Human Resources - Adapting to the 21st Century

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Abstract: The Human Resources function is struggling to justify its existence as a value adding internal resource. The reasons for this are many. The solutions require Human Resources professionals to re-cast the function with several new perspectives; (1) HR leaders are becoming business professionals first and HR specialists second, (2) HR professionals are becoming more fluent in the language of business and the cultural norms of the society, (3) HR is becoming a forward looking discipline rather than a backward looking discipline. The author discusses four examples of changes affecting the global workplace: compensation, managing human capital, evaluating work and cultural differences. He concludes with five recommendations of competencies that HR should develop in order to link their work to the performance drivers of the organization and become a strategic and valued partner. The following recommendations focus on the following themes; (1) fluency in basic business finance, (2) developing relationships with elected or appointed representatives in government to address inconsistencies in labor law, (3) linking HR work to the factors that govern your organization’s decision making processes, (4) wholly integrating HR into all other departments, (5) developing competitive intelligence skills.

Introduction

In today’s hyper-competitive marketplace, organizations are forced to re-examine their business plans constantly. In doing so, CEOs are asking their subordinate department executives to re-think how they conduct their work and how they can generate improved value for their company. As one of the critical functions of any organization, Human Resources is also being forced to adapt its work to reflect the changing needs of the global dynamics. In this article, I will explain the opportunities and the threats or constraints facing HR executives as it seeks to adapt fast changing demands of the 21st Century. For several decades, the United States has seen a massive shift away from an industrial based economy to a knowledge or information based economy. During this time, the highly effective workforce in the Northeast has watched helplessly as their jobs migrated south, west and overseas in search of cheaper labor, lower energy costs, better labor relations, and a more progressive political climate between private industry and government.

More recently, thanks to technology, globalism, and falling trade boundaries, we have seen this migration accelerate to warp speed. Manufacturing jobs in Georgia that were once in Massachusetts are now moving down to Mexico or to Asia in search of greater efficiencies and economic advantages. Although certain manufacturing jobs in the US are continuing to prosper, such as the Asian automobile manufacturing plants in the mid-west and south, new knowledge based jobs are increasing at prodigious rates. In this knowledge economy, we are now manipulating data, not things, to generate value for our employers and our clients and customers. The paradigm has shifted. Technological advances, worldwide competition, falling trade boundaries and a changing economic and political world order is forcing companies (and governments) to re-think their strategies in order to survive and grow. As industrial work moves to more favorable economic climates, societies such as the United States are forced to develop newer models to adapt to the new business world. Our once comfortable and formidable business paradigms are shifting, causing us to look at things with a different mindset. Value added work now focuses more and more on information manipulation, not mechanical or physical manipulation. Furthermore, mature organizations are being challenged by what New York Times columnist and author Thomas Friedman calls the ‘flattening of the world’. He correctly senses that the playing field between the mature industrial nation-groups such as the US and members of the European Union and those of the emerging economies in China, India and Russia is being leveled.
HR Categories
At the macro level, Human Resources can be neatly divided into two general, but distinct categories:

1. Administrative overhead (consumption of resources)
2. Strategic partnership (measurable contributions to organizational success)

Administrative overhead in any professional discipline seeks the most efficient delivery of transactional work – work that requires little or no subsequent quality interpretation in order to satisfy the needs of the organization or its overseers. For example, payroll processes are just that – processes. Mechanisms are put into place to insure that payroll data is transferred correctly. This allows the payroll processing unit to print the payroll checks or make electronic transfer of funds correctly and on time. Historically, this has been done either in-house or with an outside local payroll processing company. Now, it can also be done internationally via the Internet, and at a lower cost to the subscribing company.

Strategic HR contributions to organizational success require skill sets that are not as prevalent in the traditional HR community. Fortunately, this is changing rapidly as more and more HR practitioners acquire these new skill sets and apply them to the organization’s performance pressure points. Compensation strategy, for example, requires a deeper understanding of basic business finance and cost variables in order to recommend and justify payroll practices and consequences.

In a recent article in HR Magazine, IBM’s Senior Vice President for HR, Randy MacDonald, observed that “CFOs get in to see the CEO faster than HR because of data. HR has to do the same. We have to offer quantitative metrics to the CEO and line people as to what’s going on in their business.” To further enforce this concept, MacDonald will sign off on projects and activities only if they are embedded with metrics and ways to measure success.

Recasting the HR Focus
Today’s organizational success requires dedicated and highly skilled professionals who can solve complex problems using multi-disciplinary teams. As a result, HR can no longer exist as a stand-alone function. HR professionals are re-casting the underlying assumptions of HR into three fundamental approaches:

1. Human Resources leaders are business professionals first and HR specialists second.

As business leaders, their work is focused on helping achieve the company’s strategic goals and objectives. As such, they invest more in outcomes than in activities. Success in HR functions is now directly related to success in marketing, sales, production and other departments.

