



## SUSTAINABILITY FOCUS

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# HUMAN CAPITAL AND THE EMPOWERMENT OF THE HR FUNCTION

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### KEY TAKEAWAYS

Vigeo's analysis shows that over time, the presence of both an executive level HR director and the evaluation of line managers on HR performance have increased. 72% of the 380 companies analysed in this study have an executive level of HR directors and 53% evaluate line managers in terms of HR performances.

The evaluation of line managers appears more likely to occur if there is an executive HR director in place.

The '**combined approach**' of having an executive level HR manager and the evaluation of line managers goes hand in hand with better performances on a number of key human capital issues such as diversity, stress and the management of reorganisations.

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### INTRODUCTION THE STRATEGIC FIT

It goes without saying that employees' skills and competencies constitute a potential competitive advantage for any company. However, on their own they cannot explain organisational success or failure. Naturally, every organisation will try to attract and retain employees with the right competencies or attitudes. To be successful, organisations have to correctly deploy the skills and competencies of their people. They have to realise what is called the **strategic fit**. This implies attracting, retaining and developing human resources in line with the strategic objectives of the organisation. This logic also works in other directions. The better the quality of human capital on hand, the more strategic options will be available to a company. To extend this even further, many organisations are operating in turbulent environments where the capacity to change and to innovate is crucial for future economic success. By making sure that the realisation of corporate objectives is reflected in HR decisions, the HR function contributes to the safeguarding and strengthening of the common purpose. Failure to realise the '**Strategic Fit**' from an HR perspective, can be very expensive for a company.



## METHODOLOGICAL APPROACH

To analyse the empowerment and strategic relevance of human resources functions we used two indicators for this research piece:

- The recognition of this strategic function requires the attention of the highest decision making level in the organisation. Therefore we looked for the presence or absence of the human resources director within the executive committee.
- In addition, it can be assumed that the strategic importance of human resources is better guaranteed if the quality of

management has an impact on the remuneration, promotion and development of managers. Therefore we analysed if managers were evaluated on their performance in terms of their HR practices and outcomes.

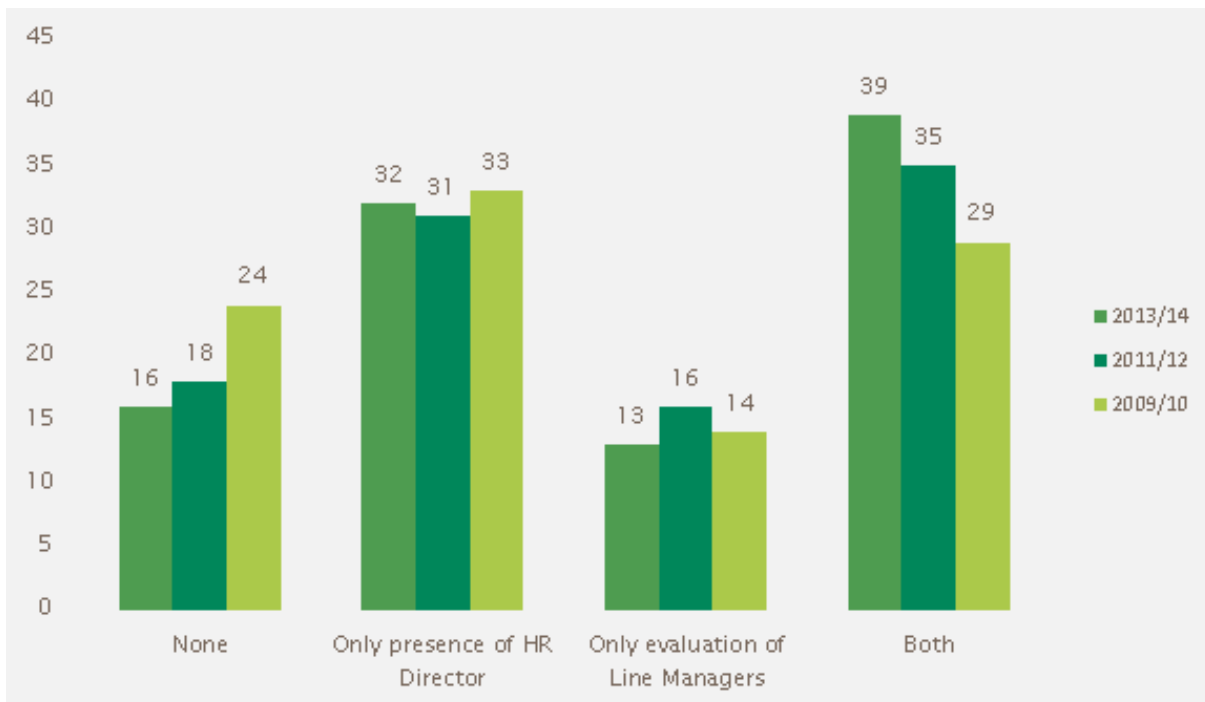
- To avoid as much as possible the bias or distortion caused by low reporting companies, only the companies with a disclosure rate of 66% or above were retained for the study. As such, the universe examined contained 380 companies.

