. Appreciating the needs of stakeholders and investors.
Change Leadership	Taking leadership and personal accountability in effecting change; championing and simplifying the change process for the organisation.
Innovative Thinking	Offering strategic alternatives to business challenges; continually seeking new and improved HR approaches to move the business forward
Paradox Management	Managing contradictory positions, understanding different frames of reference in the organisation; reframing organisational contradictions to facilitate clarity and action.
Stakeholder Management	Sustaining relationships with key internal and external players to share ideas, streamline processes, achieve synergies and guide strategy and decision making.
Strategic Influencing	Facilitating commitment to HR strategy through championing the creation and definition of a broad, compelling organisational vision, and organising others to pursue it. Demonstrates appropriate influencing strategies to gain agreement

So what competencies do all HR practitioners need if they are going to move their organisation forward?

An Australian survey of HR Directors¹² across various industries highlighted that their HR teams were somewhat competent in the following areas, demonstrating strength in the Change Leadership area, primarily as a result of the rapid pace of change imposed upon them and the need to respond accordingly. There is still significant room for improvement, however, if HR practitioners are to develop into 3G HR Managers, where they need to be outstanding in all six areas.

A more expansive study of the Human Resources profession identified a similar set of competencies that were critical to take the function forward. The 2007 Human Resource Competency Study^{13 14}, which collected data from more than 10,000 respondents from over 400 companies across 6 world regions, found that the competency of “Credible Activist” was the most fundamental to the 3G HR professional. A “credible activist” is someone who :

- is respected, admired, listened to (credible) and
- offers a point of view, takes a position, challenges assumptions (active).

“HR professionals who are credible, but not activists, are admired, but do not have much impact. Those who are activists, but not credible, may have ideas, but will not be listened to.”

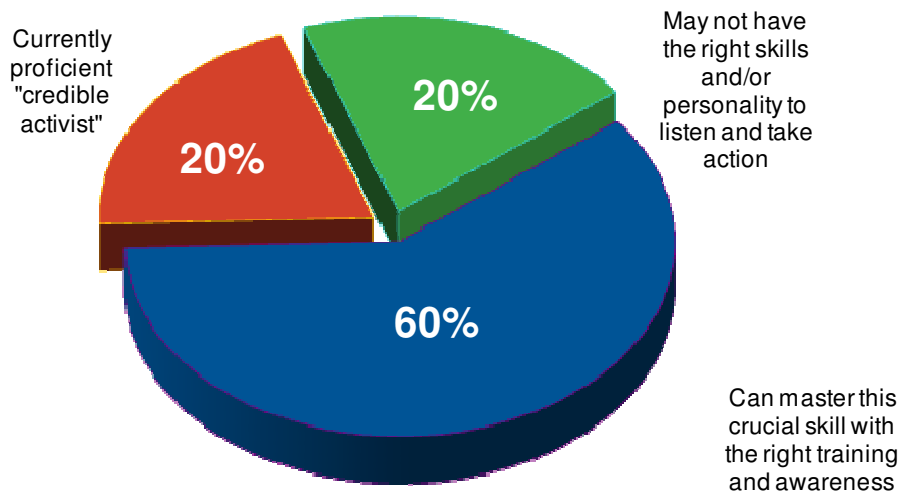
Dave Ulrich,

Human Resource Competency Study, 2007

¹² Talent Edge (2007)

¹³ The RBL Group (2007)

¹⁴ Rance (2007)



Based on the research, Ulrich believes that of the current global population of HR professionals, only 20% are presently operating in this space. On the flip side, approximately 20% of this same occupational group would struggle to develop into the role of Credible Activist due to limitations in their skill set or the nature of their personality.

The Qualifications vs. Experience Debate

The increased demand for more sophisticated and technically astute HR practitioners is reflected in the increase in tertiary offerings – full time, part time, distance and online, being the most common modes of delivery. An increased number of Masters degrees in the field have also become available, with variations such as Master of Science (MSc), Master of Organisational Psychology (MOrgPsych), and traditional MBAs with majors in HRM or Organisational Behaviour, all now popular choices. In fact, 46% of HR practitioners are currently degree qualified compared to 23% in 1995 and only 9% in 1985.¹⁵ This is also likely to be a function of the fact that not as many HR related tertiary courses were available in 1985.

While HR related tertiary qualifications are recognised, they do not entirely equip graduates with the advanced interpersonal qualities that they will require, as well as the change management skills essential to today’s rapidly evolving business environment. At the Strategic Partner, and even Business Partner level, line managers and senior executives often value experience more highly than qualifications. It would appear that it is a matter of building both technical and commercial savvy before credibility can be established.

Typical career entry points are through the HR functional area for those aged between 20 and 29 years, while more mature entrants are coming through clerical, accounting or finance areas.¹⁶ This is likely to be a reflection of the trend toward tertiary study previously mentioned, with graduates coming out of university with a clear career objective, to work immediately within the HR function, and HR seeking graduates with specialist HR qualifications. The more mature HR practitioners would have commenced their careers within a support function, during which time HR was still evolving from “Personnel Management” into a recognised field of specialisation for which you could complete formal education and training. This group is more likely to complete relevant studies later in life to supplement their work experience – their immediate value comes from understanding how the business operates. Anecdotal reports in large Australian corporations are that the senior HR roles are often filled by managers previously in business role within that same organisation.