Human Resources conducts its operations so that its activities provide critical and measurable contributions to the profitability and productivity metrics established for the organization. For example, employee benefit plans typically cost a company between 30% and 40% of payroll costs. A 2007 survey by the Society for Human Resources Management concluded that organizations in the survey spent an average of 20% of an employee’s annual salary on mandatory benefits, such as FICA (Social Security) and unemployment, and 18% on voluntary benefits, such as health care and retirement benefits.

These costs impact the company’s ability to price its products or services competitively so that it can maintain its market share and profitability ratios. In designing such policies, HR now
considers the impact of benefit costs beyond the basic cost of the program itself. Corporate financial performance is no longer restricted to the Finance and Accounting department.

2. Human Resources professionals are becoming more fluent in the language of business and the cultural norms of the society.

All business people must clearly know how to read financial statements and link their work to those performance drivers. Non-financial metrics such as environmentalism, community involvement, and corporate social responsibility are becoming more and more critical as special interest investors demand performance results in these areas. High performing HR executives assume a leadership role in advancing these and other non-financial objectives as well as the traditional financial metrics. They focus on performance pressure points that are the greatest concern to senior executives and other concerned stakeholders in the organization.  

3. HR is becoming a forward looking discipline rather than a backward looking discipline

If you examine traditional HR practices, you can see that most of the rules and regulations under which we currently operate were created during the Industrial Age economic models. Much of it made sense then, but a lot of it does not make sense in today’s information/knowledge economy. For example, our compensation laws were created in the 1930’s during the height of the Depression. They have been modified somewhat over the years, but the underlying theories of the industrial era mind-set still govern and control our compensation thinking. This conflicts with the knowledge age economic mindset. Concepts such as self-directed work teams, skills development, and motivation are restrained because of the U.S. Fair Labor Standards Act rules and regulations governing overtime compensation for non-exempt employees. The paradigm has shifted.

The popular organizational behavior theories that are highlighted in all of our textbooks were generated during the 20th century when manual production was a dominant industrial force. Popular thinkers such as Maslow, McGregor, Herzberg and their colleagues all based their research on the industrial models that they had to work with. Generally, supervisors and employees were all in close physical proximity to each other. There were numerous opportunities to observe worker interactions and draw rational conclusions.

Now, in our knowledge based and virtual management economy, our subordinates are connected electronically via the Internet and much of our industrial work has morphed into an efficient mechanized or digitized process that reduces the need for human intervention. Thanks to technology, our work teams may comprise of six people working in six different countries with six different approaches to labor laws. Thus, the industrial paradigm has shifted to the global knowledge or information paradigm. With this shift comes the necessity of the Human Resources function to re-cast their role in the organization to deal with current economic reality.

Real World Examples
Let’s take four examples and examine them in detail.

Compensation
Labor and compensation laws such as exempt and non-exempt overtime classifications, minimum wages, and the 40-hour work week were created during the 1930’s when the US was trying to re-start its industrial engines. Those rules still govern our compensation thinking and still govern many of the labor laws under which companies must operate within the US. Yet corporate operating business paradigms have significantly shifted away from the conditions that existed during the 1930’s and the 1940’s. Where once hierarchical structures were typical,
matrix and virtual organizations are now common place. Yet our compensation laws lock us into the 40-hour work week with mandatory overtime for any hours worked beyond that limit. It forces the employer and the employees to put the process ahead of the outcome. Even when an employee is highly motivated to finish a job, he must stop at the 40 hour mark because, in order to remain price competitive, his company cannot, or has decided not to pay overtime. Tight budgets and other countries competing for our production and service business at much lower costs have created business models that, not surprisingly, force us to consider outsourcing as a smart option. The global compensation landscape is quite uneven and it is forcing organizations to consider pay policies that may not be in agreement with existing US labor laws. As such, US companies are forced to consider whether to remain in their US location or move to another site.

Managing Human Capital
A review of textbooks and literature on organizational development reveals many chapters relating to the classic theorists of the 20th Century. Abraham Maslow’s Hierarchy of Needs, Frederick Herzberg’s Hygiene Factors, Douglas McGregor’s Theory X vs. Theory Y, and, of course, Frederick Taylor’s Scientific Management, to name a few. Although most of those theories were not supported by solid empirical evidence, a lot of them made sense at the time. Some still do. And we still teach them in our business schools and refer to them in our corporate seminars. Yet the research that led to these theories was conducted in an entirely different cultural paradigm. For example, in the first half of the 20th Century, when many of these theories originated, most supervision was local. The supervisor was within a short walk of all of his or her subordinates. There was plenty of opportunity to formally observe work performance and production. There was also plenty of opportunity to informally gather in the lunch room, the hallways, the factory shop, and on the ball field or other social venues. Most workers lived in the same community and shared common values, cultures and experiences. Closer relationships were formed and general observations could be made.

