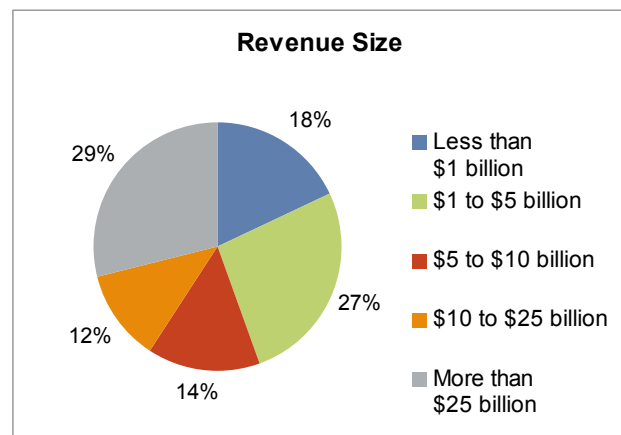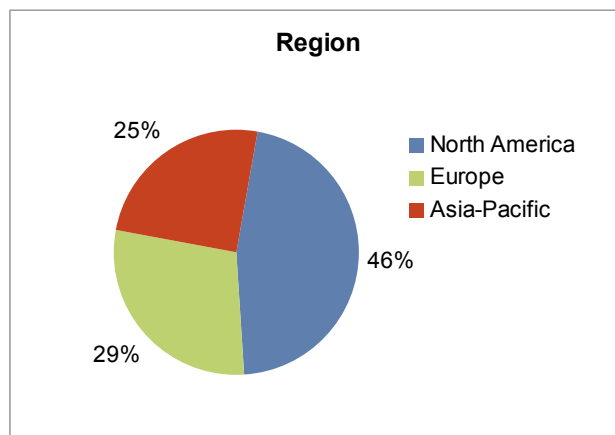## Survey Highlights

Managing HR on a Global Scale

Findings From Hewitt's 2009 Global HR Study

What does it mean to be a global HR organization? As companies large and small continue to expand their "global footprint," the question strikes at the heart of every HR function. Hewitt's 2009 Global HR Study explores this fundamental question, as well as many others, to explain how HR organizations are evolving to meet the needs of a global business and workforce. Eighty-five global companies participated in the study from North America, Europe, and Asia-Pacific.

Region

- North America
- Europe
- Asia-Pacific

25%
46%
29%

Revenue Size

- Less than $1 billion
- $1 to $5 billion
- $5 to $10 billion
- $10 to $25 billion
- More than $25 billion

18%
29%
27%
12%
14%

Research Highlights

- Being global is about global mindset and capability, not just structure or systems.
- Where work is done at global, regional, and local levels, companies are taking a "portfolio" approach based on specific criteria.
- Increasingly, a company's most critical global capabilities (e.g., leadership) are managed through a global, centralized approach to drive consistency, focus, and effectiveness.
- Regional hubs are emerging as a way to drive both strategy and efficiency in diverse, complex organizations.
- Talent management is still managed primarily at a local business unit (BU) level—but for many companies, global integration of these programs is a top priority.

- In many instances, HR is leading rather than lagging the business in terms of developing and building global HR strategy and structures.
- Many companies are focused on upgrading the capabilities of their HR staff to effectively support global business. In some organizations, we're seeing a shifting in the roles of HR centers of expertise (COEs) and business partners to better respond to business needs.
- HR is playing a growing role in the shaping of corporate ethics and social responsibility, serving as a steward of organizational values.
- Progress has been made to drive standardization and efficiencies in HR; however, significant opportunities remain in both program management and service delivery.
- A rigorous approach to HR governance, including establishing clear metrics, plays a vital role in managing risk and maximizing HR effectiveness on a global basis.