¹⁵ Dowling & Fisher (1997)

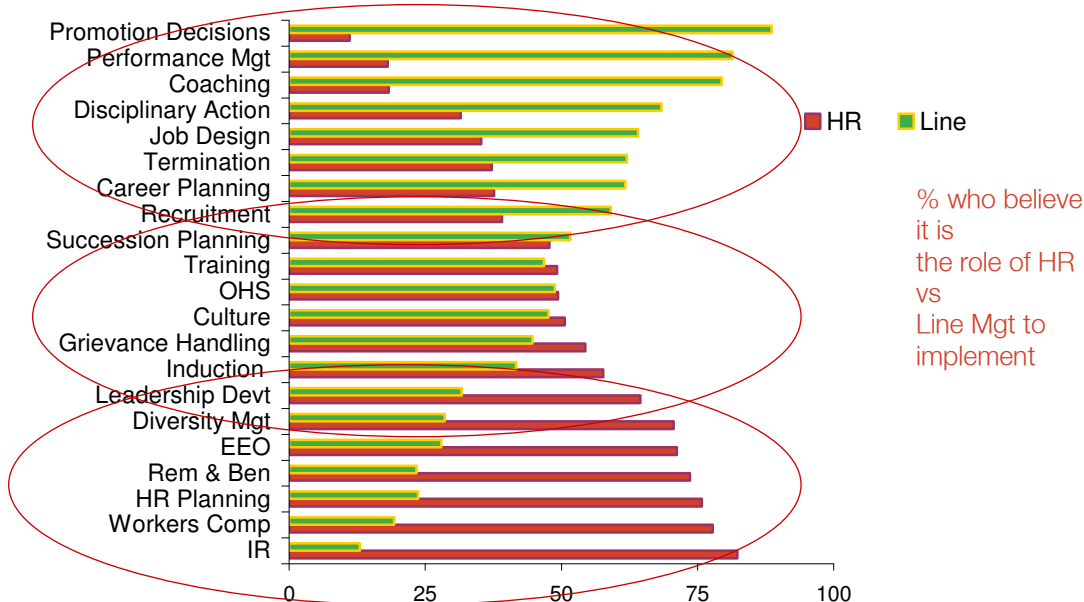
¹⁶ Sheehan, Holland & De Cieri (2006)

Obstacles to 3G HRM

Research has shown that senior executives value HR initiatives, such as facilitation of organisational change and improving engagement, however, they are less than satisfied with the progress made against these.¹⁷

HR Initiatives	It's Important/ Very Important	We are Satisfied with Progress
Improving worker productivity	69%	6%
Improving adaptability/new opportunities & ways of working	68%	11%
Facilitating organisational change	66%	12%
Improving employee and wider stakeholder engagement	65%	11%
Improving the delivery of HR services to the organisation	64%	14%
Re-skilling the HR workforce to become better business partners	61%	13%
Increasing employee retention	58%	15%

One of the possible reasons for less effective progress and implementation of HR practices is the lack of clarity around ownership and accountability. In one study, while there appears to be consensus around whose responsibility it is to implement a number of HR practices, the line or HR, areas such as Succession Planning, Training, Culture, and Occupational Health & Safety obligations, appear to be an area of debate.¹⁸ And as long a practice is this “grey” space, and accountability is diffused between the line and HR, then it can be safely assumed that these areas will not be given the attention they deserve.



¹⁷ Accenture High Performance Workforce Study (2005)

¹⁸ Kulik & Bainbridge (2006)

As well as the diffusion of responsibility, other impeding factors to HR's ability to contribute to organisational effectiveness include:

- Lack of clarity around the link between people and profit
- Lack of meaningful metrics linked to business KPIs
- Short term view of business and desire for immediate results
- Business manager perceptions and credibility (including perception that it is a "female profession")
- Varying degrees of CEO support and cultural acceptance of the HR function
- HR skill set alignment with changing role requirements
- Lack of resources (financial and human)

Conclusion

Achieving credibility with business leaders requires tying HR strategies and actions to real business results and the first step to achieving this is to translate corporate goals into workforce needs. The second step is to define business linked KPIs and measure outcomes. Discussions with Australian HR Directors indicated that building the business acumen of the HR team through working immediately alongside the business, speaking their language, sharing their KPIs, using their tools and inviting business resources into the HR team, are all ways of increasing HR presence and credibility with Line Managers and Senior Executives. A greater use of meaningful metrics and strategic communication of HR services are also powerful ways to achieve recognition and become a valued member of the business at the enterprise level. All three levels of HR service provided by the HR function are integral to customer satisfaction and organisational success, however the greatest impact can be had when we are truly being strategic and valued for this.

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