## OVERALL FINDINGS

The findings on the presence of an executive level HR director and assessment of line

managers are presented in the graph below.

### Share of companies with an executive HR Director and HR evaluation of line managers



- In the most recent sector reviews (2013/14) a **combined approach** (the presence of an executive HR director and the evaluation of line managers on their HR performance), was observed in 39% of the companies. The combined approach is clearly the most frequently applied. The share of companies

with **both** an executive HR director and the evaluation of line managers has increased clearly (+10%) over the three research cycles.

- In 32% of companies there was only an executive level HR director in place but no visible evaluation of line managers.



- In 13% of companies there was an evaluation of line managers but no visible executive HR directors.
- The share of companies without an executive level HR director and without the evaluation of line managers stands at 16% and appears to be falling over time.
- Our research indicates that 71% of the companies had an executive HR director, while the evaluation of line managers was organised in 52% of the companies.
- These findings suggest that the relevance of the HR function is both broadly and increasingly recognised. Secondly, evaluating line managers appears far more likely if there is an executive HR director. As a stand-alone feature, the sole evaluation of line managers appears seldom observed.

## SECTOR DIFFERENCES

- The sectors most visibly displaying a combined approach were Technology & Hardware (64%), Telecommunications (63%) and Mining & Metals (50%).
- Sectors that appear to be lagging behind are Energy (17%) and Retail and Specialised Banks (27%).
- All 15 companies in the Automobiles sector have an executive HR director. This is also the case for 12 out of 13 (92%) companies in the Pharmaceuticals & Biotechnology sector and for nine out of eleven (82%) in the Mechanical Components & Equipment sector.
- The evaluation of line managers is most frequently observed in Mining & Metals (71%), Insurance (69%) and Technology & Hardware (64%).
- When clustering sectors into larger groups, it appears that industrial sectors more often than services sectors rely on a combination of an executive director and the evaluation of line managers (44% versus 37%). This is especially the case for sectors where talented employees are considered to bring with them a high added value<sup>1</sup> (54%). Financial sectors (34%) and services sectors with less qualified staff (34%) appear to be lagging behind with only around one third of the companies having adopted a combined approach.