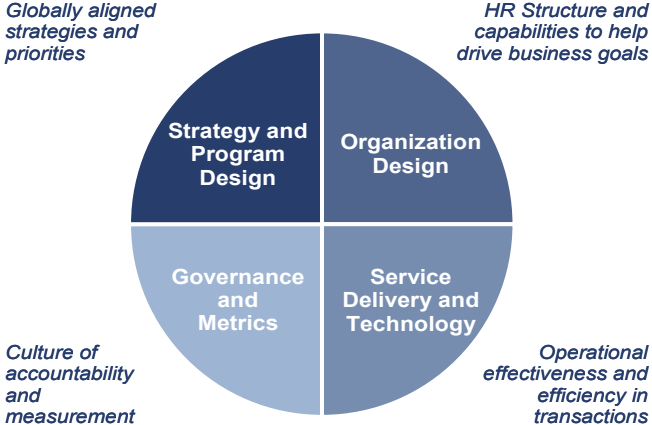## What It Means to Be a Global HR Organization

Business globalization and cross-border trade and investment have accelerated over the last decades. Since 1950, world trade has increased twentyfold. There is no doubt that the current economic slowdown is affecting the pace of how companies are globalizing, but most experts believe globalization will continue.

Hewitt's Global HR Study further illustrates this globalization trend. Three-quarters of participants characterized their company as "International" or "Transitioning to Global," while a smaller number (15%) identified themselves as "Global."

Multinational (6%)	International (35%)	Transitioning to Global (40%)	Global (15%)
An organization with cross-border operations that are primarily decentralized and autonomous	An organization with headquarters that retains some control over decisions, but still remains largely decentralized	An organization that is taking concrete steps to develop worldwide strategies and policies	An organization that develops strategies and policies on a worldwide basis and shares resources across borders

Implications for HR

The implications for HR are significant in terms of both managing a global workforce and operating as a global function. Results confirm that few HR organizations are operating on a truly global basis. Rather, many are taking a portfolio approach, where work is done at global, regional, and local levels, depending on the needs of the organization. When managing global HR, leading companies address four disciplines, with a clear rationale for each on the degree and scope of global influence. These disciplines will be explored in greater detail in this report.

Globally aligned strategies and priorities

HR Structure and capabilities to help drive business goals

Strategy and Program Design

Organization Design

Governance and Metrics

Service Delivery and Technology

Culture of accountability and measurement

Operational effectiveness and efficiency in transactions

Strategy and
Program
Design

Organization
Design

Governance
and
Metrics

Service
Delivery and
Technology

Strategy and Program Design: Finding the Right Balance

Most organizations struggle with developing a global HR strategy that meets the diverse needs across businesses and geographies. While 93% of organizations reported having a clearly defined strategy, in many cases this strategy applies to their primary operating region. Only 49% of respondents indicated that their strategy spans all of their operating regions.

Program Design: A Two-Pronged Approach

Results indicate that many organizations conduct program strategy and design based on a two-pronged approach. There is a core set of programs managed primarily at the global level. Typically, these programs focus on a critical segment of the population or involve strategic principles that require enterprise-level oversight. Other programs are managed predominantly at the local country level and may have specific legal or regulatory mandates that require more local involvement. Still, the relatively high predominance of activities occurring at the local level suggests that many organizations have not taken significant action to manage programs on a more standardized basis.

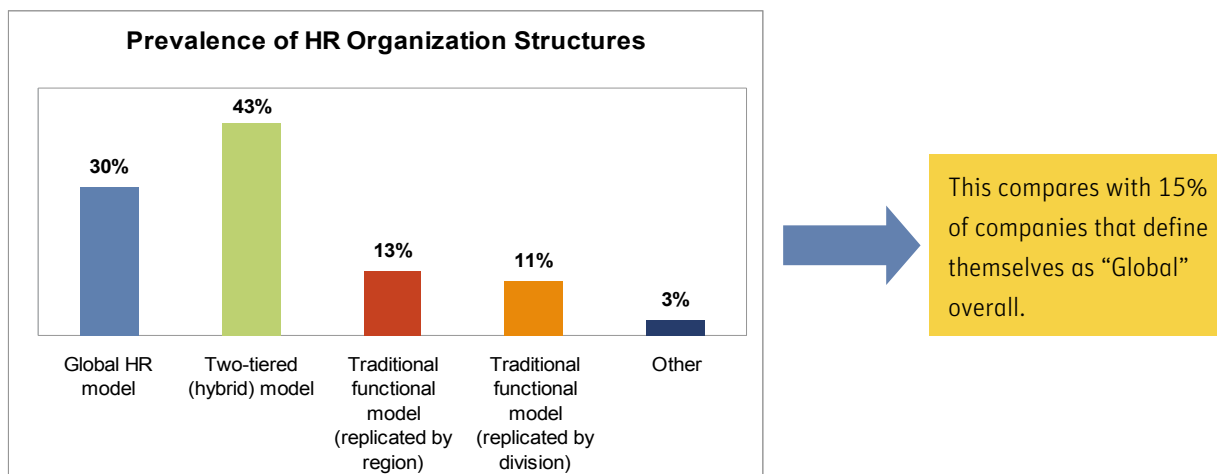### Shifting From Local to Regional/Global HR Strategy and Program Management