Today, however, a manager may be located in Chicago with her direct reports located in Seattle, Cairo, Singapore, Wellington, Tel Aviv, and Buenos Aires. Managing people in diverse sites who are connected to you via the Internet opens up challenges to conventional managerial theories. Traditional subjects like motivation, communication and leadership take on an entirely new dimension and are constantly being challenged. Where Maslow and Herzberg focused on American workers, globalism has begged for additional research on topics such as motivation and empowerment based on international sensitivities and traditions. We are currently living in an era where four generations are working together in the same workplace. In the United States, they are called: Veterans, Baby-boomers, Generation X and Generation Y. Each group comes with its own set of generational values, attitudes, capabilities, and inherent biases. As such, one-size-management-fits-all is not effective with these four groups. Dominant work values between the generations inherently clash unless a unifying force is present. The challenges to the employers and employees is to find that unifying force, hopefully without violating trust, ethics, law, and common sense. Work values are powerful forces impacting the four generations. Research shows that younger employees, for example, tend to focus more on intrinsic motivators and satisfiers such as freedom and autonomy, task identity and task significance than older employees. Older employees tend to focus more on identity to their career and keeping up with the rapid-fire technological changes – changes that may indicate whether they will continue to have a job.

Culturally, today’s so-called Generation Y – those born after 1985 - is the generations that is constantly wired into the 24/7 world and is not likely to be constrained by a negotiated or legislated work regimen at 40 hours per week and where job behavior is restricted. They cherish their freedom to move about freely, develop their professional and social networks, pad
their resume with additional skills, and participate in decision-making events. These employees are increasingly demanding that their employers provide a work environment that satisfies their personal and professional expectations. They look to the organization and to the community for these satisfiers. And, they are mobile enough to go to wherever it is provided.

**Evaluating Work**

Until recently, most job descriptions typically described activities performed rather than contributions made to organizational success factors. Under the backward looking paradigm, many supervisors have difficulty articulating why their subordinate’s job existed and how it is directly linked to the success of the department or the organization. With poorly conceived and thus poorly written job descriptions, it is difficult at best to take any performance appraisals system seriously. These systems are morphing from a theoretically valuable performance improvement process to a “Cover Your Ass” legal protection device. No one is served by this approach. Compounding these problems, managers link personnel decisions to these poorly conceived job descriptions and performance appraisals. Promotions, salary increases, transfers, layoffs, job assignments and other personnel actions are accomplished using a system that is flawed by the paradigm shift from brawn to brains.

In their book *Abolishing Performance Appraisals*, Tom Coens & Mary Jenkins argue that old underlying assumptions must give way to new, alternative assumptions. Performance appraisals given by poorly trained superiors who may work and reside on the other side of the country or the world assume that the process will motivate an employee to achieve higher standards. According to the authors, there is no empirical evidence to support these assumptions. Value-added work requires knowledge or information and the ability to influence the resulting data to the benefit of the client or customer. The paradigm shift argues that the knowledge employees are better suited for self developed appraisal than the system created by the organization. Yet our labor relations courts bind us to remain under outdated laws that are deleterious to the skills, abilities, desires and retainability of the knowledge workers.

Today’s successful workforce focuses on empowerment and the ability to solve complex problems in multi-disciplinary teams. In many companies, supervisors may supervise 20-30 people with many of them located in various parts of the world. Under the old paradigm, the manager would have to evaluate them all in a common process. Now, with a highly intense workload, no manager or supervisor can consistently or fairly appraise anyone under the old system. Other popular systems are being re-thought. For example, forced ranking approaches – championed by Jack Welch at GE – has merit but fails to take into account that no one cares who is in the top or bottom 10% if the company is going bankrupt. The paradigm has shifted.

**Cultural Differences**

Indeed, analyzing variations among cultures was exhaustively done in the 1970’s (with subsequent updates) by Geert Hofstede from the Netherlands. His research found that managers and employees vary on five value dimensions of national culture. Each dimension is worthy of further study and comprehension:

a. **Power and distance** focuses on the extent to which the less powerful members of the organization or institution accept and expect that power is distributed unequally. It suggests that a society’s level of inequality is endorsed by the followers as much as the leaders;

b. **Individualism** focuses on the degree the society reinforces individual or collective achievement and interpersonal relationships. The United States is a strong model for individualism. Japan is much more collectively oriented;
Masculinity focuses on the degree society reinforces, or does not reinforce, the traditional masculine work role model of male achievement, control and power. One can look at the gender equality issues in the US and Canada and compare them to the male orthodoxy in several Middle Eastern countries;

Uncertainty avoidance deals with a society's tolerance for uncertainty and ambiguity. It indicates to what extent a culture programs its members to feel either uncomfortable with or comfortable in unstructured situations.