## DOES THE POLICY SHAPE THE PRACTICES?

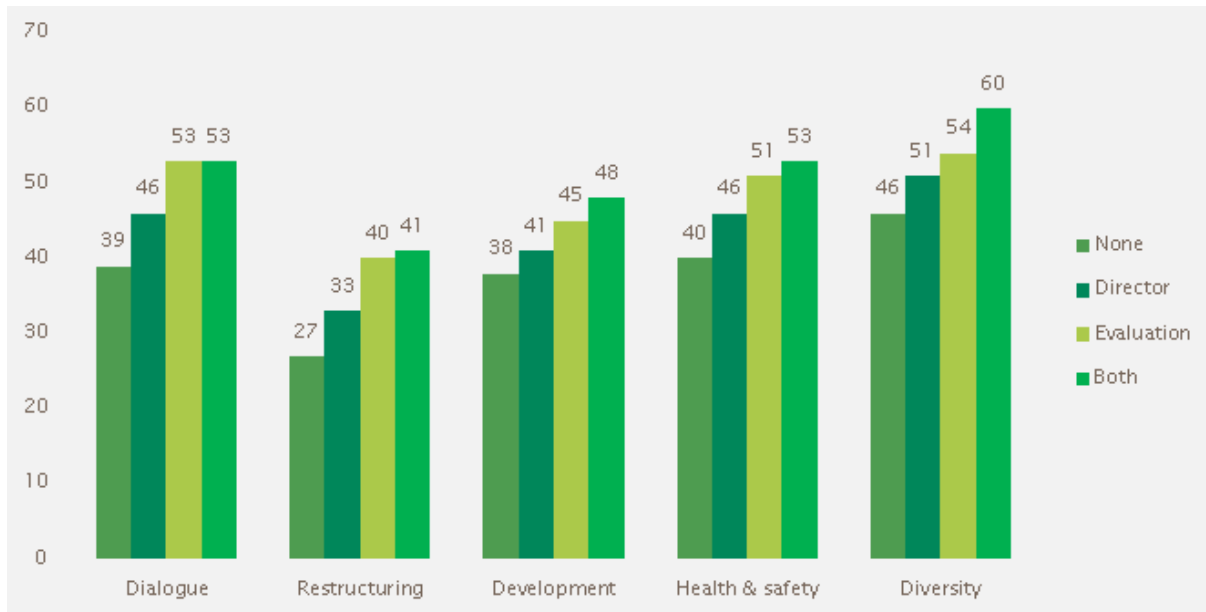
One of the main objectives of this research is to analyse if the strategic relevance of the HR function will affect the quality of HR policies and programmes. A first indication can be found in the average scores for different HR issues: social dialogue, restructuring, training and development, health and safety and

diversity. The findings are presented in the table below and are based on Vigeo's most recent reviews (2013–2014).

<sup>1</sup> Aerospace, Chemicals, Healthcare Equipment, Pharmaceuticals, Technology & Hardware.



Average scores for HR practices (out of 100)



For all HR subjects a similar pattern emerges. The best performances are observed for companies where there is an executive HR director and where line managers are evaluated on their HR management. The difference with companies where there is only the evaluation of line managers is limited, while the gap with companies with only an executive HR director varies between 6 and 9 points. The lowest scores, 10 to 14 points lower, are observed at companies with neither of the features.

The most striking finding is that the mere presence of an executive HR director appears to have only a limited impact. Such companies score better than companies without either feature, but clearly lower than the remaining companies. For the quality of HR policies and programmes, the evaluation of line managers appears to be more decisive than the presence of an executive director. When line managers are evaluated on their performance in terms of human resources management, with a potential impact on their promotion, development and remuneration prospects, the organisational support for good human capital practices appears to be stronger.

However, this finding should be interpreted with caution. First, the probability of evaluating line managers is higher when there is an executive HR director than when there is none. Secondly, in a more dynamic approach it appears that companies where there has been an HR director in the past are more likely to add the evaluation of line managers. In addition, the presence of an executive HR director is a more stable feature: once the function has been created, it is there to stay. It might indicate that both features are not independent, but that the presence of a HR director may in turn facilitate the evaluation of line managers.



## WHERE ARE THE DIFFERENCES?

The large variations in scores invites us to further explore where precisely the differences between companies are observed. In the overview below only the statistically significant differences are discussed<sup>2</sup>.