While each company's HR strategy is unique, top global organizations use a decision framework to determine the appropriate balance of global, regional, and local HR roles. The table below outlines a suggested criteria "road map" for making these decisions. The trend among organizations is to shift program strategy and design from the local country level to regional or global levels—to drive a more strategic approach and to take advantage of economies of scale.

	Primary Considerations or Drivers	Examples	Outcomes
Local (by country) Differentiation at local country is critical or mandatory based on regulatory requirements	▸ Legal and regulatory requirements ▸ Dominant BU- or country-focused business structure	▸ Payroll, labor relations ▸ Administration of benefits (retirement, health and welfare) ▸ Local outsourcing relationships	Primary opportunities for cost efficiency by cross-business consolidation at country level Regional standardization needed to achieve further efficiencies
Regional (across multiple countries) Need for greater coordination and efficiency with flexibility to accommodate regional differences	▸ Regional commonalities (culture, language, geography, law, etc.) ▸ Strong regional business orientation	▸ Strategy/design (recruiting and sourcing, learning and development, compensation) ▸ Regional service delivery (expatriate, compensation, HR reporting, recruiting)	Primary opportunities for cost efficiency and strategic coordination for geographic regions (e.g., Eastern Europe, Southeast Asia)
Global (across enterprise) Enterprise strategy where consistency and/or consolidation creates significant value	▸ Driving global principles, culture, and mindset ▸ Managing enterprise-wide assets ▸ Global technology solution	▸ Executive compensation ▸ Leadership ▸ HR reporting ▸ Ethics and corporate social responsibility ▸ Risk management	Primary opportunities for strategic coordination and long-term growth—especially in areas of talent management, data analytics, and Corporate Social Responsibility and compliance Cost is not typically the primary driver

Organization Design: HR Leading the Way

Our research indicates that in many instances, HR is leading rather than lagging the business in terms of organization design. This is driven in large part by the growing recognition that the company's most critical human capital priorities require a consistently global approach in strategy and design.

Prevalence of HR Organization Structures

Structure	Percentage
Global HR model	30%
Two-tiered (hybrid) model	43%
Traditional functional model (replicated by region)	13%
Traditional functional model (replicated by division)	11%
Other	3%

This compares with 15% of companies that define themselves as "Global" overall.

- Thirty percent of companies described their HR organization structures as "Global" (defined as global COEs who manage program strategy and design, and a global HR operations group that manages centralized/regional HR service centers and/or outsourced providers).
- The largest percentage of companies (43%) described their HR structures as "two-tiered" (defined as specific accountabilities that reside at corporate, such as leadership development, and others that reside at the divisional or regional level, such as compensation).
- The fewest number of companies described their HR structures as traditional functional departments, replicated by either region or division (13% and 11%, respectively).

A Shift in HR Roles and Capabilities

Many organizations are facing significant capability gaps in HR, so there is a concerted effort to upgrade the skills of both business partners and COEs. Interestingly, the skills and expectations of these two roles are converging as HR tries to better support business leaders and their urgent talent needs. Hewitt's research reveals a significant degree of overlap in the capability gaps identified for HR business partners and COE/corporate staff (see the table below). Skills such as strategic thinking, influencing leaders, and managing change are expectations of both roles.

