

**A STUDY OF HOW SENIOR HUMAN
RESOURCE PROFESSIONALS IN
NEW ENGLAND PLAN TO STAY
AHEAD OF THE CURVE**

Conducted by:

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ABOUT THIS REPORT

This study explored how senior human resource (HR) professionals in New England are planning to address the major business challenges they anticipate in the next 3-5 years. Hopefully, their plans for addressing these challenges will provide insights which will help others in the HR community "stay ahead of the curve."

In-depth interviews were conducted during the summer of 2004 with 15 senior HR professionals by Bruce Katcher, Ph.D., president of Discovery Surveys, Inc. We gratefully thank all of those who participated in this study. (Their names and organizational affiliations are listed in the Appendix.)

The report is organized into the following four parts:

Part 1 - The Major Expected Human Resource Challenges

Part 2 - Plans for Staying Ahead of the Curve in Four Key Areas

- 1) Hiring the Best and the Brightest
- 2) Retaining the Most Valued Employees
- 3) Reducing Costs
- 4) Maintaining a Highly Motivated Workforce

Part 3 - Plans for Addressing Eight Anticipated Societal and Business Trends

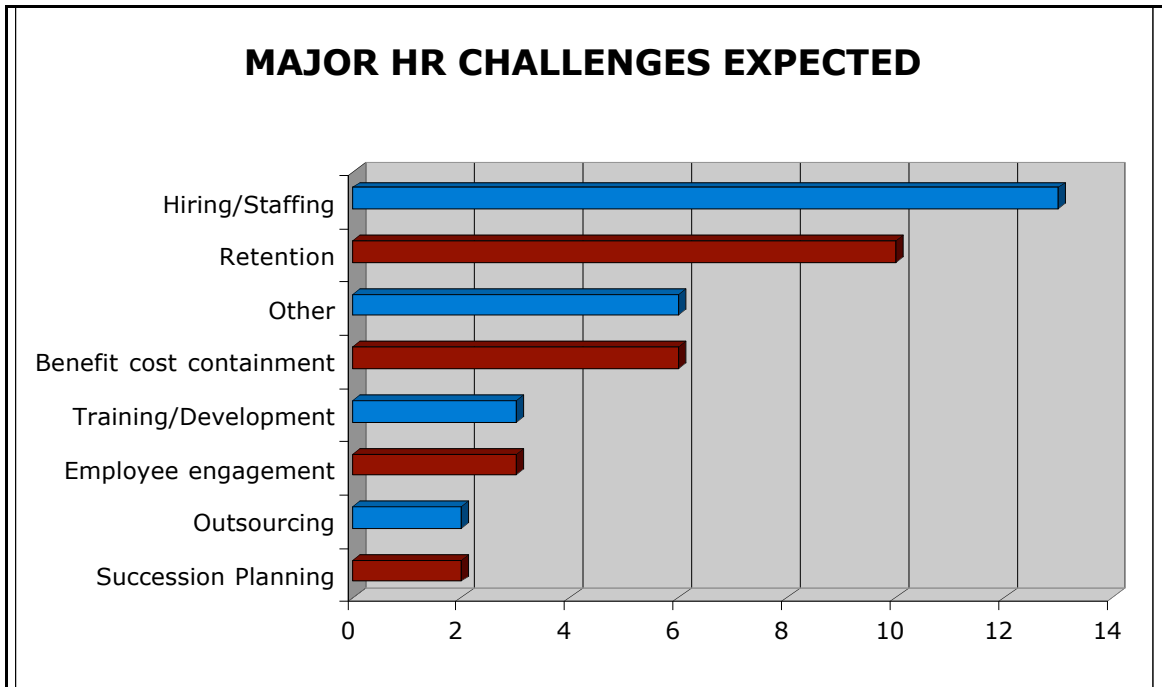
- 1) A Much Stronger Economy
- 2) Continued Organizational Consolidation
- 3) Outsourcing of Human Resource Functions
- 4) Rising Healthcare Costs
- 5) Aging of the Population
- 6) Dearth of Skilled Employees
- 7) Diversity of the Workforce
- 8) Work Life Balance

Part 4 - Conclusion

Appendix – About the Sample

PART 1 - THE MAJOR EXPECTED HUMAN RESOURCE CHALLENGES

Senior HR professionals were asked to identify the three major human resource challenges they believe their organization will face in the next 3 to 5 years. As shown in the chart below, the 3 most frequent responses were hiring/staffing, retention, and benefit cost containment.