Long Term Orientation focuses on the degree to which a society respects cultural traditions and the value it places on long-term commitments. For better or worse, most publicly traded corporations in the US tend to be driven by quarterly results as dictated by Wall Street. Modifying this paradigm is difficult at best.

Training American employees for international assignments is a discipline unto itself. Not only to they have to know business etiquette and negotiating styles of the host country, they also have to understand the impact of concepts such as Hofstede’s cultural dimensions on their business and social activities in their foreign assignment.

Conclusion
Traditional Human Resources assumptions are being reconsidered as its leaders and practitioners re-think how the discipline goes about adding value to its host company. For example, the merit increases between an above average performer and an average performer is typically marginal at best. Most companies can only afford 3-5% pay raises for the best of the employees and somewhat less for average employees. The effect is dissatisfaction with a formerly motivated employee. Basic managerial and supervisory skills were, and still are taught using industrial era philosophies. Supervisory courses are being taught with a model that assumes that the supervisor is in daily and personal contact with his subordinates and can control the environment where they work in order to achieve higher performance standards. When it comes to evaluating the performance of her subordinates, the manager is expected to comply with the spirit and letter of an appraisal system that was designed 50+ years ago under an entirely different managerial mindset. This is hardly a recipe for success.

Recommendations
What can HR do to adjust to this paradigm shift? Here are some suggestions: Human resources practitioners must become fluent in the language of business. This means that they have to understand basic concepts of business finance and accounting. One does not need to be a CPA in order to read basic financial statements like those found in corporate annual reports. However, HR must be able to link their performance metrics to those of executive leadership. Where HR is concerned with efficient administration of benefits and compensation programs, the CEO is concerned about rising payroll costs that affect pricing strategies to sustain competitive advantages and market share. HR’s arguments cannot be accepted unless they address the issues that keep CEO’s awake at night. Falling profit margins and dwindling retained earnings may signal downsizing, re-structuring, and other belt-tightening measures. Conversely, rising profit margins can be opportunities to improve salaries, benefits, and other job enhancement opportunities. Smart HR professionals watch the numbers and base their initiatives on the opportunities or threats that are presented;

Develop close and proper relationships with your elected or appointed representatives in government. Archaic labor laws and restrictive business laws impede business development and competitiveness. These laws must be repealed or superseded by laws more favorable to the existing economic and social climate. Express your concerns and recommendations to your...
representatives in local, state and national legislatures and urge them to sponsor legislation that supports your position. National organizations such as SHRM have a well established system of presenting these proposals to our elected representatives.

*Link HR work to the factors that govern your organization’s decision making processes.* Although much of HR work is transactional in nature, strategic Human Resources focuses its efforts on profitability and productivity contributions that enhance the organization’s ability to sustain and grow its business. Since a lot of HR work is heavily focused on managing the employment process in accordance with the spirit and letter of employment law, newer and more tangible value-added work focuses on work outcomes beneficial to corporate survivability and success. No one in any job can be allowed to confuse activity with productivity.

*Wholly integrate HR into all other departments.* Human resources as a corporate function cannot exist as a stand-alone discipline. Organizations are made up of several interconnected and interdependent entities. HR must wholly integrate itself into all other functions and its practitioners must be able to speak the language of every department. If you expect to work as an equal partner with the company’s other strategic experts, you must be able to talk with and to them—at their level—about their areas of responsibility.

*Develop your competitive intelligence skills.* Competitive intelligence helps firms define and understand their industry and identify rivals strengths and weaknesses. It is not spying, which implies illegal or unethical activities. It is an assessment of future trends, needs, threats and opportunities. The more you know about your business and its industry, the more apt you are to make decisions that positively affect your outcomes. It is not, however, a crystal ball. No one, for example, could have predicted the power of the Internet 20 years ago.

HR professionals learn to scan & monitor the environment in order to predict their company’s human capital needs. What skills, knowledge and abilities (KSAs) will the company need to sustain and grow their business? Four generations working together creates recipes for conflict unless managers understand the differing motivating values of each generation and develops a unifying force to bind the segments. In order to attract and retain the best and the brightest people, HR develops forecasting models based upon factors such as market growth, financing availability, technology, and organizational culture. From this competitive intelligence, HR is able to produce a business plan support strategy that will direct the activities and outcomes of the department towards the overall goals of the company. Human Resources professionals are in a unique position to make the transition from back office administrative overhead to front line profitability and productivity contributors. Fortunately, it appears that the leadership of the US Society for Human Resources Management is taking the lead in encouraging its local chapters to adapt to the changing world or risk being marginalized or eliminated altogether. It is the job of all of us to help make this transition.
REFERENCES

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Personal Profile

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