Most Critical Capability Gaps	HR Business Partner/ Field HR	COE/Corporate Staff
Strategic thinking	49%	64%
Business acumen	56%	41%
Managing/facilitating change	51%	41%
Influencing and advising senior leaders	56%	30%

Service Delivery and Technology: Driving Efficiencies on a Broader Scale

While the HR function has made significant progress in driving efficiencies in service delivery, most of this activity has occurred within companies' main operating regions. Fewer organizations have been able to achieve service delivery efficiencies at the regional or global level, as illustrated in the table below.

|	Not at All	In Primary Region Where We Operate	Across Multiple Regions	Across All Regions Globally
Consolidate core HR service delivery	11%	53%	16%	19%
Consolidate talent management service delivery	15%	38%	21%	23%
Leverage self-service to handle employee and manager transactions	20%	36%	23%	18%

While the current economic situation has prompted organizations to drive efficiencies through improved service delivery, there are still significant opportunities for greater standardization. Overall, participants reported great variability in the way they administer programs; however, the most prevalent approach to program administration is still at the local country level. HR efficiency and costs vary considerably by region. The table below provides information on HR FTE ratios (the number of employees each HR person supports) and HR unit costs (the average total compensation costs per HR employee).

Region[1]	HR FTE Ratio	HR Unit Cost
Asia-Pacific	84	$51,114
Europe (including Middle East and Africa)	76	$106,291
Latin America	88	$68,568
North America	93	$120,936

Global Technology Deployment Continues to be a Priority

Despite the economic slowdown, companies continue to invest in and deploy global HRMS and talent management technology. There are significant differences in the perceived effectiveness of these systems, as the graph below indicates. While 78% of respondents reported their HRMS to be Mostly or Very Effective, satisfaction for talent management systems decreases to 67%.

A key factor driving this lower effectiveness is the lack of integration of talent management processes that feed into these systems. Integration of these processes is a top priority for many organizations over the next one to two years.
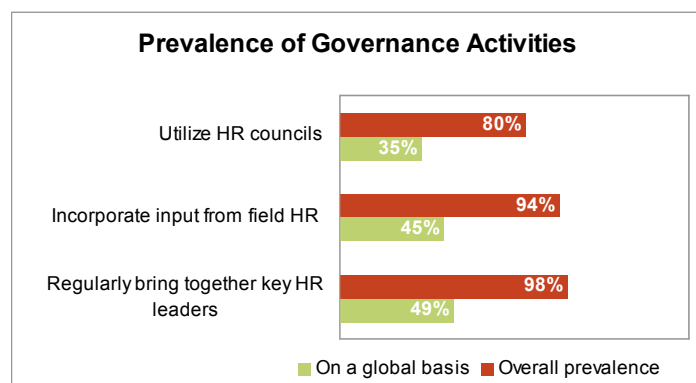
Perceived Effectiveness of Global Deployment: Percentage of Companies Responding "Mostly or Very Effective"

Core HRMS — 78%
Talent management — 67%
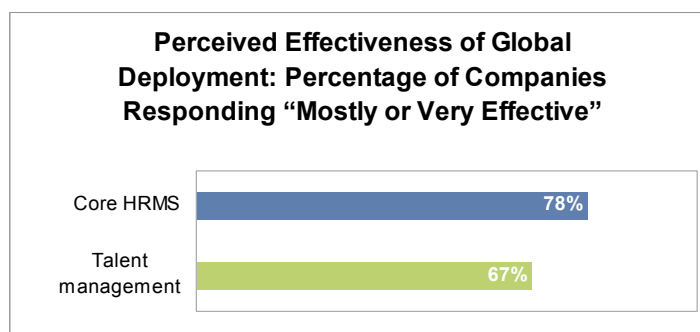
Governance and Metrics: Pushing Beyond the Basics

Effectively managing the complexities of a global HR organization requires a concerted focus on governance. Our findings indicate that the vast majority (83%) of respondents have a clearly defined governance model in place for HR. Yet only 39% of respondents have governance solutions that span all their regions. The prevalence of specific activities and their global reach is outlined in the graph to the left.

