

REPORT 01/2007

HR Transformation: Myth or Reality



INFORMATION
SERVICES
GROUP

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Introduction



HR departments are under increasing pressure to provide more strategic, value added services to support core corporate strategy. Business leaders see their HR departments as key resources to help them to attract and retain skilled staff, ensure that staff skills are kept relevant and up-to-date, improve workforce performance and instil positive organizational culture and attitudes.

As a result HR transformation, as a means to enable HR departments to focus on more of those strategic tasks, has been high on many corporate agendas for some years – but how successful are these transformation projects? What has been the impact on the organization as a whole? Is HR transformation a myth or reality?

The findings from the survey give us a number of insights into current views of HR Transformation. How real is transformation? What results have been achieved thus far? How successful are these projects? What are the views of company managers, end users, HR professionals?

This survey demonstrates that achieving true transformation is not easy. While HR professionals are embracing the need for change, their success is largely dependent on support from other parts of the organization and from the supply side of the market. Companies need to remember that successful HR transformation is as dependent on skills such as change management, risk assessment, sourcing strategy and governance as it is on HR specific skills. Business leaders must ensure that any transformation project has access to these skills.

And what of the external HR service providers? The availability of reliable, proven, available professional services resources from external providers is a key success factor in achieving transformation, allowing HR departments to focus on providing value-added services to support the organization in achieving its strategic objectives.

HR transformation cannot be made in splendid isolation. It needs a team approach from across the organisation - senior sponsorship and buy-in, focus, a mix of skills and capabilities.

Enjoy the report.

Duncan Aitchison,
Partner & Managing Director,
EMEA and Asia-Pacific

Survey Objectives



As human resources transformation – through outsourcing or shared services – moves beyond the implementation stage at organizations around the world, senior leaders are starting to ask two probing questions:

- 1) Has HR transformation really achieved all that we had hoped in cost savings, productivity improvement, staff reduction, and HR service level improvement?**
- 2) Is HR transformation truly impacting our organizations outside of the HR area and enabling HR to fulfill a more strategic role within the organization?**

In an effort to understand the real impact of HR transformation to date on the organizations that are engaging in it, HROA Europe, in association with TPI, conducted a survey in the autumn of 2006 addressing the actual achievements of HR transformation within organizations and the impact on areas outside of HR. The findings, and our interpretation of their implications, are presented in the following report.

Executive Summary



APPROACHES TO HR TRANSFORMATION

* Organizations are using various approaches to HR transformation, but the majority (58 percent) employ a hybrid

strategy – orchestrating both shared services and selective outsourcing.

- * Full scale HRO has not caught fire as anticipated. The commonly held belief that there is an evolution in transformation from internal transformation, through hybrid internal/external solutions, ending with full-scope HR outsourcing is not supported by our research. It is possible that hybrid approaches may be the most effective model for many companies, for longer than expected, for business specific and higher value HR activities.
- * HR transformation continues to focus on rules-based, or specialty-skill, processes expecting both to reduce cost and free the retained HR function to concentrate on strategic issues.

LINKING PERFORMANCE TO APPROACH

- * HR transformation performance varies by approach.
 - Those organizations that predominantly outsource report realizing the highest cost savings as a result of their transformation. However, most organizations – regardless of transformation strategy – report a disparity in expected versus actual cost savings, which is worrisome given the amount of due diligence applied to establishing a transformation program, as well as the implementation of service-level contracts; one would expect these efforts to drive greater correlation between expectation and outcome.
 - Organizations that employ a hybrid approach report the lowest achievement in productivity improvement goals, perhaps because numerous process hand-offs with a range of internal and external service delivery partners are required. Coupling this level of complexity with the management of multiple contracts further challenges performance.

- Those who focus their transformation efforts on outsourcing report the highest actual achievement in HR service improvement. The comparatively low ranking of hybrid service level performance in achieving service improvement goals suggests that management and tracking in an approach based on both consolidation and outsourcing can be very difficult to achieve.