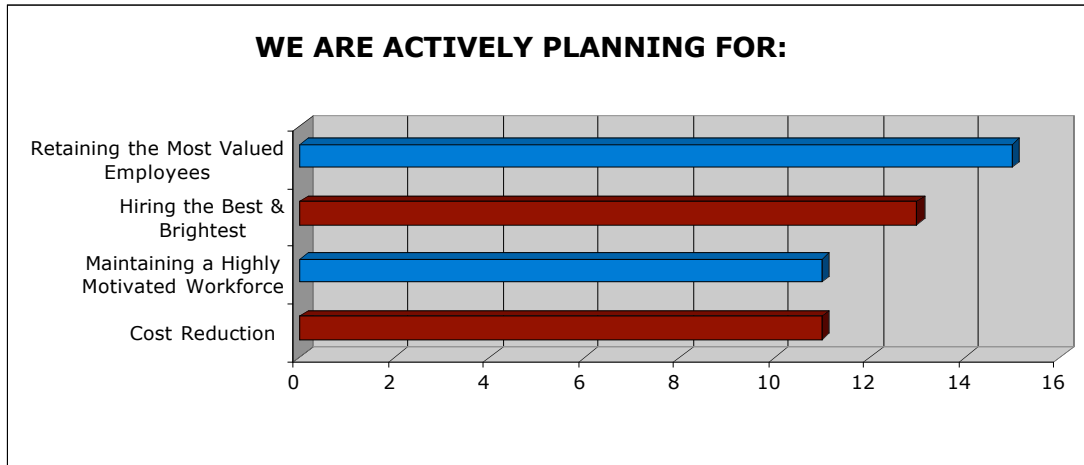
Hiring and staffing are viewed as challenges because these professionals feel that it is going to be more and more difficult to find skilled employees. They believe that the pool of available employees will shrink, there will be more competition for the best employees, and different recruiting sources will be needed.

Retention is viewed as a major challenge because, in this age of reduced employee loyalty, it will be more difficult to maintain the commitment of the most talented employees.

Benefit cost containment - will continue to be a challenge. Those interviewed in this study envision no letup in the rising cost of health insurance.

PART 2 - PLANS FOR STAYING AHEAD OF THE CURVE IN FOUR KEY AREAS

As shown below, most of these senior HR professionals are actively planning in the areas of retention, hiring, motivating employees, and reducing costs.



Their major plans for staying ahead of the curve have been categorized and are paraphrased below.

1) Hiring the Best and the Brightest

In order to hire the best and the brightest, the participants said they plan to systematically examine their current talent to identify skill gaps, develop better recruiting strategies, focus more on the quality of new hires, reach farther out to find good applicants, and promote the brand of their organization internally.

- **Systematically Examine Current Talent**

We will continue to make good use of our comprehensive workforce planning process. We look at the current skills and demographics of our current employees. Based upon this analysis, we will develop a model that will identify the skill gaps we will need to fill.

We have become clearer about what type of people we need for our culture. We've developed 12 criteria we are using in our hiring process.

- **Develop New and Improved Recruiting Initiatives**

We will be conducting "data mining" to procure names of high quality employees from other companies in our industry.

We plan to acquire companies with good talent.

We plan to use more peer interviews so that our current employees can play a greater role in the hiring process.

We will be focusing our recruiting more on niches such as the military.

- **Focus on the Quality of New Hires**

We will be focusing more on the quality of new hires than the speed of hiring.

We will use more pre-employment testing to ensure that we find employees that best fit our organizational culture.

We are currently validating our selection techniques by scoring applicants on a variety of measures and then tracking their performance at 6 and 12 months.

During the hiring process, we seek values first. We focus on integrity, humility, transparency, and emotional intelligence.

- **Reach Farther Out to Find Employees**

We are partnering with a Junior college and a vocational school to provide internships and cooperative work-study programs.

We plan to partner with professional and community organizations to find quality applicants.

We seek highly specialized talent and plan to make more and better use of the Internet for our recruiting.

We plan to develop our own internal training school for our industry.

We will continue to use our employee referral bonuses. We pay \$3,500 for each successful internal referral.

We will be asking our customers for employee referrals.

We will be recruiting in more diverse geographic areas.

Our business is becoming more and more international and it is difficult to get U.S. employees to commit long term to overseas assignments. We are, therefore, planning to do more hiring and training overseas.

- **Actively Promote the Brand of the Organization**

We have a compelling mission and are passionate about it. We will continue to promote it during our recruiting.