Prevalence of Governance Activities

Utilize HR councils: 80% (Overall prevalence), 35% (On a global basis)

Incorporate input from field HR: 94% (Overall prevalence), 45% (On a global basis)

Regularly bring together key HR leaders: 98% (Overall prevalence), 49% (On a global basis)

■ On a global basis ■ Overall prevalence

For leading companies, governance goes beyond HR councils and leadership meetings. Best-in-class governance is tied to business outcomes and focuses on making critical decisions regarding fiscal discipline, risk management, and policy creation.

Metrics: Focus is on Effectively Leveraging Data

Leading companies maintain their human capital edge by using workforce analytics to monitor progress and drive decision-making. Yet among many organizations, there is a continued struggle to track consistent, meaningful measures. While 88% of respondents in our Global HR Study track key workforce-related metrics, only half are doing this on a global basis. For the most part, the metrics that are being tracked are very traditional. However, a smaller subset of organizations is tracking more outcome-related metrics, such as new hire performance ratings and high-performer turnover. This is an encouraging sign of a more robust approach to human capital analytics.

Top Five Most Common Metrics[2]	Top Five Emerging Metrics
Workforce headcount	New hire 90-day separation rate
Total turnover rate	Participation rate in development activities
Voluntary turnover rate	Percentage of diverse leaders
Benefit expense per employee	High-performer turnover rate
Health care expense per employee	New hire first-year performance rating

Many HR professionals focus their activities primarily on data collection and dissemination. While 83% of participants said that HR reports key workforce metrics to senior management on a regular basis, only 24% are actually helping leaders use those metrics to make business decisions on a global basis. To be effective, HR professionals need to shift to data interpretation and consultation to help business leaders make effective human capital decisions.

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[2] Source: Hewitt's Talent Practices Impact Study 2008.

Taking Action to Improve Global HR Capability

While it's clear that companies are well along the journey toward HR globalization, this study reinforces the notion that "going global" is not the panacea for all of HR's challenges. As the complexity of globalization increases, HR will need to be more deliberate and focused on critical areas that provide the greatest impact for the business. The questions that follow provide a good starting point to understand where your organization stands versus the four global disciplines reviewed in our study.
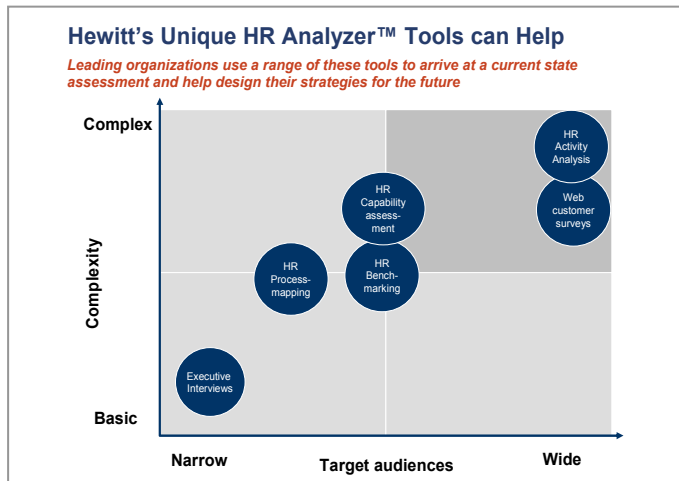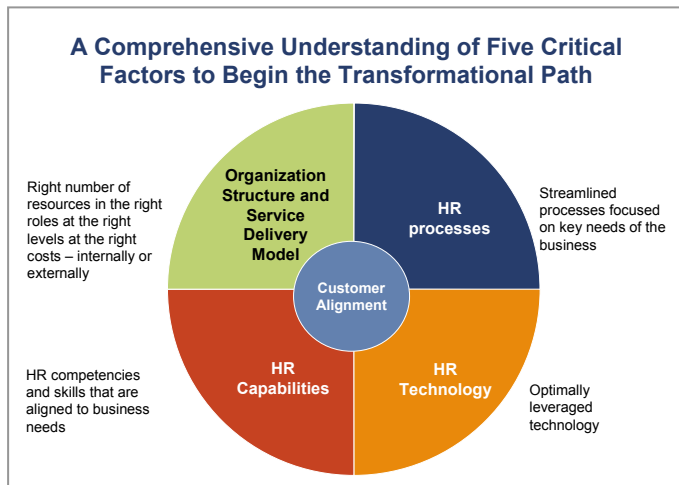
	Primary Goal	Critical Questions to Answer
Strategy and Program Design	Globally aligned strategies and priorities	What are your human capital priorities in the next 5 years? How will you address these priorities? How can you ensure global alignment of your programs/processes?
Organization Design	HR structure and capabilities to help drive business goals	What is your total HR spend, and how do your resources spend time across locations? Is HR structured to deliver optimal value? Is your HR team equipped with the right capabilities to drive business imperatives?
Service Delivery and Technology	Operational effectiveness and efficiency in transactional services	How standardized are your operations? Are there opportunities to streamline and consolidate service delivery? Are you effectively leveraging technology to deliver HR services globally?
Governance and Metrics	Culture of accountability and measurement	What is HR's role in supporting corporate social responsibility and ethics? How do you manage HR risk and compliance? Do you have a global metrics capability?