REFOCUSING HR

- * Despite a widespread belief that transformation can impact HR's ability to focus on strategic goals, the results have not yet lived up to the promise. Nearly 80 percent of respondents believe that transformation can impact HR's ability to focus on strategic goals "very much" or "somewhat;" however, only 56 percent say transformation has actually been effective or very effective at driving this kind of change.
- * In spite of the fact that focusing retained HR staff on supporting business strategy is among the key transformation objectives, the majority of organizations do not establish formal goals to drive this change. And that is unfortunate, because the establishment of metrics appears to correlate to HR's ability to focus on strategic issues: 73 percent of those who establish metrics to measure the change in strategic focus have found transformation effective in driving this focus compared to only 43 percent of those who have not established metrics.
- * Even when organizations do establish and implement measures to refocus HR, they tend to be tactical rather than strategic, creating a gap between the intent to focus on strategy and the metrics required to support that move. Furthermore, the results indicate that HR is unclear in articulating what "strategic" constitutes.
- * The lack of capability of the retained HR team is cited as the greatest barrier to transformation success. Though often charged with training and change management within their companies, this finding demonstrates how difficult it is for HR to apply this kind of change to their own responsibilities. Organizations often vastly underestimate the intensity of the need to re-skill their HR workforces and manage the transition of HR to the new model.

- * To date, the impacts of HR transformation on organizations are predominantly in HR itself; transforming how HR operates rather than adding value to the business, supporting HR's own reported difficulties to become increasingly strategic in focus.
- * HR has performed well post transformation in lift-and-shift activities, but struggled to achieve true transformation; HR functions appear to be effectively transitioning administrative, rules-based transactional processes, but not changing the ways in which they work.

SATISFACTION WITH HR TRANSFORMATION

- * Not surprisingly, sponsorship and ownership are factors in satisfaction: satisfaction with HR transformation is highest among HR management and executive leadership. However, satisfaction with transformation among HR's primary clients is lower, indicating that the transformation process is not particularly customer oriented.
- * And, low satisfaction with the HR transformation by business managers is particularly worrisome because, without their support, it is almost impossible for HR managers to effectively develop a strong relationship with those business managers. And without that relationship, many of the greatest benefits of HR transformation will not be realized.
- * *In the end analysis, transformation – whatever its approach – is still essential to improve HR. However, in order to achieve its promise, several transformation activities require more attention:*
 - *Better assessment to identify the right transformation strategy for your organization*
 - *Greater focus on end user and business needs during transformation*
 - *Real focus on truly transforming HR beyond changing the service delivery method*
 - *Establishment of metrics and management routines for greater strategic alignment with the business*