We want to become known as the employer of choice by providing the best pay and benefits in our industry.

Our public relations people are increasing the visibility of our company to the outside world. This will help our recruiting.

2) Retaining the Most Valued Employees

In order to retain their most valued employees, the participants said they plan to systematically identify top performers, focus on employee development, develop more extensive succession plans, offer part time work, provide more financial rewards, and introduce long-term financial benefits.

- **Systematically Identify their Top Performers**

We are going to identify our top 100 performers and improve the compensation and development plans we provide to them.

We plan to conduct a risk analysis of high potential people by conducting detailed evaluations and forecasting the time to their next promotion.

We will implement a 3-part program to retain valuable employees: 1) Evaluate and analyze the assignments people are given, 2) Provide internal and external training, and 3) Provide an environment in which mentoring occurs naturally (without using a "matching" service).

- **Focus on Employee Development**

We are going to conduct a training needs assessment for the entire organization.

We will be implementing employee development programs for all salaried employees.

We plan to link top performers with mentors and provide additional growth opportunities for them.

We plan to refine our leadership development program.

Top performers will receive personalized development training.

- **Develop Succession Plans Deeper into the Hierarchy**

We are implementing a systematic succession planning program down to middle management.

We will be conducting succession planning by implementing an "Accelerated Pool" and providing them with mentors, coaches, job rotation, and individual plans.

We will identify true successors who can be ready within a year.

Growing the company will increase opportunities for good performers.

- **Offer Part time Work**

We will offer part-time work for critical skills.

We will hire back retirees part time.

- **Provide More Financial Rewards**

We will be providing top performers with performance rewards and profit sharing.

We will start rewarding for tenure.

We will be beefing up our rewards for tenure to recognize loyalty.

We will more closely tie pay to job performance. We recently gave merit increases to our most valued employees and quarterly bonuses to all employees.

Our top performers will receive bonuses.

Our key employee benefit program will include life insurance, pensions, and severance. It will provide golden handcuffs.

- **Introduce Long-term Financial Benefits**

Our key managers will receive long-term incentives.

We will be introducing a 401(k) match.

We are going to offer non-qualified executive retirement plans.

We will be offering equity positions for more employees in the form of stock and bonus percentages.

We will develop independent retirement agreements to keep critical skills.

3) Reducing Costs

In order to reduce costs, participants said they are going to try to rein in medical, retirement and labor expenses. Some are also planning on reducing the cost of HR functions.

- **Controlling Medical Expenses**

Our medical costs increase 12-15 percent per year. We are going to overhaul our retiree medical plan and introduce a wellness program, more cost sharing, and a disease management program.

We may increase employee cost sharing from our current 80-20 to possibly 60-40.

We will continue to self-insure for health and worker's compensation insurance.

We plan to implement consumer driven healthcare with multiple options for employees.

We will implement a wellness strategy.

- **Reducing Retirement Benefits**

We will change our pension to a hybrid pension-equity plan which will reduce our cost by 30 percent.

- **Cutting Labor Fees**

We plan to hire more people overseas.

We are going to reduce staff.

We will be hiring more "temporary" full time employees. The goal is a variable work force of 25 percent.

We plan to make more use of variable pay.

We continue to avoid filling vacant positions.

- **Reducing the Cost of HR Functions**

We plan to outsource many HR functions and eliminate redundancies in different parts of the organization.

We will create a centralized staffing and recruiting center across the divisions of our organization.

We will be automating more of our HR functions.

We will be implementing business process redesign within the human resource department.

There will be more employee self-service so that we can automate people systems and reduce paper work.

4) Maintaining a Highly Motivated Workforce

The plans for maintaining employee motivation include continuous assessment of employee views, improving hygiene, providing motivators, promoting their brand internally, and improving rewards and recognition.

- **Continuous Assessment**

We will conduct annual employee surveys to track employee engagement and compare ourselves to the industry.

We are going to conduct a cultural assessment.

We will continue to conduct employee opinion surveys.

- **Improve Hygiene**

We are going to move to a new building.

We are moving offices to improve the physical work space.

- **Provide Motivators**

We will provide experiences to our "A players" such as career development, nurturing, and mentoring.

We plan to get our organized employees involved in problem solving teams.

We will be emphasizing career development and succession planning.

We are going to increase employee decision-making authority.

- **Internal Promotion of Brand Identity**

We will be holding town meetings and involving employees in our strategic planning.