### 1. Training

Participation in training programmes appears far higher in the companies with both features. 56% of them offer training programmes to a majority of their employees, compared to 29% of companies with only an executive director and 25% of the companies which lack both features. In companies where only line managers are evaluated, the share stands at 49%.

### 2. Stress Management

A very strong correlation is found for stress management. Companies where both features are present adopt the broadest approach to stress management. They appear to focus more frequently on stress prevention and address the organisational causes of stress, like employee oriented flexibility, avoidance of overtime and job redesign. While in the whole panel only 19% of the companies rely on this proactive approach, this share is 28% for companies with both features.

To a lesser degree, elements of the 'structural' approach are also present at companies where only one feature is observed. Companies without any of the features rely far more on passive measures, like employee assistance programmes, awareness raising or monitoring of absenteeism, or simply do not report on their approach to stress prevention.

### 3. Restructurings

A strong correlation with regards to the management of restructurings and

reorganisations is also observed. Companies with a combined approach are far more active than other companies. Almost six out of ten (58%) companies rely on a broad range of supporting programmes with a strong focus on internal solutions, like further education and internal mobility, and external solutions (outplacement, follow-up). Companies where line managers are evaluated on their HR management are also actively addressing the employment impacts of restructurings, but the focus on internal solutions is less observable. Companies with only a HR director are more likely to rely on passive solutions, like redundancy packages and early retirement, or fail to disclose information. Companies with none of the features often fail to disclose any information (57%).

### 4. Diversity

Companies with an executive HR director and where line managers are evaluated appear to have more frequently installed specific diversity units. Almost two thirds (64%) have done so compared to 42% for the entire panel. They also appear far more likely to involve employees (representatives) in the implementation and monitoring of the diversity policy and programmes.

With regard to diversity programmes, about one quarter have elaborated upon a broad range of programmes to support the interests of groups with a weaker position on the internal and external labour market. This approach is observed in 40% of the companies with both features and in only 7% of the companies without either of them. In the remaining companies the share stands at 25%.

<sup>2</sup> The calculations are based on chi-square tests (at least  $p < 0.05$ ). It has to be stressed that 'significant' does not mean that there is a causal relation.



## 5. Social dialogue

Companies with the combined approach are more likely to conclude collective agreements that deal with emerging issues related to the quality of the work environment, like stress management, age conscious HR management and equal opportunities. 70% of them are

addressing at least some of these challenges. There is a gradual decrease of the occurrence of this approach over the other categories: from evaluation of line managers (66%), over only executive HR director (53%) to neither of both measures (41%).

## CONCLUSION

Our research findings indicate that when the HR function is empowered, by appointing an executive HR director and by evaluating line managers in terms of their HR management, companies clearly invest more in strengthening their human capital practices. Training, stress prevention and diversity are some of the issues that appear to be clearly promoted. It can reasonably be assumed that these practices do not exist in isolation and are mutually reinforcing each other. They create a strong knowledge basis which is a precondition for competitive advantage. In

addition, increasing attention is being paid to the unifying role of the HR function. Large companies are complex and difficult to manage and the cost of non-compliance can be high. Aside from the board of directors and the CEO, the HR function is one of the few transversal ones within an organisation. By consistently implementing HR practices and the principles on which they are based, the HR function will contribute to an organisation with common objectives and shared values.



## BEST PRACTICES

The four cases below all have an executive HR director and evaluate line managers in terms of HR management. The following briefly describes specific issues focusing on restructuring, stress management and responsibility for the diversity policy.

### RWE

#### 1. Restructuring

RWE's European Works Council agreement states that "when developing social plans early retirement, part-time work for elderly workers, voluntary severance pay, part-time work, outplacement, qualification/ training and mobility should be considered."

#### 2. Stress management

RWE's Occupational Healthcare Management programme offers a range of measures for employees and managers including training sessions in effective stress management. RWE has also introduced the Work Ability Index (WAI) to assess whether employees are able to cope with the workload assigned to them.

