The HR function gets its due recognition as a critical element for growth as companies across industries face a run on talent

ARVIND AGARWAL, THE president of Mumbai-based RPG Group and head of its human resources (HR) function, says, "Our chairman (Harsh Goenka) spends as much as 30-35 per cent of his time on HR initiatives. HR is not a support function, but a business driver in our group." Even if Goenka devoted half that much time, that's saying a lot for a person who heads a $3-billion enterprise with more than 20 companies in sectors as wide ranging as software and power transmission. That also says a lot for the importance of HR today. HR has become strategic, because capital is now an easily available commodity, but people are not. So, the only constraint to growth is people. And that is a new problem for Indian companies.

Agarwal and Goenka are not alone. HR has acquired a different hue across corporate India. "Now, HR is actively involved in all strategic decision-making of organisations," says Degala Subramanyam, HR head of Minda group, a mid-sized auto-components company in Delhi.

This change, and the fact that the HR budget is now about plan-for-growth and not plan-for-cost, drove the 2008 edition of *BW*'s salary survey beyond giving figures on salary or growth. Along with Emmay HR — India's second largest recruitment firm and part of the European Randstad Group, the world's third largest employment services company — *BW* has made the survey more comprehensive by covering costs, compensation and benefits across 12 sectors.

However, while HR has moved up the value chain, there is still conflict within boardrooms and with other functions such as finance and marketing on the importance given to it.

The First Sign Was People

The rising importance of HR was first noticed when key professionals were hired or shifted to the function. In May 2006, T.V. Mohandas Pai, then the CFO of IT bellwether Infosys Technologies for 12 years, was made its HR chief. Expectedly, whispers about Pai being demoted did the rounds. But in the noise of conspiracy theories, a fact was forgotten. Infosys hired more than 25,000 people in the year Pai took over, and growth was dependent on these people, not on financial innovations.

Several companies followed suit and, today, many groups have HR heads who are top performers and are not necessarily from within the HR function. And it's happening in the opposite direction as well, with HR heads also moving into business roles in progressive companies.

Take, for example, Hyderabad-based Satyam Computer Services, a top five IT services company in India. S.V. Krishnan, who headed its largest business unit, GE business for several years, was chosen to lead Satyam's HR function in 2007. He replaced Hari T., who after six years at the helm of HR, moved on to an equally, if not more, strategic role as head of marketing.

The change is taking place even in conglomerates. Lav Shelat, who heads HR at Delhi-based Avantha Group, a $ 3.5-billion group led by Gautam Thapar, came from Motorola Canada where he was regional head of HR. And Vineet Chhabra, whose position was taken by Shelat, actually moved on to head a group company — Global Green, a maker of pickled gherkins that services customers across 23 countries.

This changing role of HR in Indian companies has, apart from bringing about a mindset shift, led to a recalibration of budgetary planning for the function.

Changing Contours Of The HR Budget

Planning an HR budget? That might have been an incredulous query in the recent past, when it was only about taking current salary cost and projecting it for next year. Now, however, planning an HR budget is a complex job, as there are several new components to it. Says Avantha's Shelat, "Top management has become very involved in planning the HR budget."

That level of involvement has come about because an HR budget today has to factor in components such as recruitment costs, retention costs, alternative compensation plans, and employer branding initiatives. Given that these components were insignificantly small in earlier years, it's not surprising that, in pure rupee terms, they are growing at anywhere between 15 per cent and 25 per cent every year.

Take recruitment costs, for instance. A few years ago, all you needed to do to hire people was advertise in a popular daily newspaper. Today, it's about hiring the right recruitment agency. The cost of hiring such agencies includes a retainer fee and 30 per cent of the new employee's annual salary.

Such high costs have sent budgetary allocations soaring, and have resulted in companies scurrying to find alternative channels of recruitment to save money. "Our internal employee reference programmes get us as much as 30-35 per cent of our employees," says Mandeep Maitra, country head for HR at Mumbai-based HDFC Bank. "We are also actively engaged with job sites. These initiatives have helped us control our recruitment costs in a major way."

A new, sizeable component in HR budgets is training cost. Expanding companies are hiring entry-level employees from other sectors or small towns. Such employees typically need more training before they can be deployed. The retail sector is hardest hit by this problem. Here, the customer-facing employees need not be highly educated, but need customer-handling skills. "Our training budget is growing at 15-20 per cent and a major portion of it goes into soft skill training," says Sanjay Jog, chief people officer at Future Group, which runs Big Bazaar, a popular organised retail brand.

HDFC Bank — which has 764 branches in 327 cities in India, and on an average hires more than 1,500 employees per month — has found an innovative way out. It sends back pack trainers to the employees to train them, instead of bringing trainees to a single location.

The need for year-round training has been forced upon companies by high attrition, particularly at the entry level where employees change jobs frequently. Sectors such as IT and BPO have traditionally witnessed 25-35 per cent attrition, but now others are also facing the brunt of deserting employees. Hospitality, advertising and media, even infrastructure are facing high attrition (see table 'Attrition Rates').

Retention, therefore, has become key. "Earlier, the focus in the budget was on compensation, but now other factors have become much more important in terms of their impact on retention," says RPG's Agarwal. "For instance, our learning or development spend is growing at 20-25 per cent for the past three years."

To help retain new employees, companies are insisting on a retention clause with recruitment agencies. Based on this, an agency would get a portion of its fees only if the employee stayed on for a year or six months. Finance, BPO and even IT sectors insist on these terms now.

Companies also have to invest in employer branding to help attract and retain employees. Wooing employees through offline and mainline media advertising, something IT and BPO companies are adept at, is a new challenge for HR heads in other sectors. Now, industrial and engineering companies are increasingly doing the same.

High attrition, resulting in continuous hiring of new employees, has created a vicious circle that companies are struggling with, and has compounded their problem of accurately estimating training and retention costs for the HR budget.

ATTRITION RATES

Sr. No.	Sector	0-3 yrs	4-7 yrs	8-12 yrs	13+ yrs	% change from 2006 to 2007	Expected increase in 2008
1	Pharma & Chemicals	25%	10%	5%	2%	-5%	6%
2	Manufacturing	8.58%	2.46%	2.46%	3%	5%	-3.50%
3	Financial services	20%	20%	20%	20%		
4	Hospitality	35%	25%	20%	7.50%	13%	20%
5	Ad & Media	40%	35%	20%	15%	17%	22%
6	BPO	40%	30%	20%	10%		
7	Automobile	7%	3%	2%	2%	No visible	14%
8	Auto component	12%	15%	20%	12%	5%	6%
9	Banking	10%	5%	2.50%	2.50%	2%	2%
10	Infrastructure	16%	11%	7%	11%	9%	20%
11	Retail						
12	IT & Telecom	32%	25%	10%	5%	5%	9%

Source: Emmay HR

The Way Forward

The modern job market has imposed discipline on companies in terms of planning HR budgets. But it has also forced them to plan long-term to reduce regular and rising training expenses. Some companies are investing in in-house training facilities as capital investment. Services companies such as TCS, Infosys, Satyam, Future Group, HDFC Bank and Genpact are at the forefront of this. Other routes are also being explored. As with HDFC Bank, companies in banking and retail are training employees on site to cut costs. E-learning is also picking up, but is yet to be very effective.

In a growth economy, fast-growing companies have realised that they not only need to attract and recruit good talent, but they need to build a social architecture that allows these employees to achieve their goals within the company. This cannot be done without a strong, well-armed HR function and the top management's involvement. Companies that hear that message will be able to sustain their growth.