We will continue to promote our high standards of work quality.

We will promote our vision and mission to employees.

We are switching to a profit and cost reduction mind set.

Growing the company will provide opportunities which will energize people.

- **Improve Rewards and Recognition**

We will increase rewards and non-cash recognition such as immediate rewards of coupons, gift certificates, and tickets.

We will be introducing a new sales incentive program.

We will improve profit sharing and performance rewards.

We will strengthen our compensation and benefits.

We are retraining managers on conducting performance reviews and making certain that they will take place regularly.

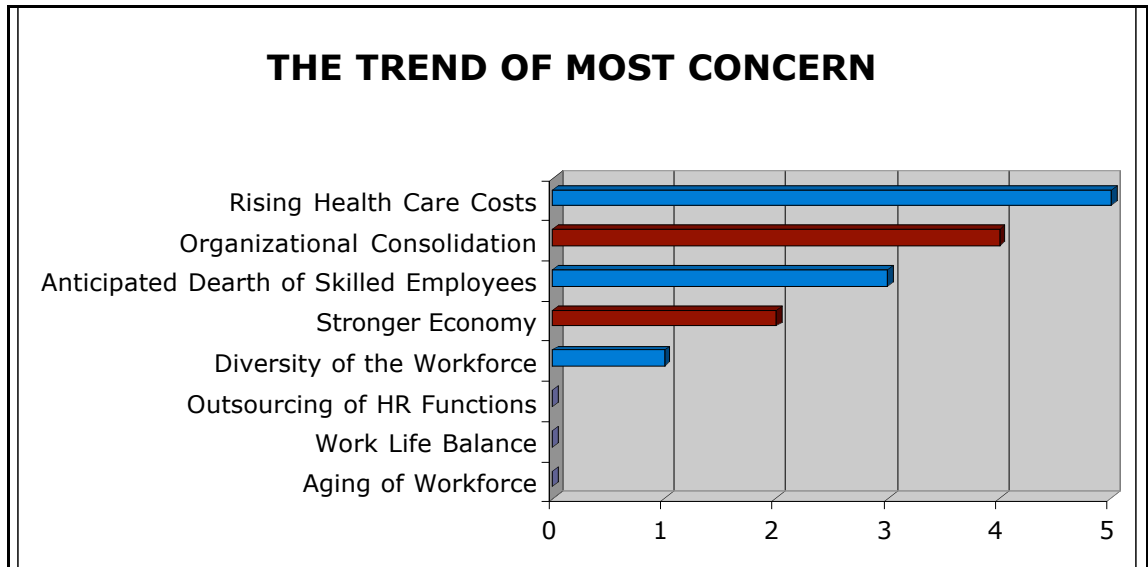
Our new performance appraisal process will be based on achieving individual goals.

We intend to tie pay to performance and improve how we deal with ineffective performers.