#### 3. Diversity

Since 2006, a diversity manager has been appointed at the company's headquarters, supported by a network of diversity officers. The RWE Group - Coordination Office for People with Disabilities was set up in 2004. The companies in the RWE Group have all signed integration agreements and are committed to facilitating the employment of people with disabilities.

#### 4. Social dialogue

In 2010, RWE and its European Works Council representing more than 99 % of the Group's workforce agreed on a Social Charter for the RWE group.

### NORSK HYDRO

#### 1. Restructuring

Hydro has a target of conducting effective restructuring in cooperation with employees and their communities. In cases of restructurings Hydro entered in consultation with the union on how the closure process should be managed. Norsk Hydro offered different services including a job market day, financial advice and counselling and reduced working hours. Some employees have been utilized as substitutes and in investment

projects. In addition, Norsk Hydro states that early retirement is generally used, as well as outplacement services and follow-up of employees.

#### 2. Stress management

Hydro monitors the psychosocial work environment through the employee survey Hydro Monitor and for physical, chemical and ergonomic stress through the company's work environmental risk assessment tool (WERA). Sick leave and the rate of occupational disease are part of the monthly reporting. The company also indicates that the avoidance of overtime is covered at most of its sites. Flexible working hours are commonly used by employees in positions where this is possible.

#### 3. Diversity

The Executive Vice President responsible for Legal Services, Corporate Social Responsibility (CSR), Human Resources and Organizational Development (HR), Health, Safety and Environment (HSE) has a supervisory responsibility. The AlertLine was launched in August 2012 and is served by an external company. Employees may anonymously report breaches or perceived breaches of Hydro's requirements through the channel.

#### 4. Social dialogue

Norsk Hydro has signed with four trade unions in March 2011.

### SOLVAY

#### 1. Restructuring

In the event of a restructuring of its activities or any other managerial decision having a major collective impact on employees, Solvay pledges to inform employees and their representatives as soon as possible and to give priority to efforts likely to minimize the impact on employment and working conditions.

#### 2. Stress management

The "Solvay People Survey" makes it possible to identify every two years a well-being and stress indicator at the level of each organizational entity. The survey addresses well-being, freedom of speech, respect and fairness, workload, inter-individual cooperation, physical working conditions, performance requirements and organization. The survey is undertaken by an external provider so that confidentiality on individual answers is ensured.





### 3. Diversity

Diversity and equal opportunity are overseen by the Group General Manager Human Resources, who is responsible for overseeing strategy, performance and compliance. A dedicated position for diversity has been created for Solvay: the aim is to develop strategy and programmes related to the issue. Solvay and IndustriALL will continuously monitor the correct application of the agreement and carry out an annual review of the agreement on the basis of indicators reported by the Group.

### 4. Social dialogue

Solvay signed a worldwide social and environmental responsibility agreement with IndustriALL Global Union. This agreement provides many commitments on labour relations.

## DANONE

### 1. Restructuring

In 2013 and 2014, Danone and the IUF signed agreements at a European level on the operating method for the adaptation plan of the Danone Group organization in Europe as part of the overall cost saving plan.

### 2. Stress management

The company's agreement with the IUF mandates that support for employees related to stress management is to be provided by trade unions, staff representative bodies, members of committees on health and safety, management, human resources managers and occupational physicians.

### 3. Diversity

The agreements with the IUF (professional equality between men and women; diversity) are jointly monitored with employee representatives from all over the Group. Danone established the 'EVE' programme (also engaging a range of other French multinationals) which is a women leadership programme designed for individuals and organisations. The company also monitors and reports on wage disparities between men and women (since 2011).

### 4. Social dialogue

Danone signed an International Framework agreement with IUF in 1989 and still maintains several agreements with the international union that cover Social Dialogue, Reorganisations, Career Management and Health and Safety.

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