About Respondents and Their Approaches to Transformation

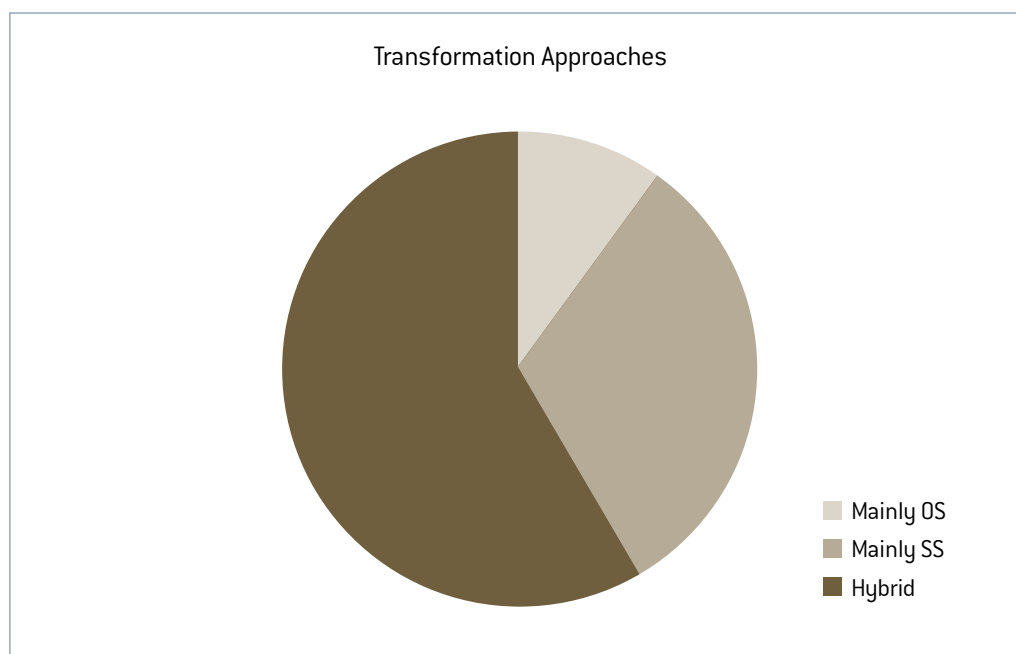


TRANSFORMATION APPROACHES

Respondents approach transformation through several strategies. More than half of the respondents (58 percent) deploy a hybrid approach to transformation, orchestrating the use of both shared services and selective outsourcing. Almost one third focus their energies on implementing a strategy driven primarily by shared services delivery, while 10 percent of respondents pursue an approach consisting primarily of outsourcing a range of contracts to third parties.

In all geographic regions (EMEA, North America, Asia Pacific), respondents are most likely to engage a hybrid approach to HR transformation, followed by a shared services approach, and last an outsourcing approach. That said, North American respondents represent a disproportionate share of those who use outsourcing as a primary approach: while respondents from that region account for 17 percent of the total respondent pool, they make up 30 percent of those who mainly outsource.

Among industries, it is worth noting that financial services organizations are disproportionately deploying a shared services approach: 62 percent of financial services industry respondents report implementing shared services as compared to 32 percent of the overall respondent pool.



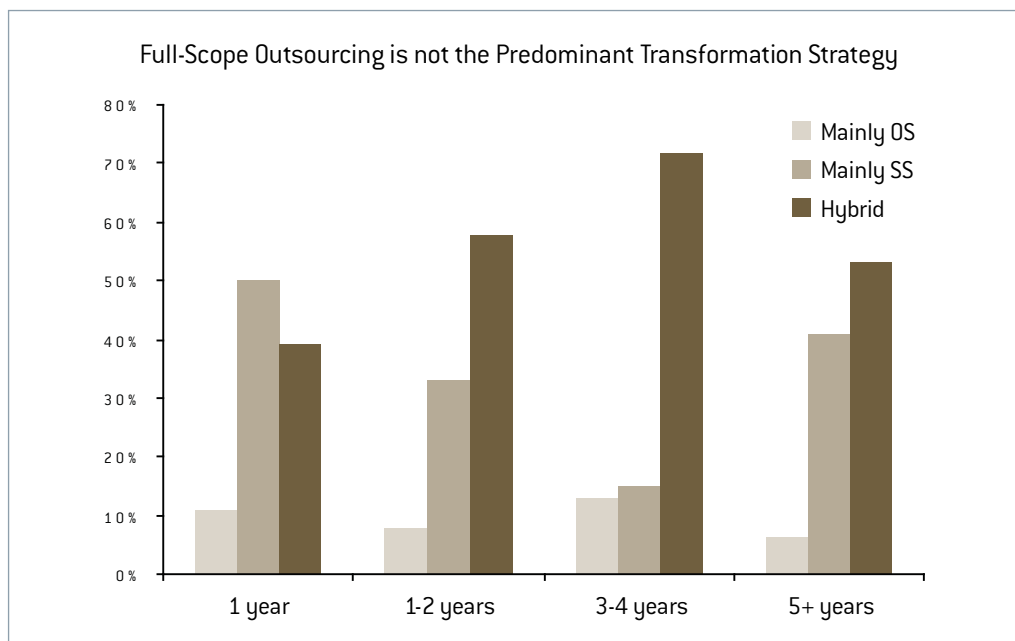
These findings reflect that human resources are at various stages of evolution, depending on scope, scale and level of globalization.

Furthermore, our research indicates that – regardless of how long an organization has been engaged in HR transformation – full-service HR outsourcing is not catching fire. Instead, HR outsourcing continues to be focused on contracting for a series of point solutions as part of a suite of transformation tools. In our experience, clients cite lack of expertise and lack of business understanding on the part of service providers as reasons for limiting the scope of outsourcing activities.

Organizations most often employ a hybrid approach – combining the use of shared services and selective outsourcing – to transform HR.

Full scope HRO remains elusive, even for those who are 5+ years into transformation.

HR transformation continues to focus on rules-based processes, and that may be unlikely to change soon.