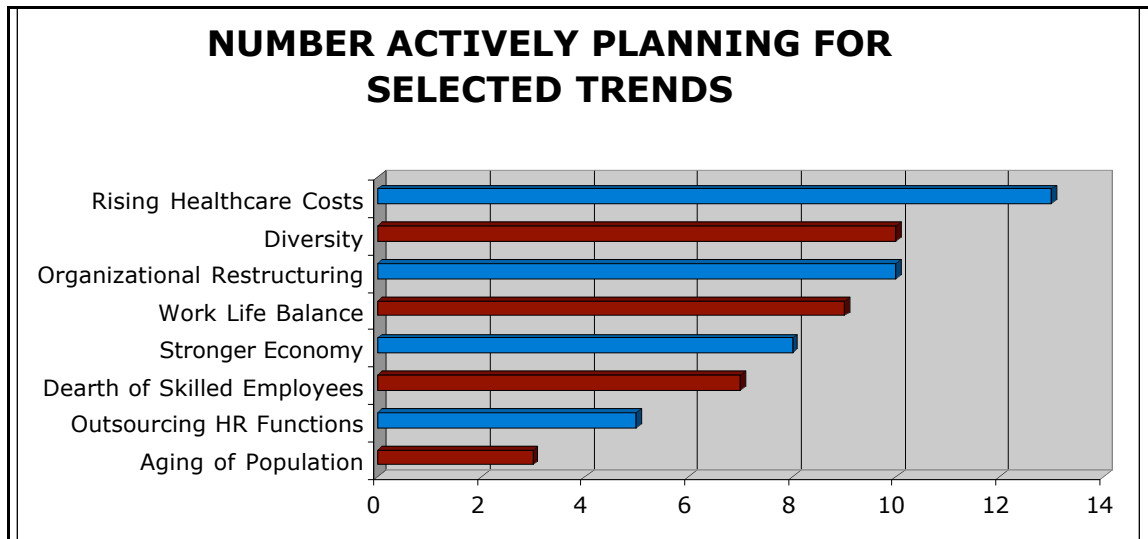
PART 3 - PLANS FOR ADDRESSING EIGHT ANTICIPATED SOCIETAL AND BUSINESS TRENDS

1) Which Trends are of Concern

The participants were asked which of 8 different societal and business trends are of most concern to them. As shown below, rising health care costs, organizational consolidation, and the lack of skilled employees are of most concern. Outsourcing HR functions, work life balance and aging of the workforce are of less concern.



However, as shown in the chart below, these professionals are actively planning for most of these trends.



2) How HR Professionals Plan to Manage These Trends

The participants were asked to identify the 2 most important HR initiatives they are planning to help them prepare for each of 8 different societal and business trends. Their responses are summarized below.

- **Rising Health Care Costs**

It should be no surprise that many are planning to increase employee cost sharing and deductibles. Many are also planning to become more proactive by introducing consumer-driven healthcare, health education, multi-option health plans, and wellness and disease management programs. A few are planning more radical measures such as self-insuring and carving out high users and placing them in a separate captive plan.

- **Diversity**

Most of the participants in this study are planning for the increasing diversity of the workforce by developing programs to promote awareness and discussion about diversity in the workplace. Many are also seeking to develop new recruiting sources.

- **Organizational Restructuring**

Those expecting growth through acquisitions intend to conduct more pre-acquisition due diligence work including conducting exit interviews and assessing the organization's culture and turnover rate.

Others talked about preparing for change by using process improvement teams in HR, realigning resources so that they can do more with less, cross-training their HR staff and making certain that their HR systems are scaleable.

- **Work Life Balance**

9 of the participants are actively planning to provide more work life balance to their employees. They are planning job sharing, benefits for part-time staff, flexible work schedules, onsite child care, and home-based work arrangements. Several said they plan to deal with work life balance issues on a case by case basis rather than "introducing a lot of rules and regulations." They plan to remain a family-friendly organization and strive to "treat employees as adults."

- **A Stronger Economy**

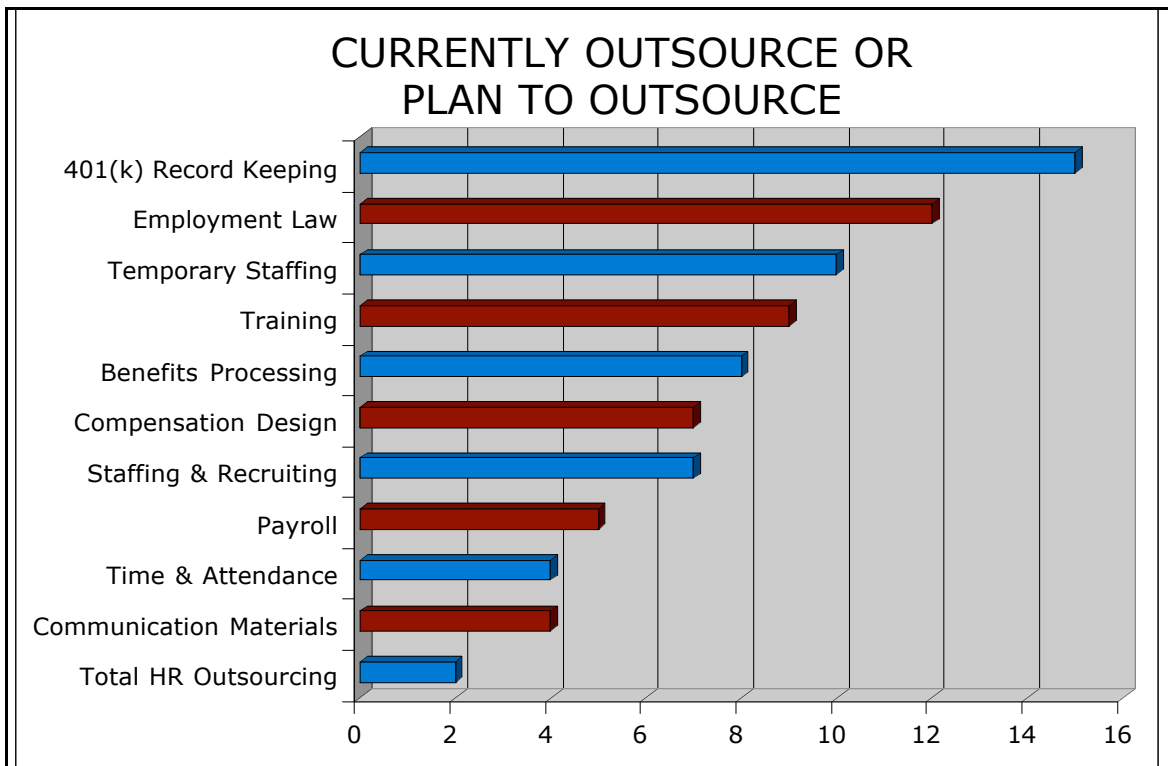
Those participants who felt that economy would become stronger in the next few years said that they plan to hire more employees, work harder at retaining their current employees, increase outsourcing, and revise their compensation structure.