At any stage of globalization, HR organizations can and need to think about how to enhance their global capability for today and the future. Opportunities will vary depending on whether a company is just starting to expand beyond headquarters borders or well immersed in globally integrated operations. Regardless, companies can start by understanding where they stand today. These steps are critical:

■ Conduct a rapid assessment of your HR function's global capability, based on the four key disciplines.

■ Identify opportunities for improved global/regional coordination, standardization, integration, and cost savings.

■ Review current gaps/opportunities with key stakeholders to determine priorities for change.

■ Develop an action plan to address key priorities; determine milestones and critical metrics to gauge progress and success.

Ultimately, each company's approach to managing global HR will be unique, driven in large part by the business strategy, global reach, and company history. Leading organizations are those that take a strategic look to determine the best portfolio of HR approaches for the business and the workforce.

Hewitt's HR Effectiveness Capabilities

A Comprehensive Understanding of Five Critical Factors to Begin the Transformational Path

Right number of resources in the right roles at the right levels at the right costs – internally or externally

Organization Structure and Service Delivery Model

HR processes

Streamlined processes focused on key needs of the business

Customer Alignment

HR competencies and skills that are aligned to business needs

HR Capabilities

HR Technology

Optimally leveraged technology

Hewitt's Unique HR Analyzer™ Tools can Help

Leading organizations use a range of these tools to arrive at a current state assessment and help design their strategies for the future

Complex

HR Activity Analysis

HR Capability assessment

Web customer surveys

Complexity

HR Process-mapping

HR Bench-marking

Executive Interviews

Basic

Narrow   **Target audiences**   Wide

Eight Critical Questions for HR Organizations Focusing on Driving HR Efficiency, Effectiveness and Alignment

1   How does the business view HR?

2   What services and capabilities are valued by your customers?

3   Do you know your total HR spend; is it competitive and sustainable?

4   Do you know how your resources spend time across functions? Across BUs/ regions?

5   Do you have highly paid resources doing transaction work?

6   How streamlined are your HR business processes?

7   Are you effectively leveraging technology and expertise (internally or externally) to deliver HR services?

8   Is your HR team equipped with the right capabilities to help drive your business imperatives?

To receive this full report, request a copy from your local Hewitt consultant or send an e-mail to *humancapitalconsulting@hewitt.com*.

About Hewitt Associates

Hewitt Associates (NYSE: HEW) provides leading organizations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges. Hewitt consults with companies to design and implement a wide range of human resources, retirement, investment management, health management, compensation, and talent management strategies. As a leading outsourcing provider, Hewitt administers health care, retirement, payroll, and other HR programs to millions of employees, their families, and retirees. With a history of exceptional client service since 1940, Hewitt has offices in 33 countries and employs approximately 23,000 associates who are helping make the world a better place to work. For more information, please visit **www.hewitt.com**.

PM-1097-001-EN