The commonly held belief that there is an evolution in transformation from internal transformation, through hybrid internal/external solutions, ending with full-scope HR outsourcing is not supported by our research. It is possible, in fact, that hybrid approaches – shared services structures that utilize HR0 point solutions for limited service scopes – may remain for many companies, for longer than expected, the most effective model, particularly for business-specific and higher value HR activities.

Over the last decade, organizations have developed a high level of experience delivering defined HR services across disparate business units and functions. As a result, some may conclude that, once they have built shared services operations, they can achieve their goals by leveraging scope, scale and labor arbitrage internally, and outsourcing point solutions.

PROCESSES SELECTED

Respondents most often focus their energies on transforming either rules-based processes, or those processes that require specialized expertise. Rules-based, highly transactional processes undergoing transformation include payroll (79 percent of respondents), pensions/retirement benefits administration (53 percent of respondents) health & welfare benefits administration (42 percent of respondents), and employee data management (37 percent of respondents). Processes respondents report transitioning that require specific expertise include recruitment (42 percent of respondents) and compensation (36 percent of respondents).

PROCESS	PERCENT OF RESPONDENTS
Payroll	79%
Pensions/retirement benefits administration	53%
Health & welfare benefits administration	42%
Recruitment/selection/talent management	42%
Employee data management	37%
Compensation	36%
Stock options administration	35%
Expatriate and relocation administration	34%
Training/development	31%
HRIS	31%
Leave	19%
Career & succession planning	17%
Employee communications	16%

Employee incentives	14%
Assessment/performance appraisal	12%
Employee relations (grievance management)	10%
Entire HR function	9%

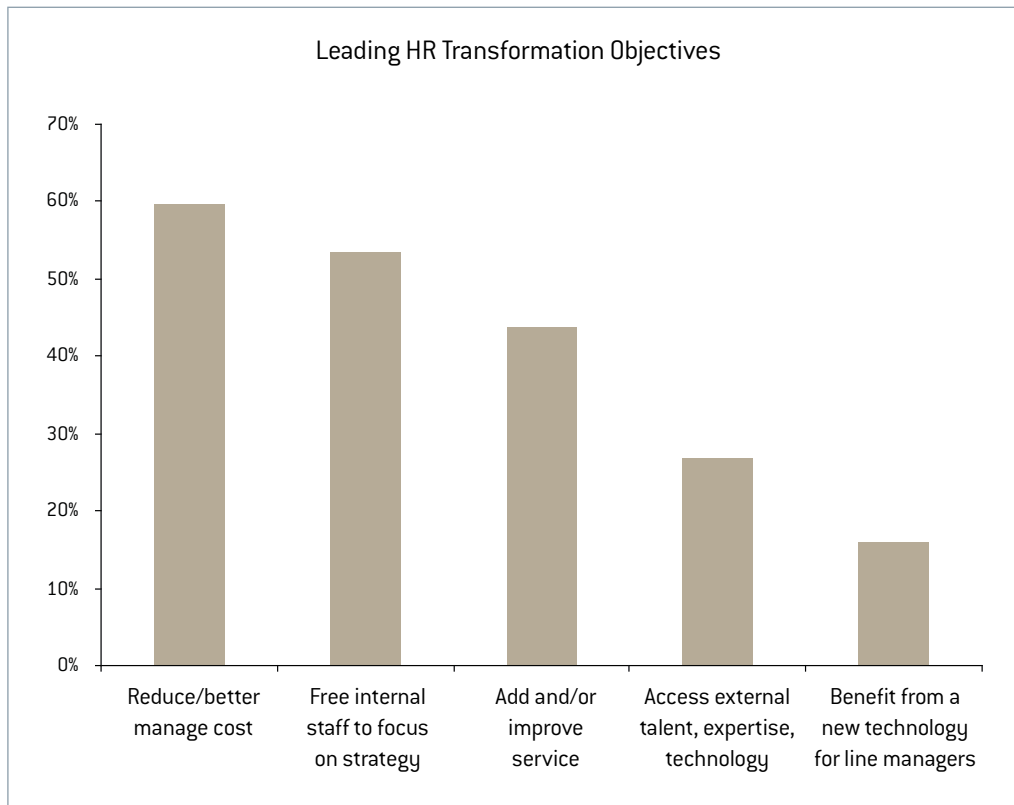
The processes most often transformed vary only slightly depending upon the respondent’s predominant transformation strategy. Payroll remains the most commonly transformed process across all approaches; those who pursue either hybrid or shared services approaches also tend to move up the value chain by focusing on recruitment/talent management and compensation processes.