- **Dearth of Skilled Employees**

Forecasters have been predicting for several years that there is going to be a shortage of skilled employees. Senior HR professionals are preparing for this trend by developing co-op programs and internships, and partnering with educational institutions.

- **Outsourcing HR Functions**

As shown in the chart below, most of the participants either currently outsource or are planning to outsource 401(k) record keeping, employment law, and temporary staffing. Few are planning total HR outsourcing.



- **Aging of the Population**

Initiatives planned to manage this trend include providing long-term incentives for key managers, offering part-time work and retirement planning for those employees nearing retirement, and paying health care premiums for retirees.

PART 4 - CONCLUSIONS

Major Expected Human Resource Challenges

Senior HR professionals are upbeat about the future. During the past several years, hiring and retention have taken a backseat to downsizing and organizational consolidation. Reducing headcount was more important than increasing it. In the near future, however, *HR professionals will return to focusing on these traditional HR functions.*

Rising health care costs will continue to be a major challenge. The traditional plans of merely finding the best but least expensive coverage will continue to be replaced by shifting more of the costs to employees and helping employees to become healthier and better health care consumers.

Plans for Staying Ahead of the Curve

The days of slashing training budgets and tabling career development initiatives are ending. *Employee development* is viewed as a major tool for attracting good employees, keeping good employees, and maintaining a motivated workforce. These senior HR professionals are planning to increase training, develop individualized career plans for talented employees, and expand their succession plans to include middle level managers.

Plans for Addressing Anticipated Societal and Business Trends

The three trends these senior HR professionals are most actively planning for are rising health care costs, diversity of the workforce, and organizational restructuring. To combat rising health care costs, they plan on making employees take on more of the responsibility for their health care. To address the increased diversity of the workforce, they are planning diversity awareness programs and new recruiting sources. In the area of organizational restructuring, these HR professionals plan to become more active in the due diligence prior to acquisitions. They will also focus on realigning human resources during times of change.

APPENDIX – ABOUT THE SAMPLE

Potential participants were selected from listings of the 100 largest public and private organizations in New England and the 50 fastest growing organizations in New England. All were sent an introductory letter and received follow-up phone calls asking for their participation. The interviews were conducted via telephone. Each lasted approximately 30-45 minutes.

The following 15 senior HR professionals were interviewed:

- *Tim Manning, SVP, Human Resources, NStar*
- *Rodney Willis, VP, Human Resources, Textron Systems*
- *Mark Bornemann, VP, Human Resources, LoJack Corporation*
- *Randy Longo, SVP, Axcelis*
- *Vivian Vitale, SVP, Human Resources, RSA Security*
- *RoJean Dechantal, People Services Officer, Allied Domecq*
- *Frances Gallitano, VP, Human Resources, DentaQuest Ventures*
- *John Wilkinson, VP, Human Resources, Dynamics Research Corporation*
- *Paul Woods, VP, Human Resources, Garber Travel*
- *Russ Vanderbaan, VP, Human Resources, Morgan Construction Company*
- *Dick Orton, VP, Human Resources, Vanasse Hangen Brustlin Inc.*
- *Jon Reuman, VP, Human Resources, Harvard Vanguard Medical Associates*
- *Lauren Rolfe, VP, Human Resources, American Student Assistance*
- *Robin Doyle, Human Resources Manager, Captivate Network*
- *Martha LaCroix, SVP, Human Resources, Yankee Candle*

The participants represented a wide area of different types of businesses. Their industry sectors are shown below.