Respondents are most comfortable focusing on the transformation of discrete processes that can be “ring fenced,” and for which there is substantial market data against which to compare their own performance. Furthermore, workforce administration processes generally are viewed in transformation terms as “low hanging fruit” because of the perceived ease of getting to a step change in improvement – regardless of transformation strategy.

While there is a longstanding belief that HRD providers will expand their businesses to include higher value activities, there is no evidence that this is in fact happening today. There are several possible explanations for this disconnect. Demand may be an issue: organizations may not want to outsource certain high value activities if they view them as core to the business strategy. Or, they may wish to outsource those processes, but believe that those services are not currently delivered well by service providers. As the market matures, capabilities of the providers will become key differentiators.

TRANSFORMATION OBJECTIVES

Cost reduction and/or management continues to rank first among transformation objectives (60 percent of respondents rank it first or second), followed by the desire to free internal staff to focus on strategic issues (53 percent rank it first or second), and to add or improve services for employees or managers (44 percent rank it first or second).



Cost reduction/control is consistently the prime justification and entry point for transformation followed closely by the desire to “make HR more strategic.” Implicit in this response is the suggestion that transforming highly transactional processes will support a change of orientation of the retained team to more value added processes.

HR Transformation Goals and Realities

Different approaches to HR transformation drive different performance levels.

The disparity in correlating expected with actual cost savings is a concern for organizations undertaking transformation.



Performance in key areas – cost savings, productivity improvement, staff reduction, HR service level improvements and focusing retained HR on business strategy – differs significantly depending upon the approach undertaken.

COST SAVINGS

The majority of respondents (68 percent) set cost savings goals at 30 percent or less, although just over a quarter (27 percent) set cost savings expectations ranging from 31 to 60 percent. The highest individual percentage (29 percent) set a goal of 21 to 30 percent savings.

Stat at a Glance: Cost Savings by Strategy

	Goal	Actual
Mainly Outsource	31% - 40%	< 10% or 41% to 50%
Mainly SSC	21% - 30%	11% - 30%
Hybrid	21% - 30%	11% - 20%

Not surprisingly, cost savings expectations are highest among those who primarily use outsourcing as their transformation approach – the highest number of respondents in this group set savings expectations at 31 to 40 percent. To compare, the other two groups – those using a shared services and hybrid approaches set expectations of 21 to 30 percent.

However, respondents most commonly report achieving cost savings in the 11 to 20 percent range. Those who report falling short of their targeted cost savings generally

missed them by 10 to 20 percent, although a small group report missing their goals by as much as 30 to 50 percent. The few who exceeded their cost savings goal did so by anywhere from 10 percent to 40 percent.

Correlating actual cost savings by transformation method for those who predominantly outsource is difficult because results are split: the same number report actually achieving less than 10 percent savings as report achieving 41 to 50 percent savings. Organizations that transform through shared services initiatives or a hybrid approach each report achieving cost savings of 11 to 30 percent.

Not surprisingly, those outsourcing expect to take out more cost. Often outsourcing is seen as a method to access expertise and investment that the transforming organization is not capable of providing on its own. And outsourcing service providers, using a wide range of experience on which to base their propositions, should have a more accurate sense of the possible.

Yet the disparity in correlating expected with actual cost savings is a concern for all organizations undertaking transformation. The sheer act of due diligence required to formulate a solution, coupled with the introduction of service contracts (either internal or external) that govern service level achievement, should promote greater accuracy in targeted versus actual savings. Either the level of due diligence employed in the development of the business case and the solution is missing the mark or rapid changes are occurring in the business, or the service delivery organization, or the processes in aggregate are underperforming.

An issue that may exacerbate this disparity is ineffective results tracking. Transforming organizations must develop and implement effective means to track benefits realization. Because this is often an area of weakness for transforming organizations, many benefits are either not realized or not accounted for during the course of or at the end of the transformation period.

Experience tells us that – regardless of transformation strategy – there are three prerequisites to successfully achieving cost savings goals: (1) rigorous modeling and business case preparation; (2) rigid implementation through a thorough description of services; and (3) strong contract and service level agreements. While outsourcing specifically should instill a discipline that other transformation strategies are often missing, all strategies require this discipline if they are to achieve their cost savings goals.

PRODUCTIVITY IMPROVEMENT

The highest concentration of respondents (25 percent) set productivity improvement goals of 21 to 30 percent, while the majority (59 percent) anticipate productivity improvement of 30 percent or less.

Common with cost savings expectations, productivity improvement expectations are greatest among those employing an outsourcing approach, with the highest responses for that group split between two categories, 41 to 50 percent, and 51 to 60 percent. To contrast, those who predominantly employ a shared services approach anticipate improvement of 21 to 30 percent, while those who use a hybrid approach set a target ranging from 11 to 20 percent.

Stat at a Glance: Productivity Improvement by Strategy

	Goal	Actual
Mainly Outsourcing	41% - 60%	<10 % or 41% to 50%
Mainly SSC	21% - 30%	11% - 20%
Hybrid	11% - 20%	0% - 20%

Although respondents report a goal of 21 to 30 percent productivity improvement, they actually report improvement ranging from 11 to 20 percent. Nearly half of all respondents (49 percent) underachieve their productivity improvement goal, generally missing their goal by 10 to 20 percent, with 41 percent meeting their goal. The remaining 10 percent exceed their productivity increase goal, most often by 10 percent.

While the productivity improvement goal is highest among those predominantly

employing an outsourcing approach, once again, there is a split in actual achievement: an equal number report actually achieving less than 10 percent savings as report achieving 41 to 50 percent savings. Those employing a shared services strategy achieve 11 to 20 percent savings, underachieving the goals they set. Finally, those using a hybrid approach report realizing improvement of up to 20 percent.

Of note is the performance of a hybrid approach relative to that of a shared services approach. Generally, organizations pursuing a hybrid approach are viewed to be more mature and pursuing outsourcing as a method to get to next generation transformation, so one might expect their goals to be higher and their performance better. Yet their goals are set at a lower level, and performance relative to a shared services strategy lags.

Apparently, in this case, the sum of the parts is not greater than the whole: engaging in both shared services activities and point solution outsourcing does not necessarily result in a higher level of achievement than engaging in either one of the activities on its own. In our experience, the numerous process hand-offs coupled with the management of multiple contracts and various internal and external service delivery partners that are required of a hybrid approach tends to inhibit achievement of improvement goals.

HR SERVICE IMPROVEMENT

The highest concentration of respondents (24 percent) expect HR service levels to improve by 21 to 30 percent, with the majority (80 percent) setting an improvement goal of 50 percent or less.

Stat at a Glance: HR Service Improvement By Strategy

	Goal	Actual
Mainly Outsourcing	51% - 60%	41% - 50%
Mainly SSC	31% - 40%	21% - 30%
Hybrid	21% - 30%	11% - 20%

Service level improvement goals are highest among those respondents who mainly outsource services: the highest single response for that group is 51 to 60 percent. Those who focus on shared services set goals in the 31 to 40 percent range, while those employing a hybrid approach target 21 to 30 percent improvement.

Across all approaches, respondents are generally missing their HR service level improvement goals: 54 percent of respondents report underachieving against

their service level improvement goals, usually in the 10 to 20 percent range. Only 37 percent report achieving their goals and the remaining 10 percent are exceeding their goals, most often by 10 percent.

While there is widespread belief that transformation impacts HR's ability to focus on strategic goals ...

... HR transformation has not lived up to its promise of focusing HR on business strategy ...

Consistently, those who focus their transformation efforts on outsourcing report the highest actual achievement in HR service improvement: 41 to 50 percent. Those who pursue a shared services approach report the realization of 21 to 30 percent improvement in HR service levels, and those employing a hybrid approach 11 to 20 percent improvement.

The discipline of detailing service levels and enforcing them through a contractual obligation certainly supports the outsourcing approach's ability to achieve the highest actual service levels. And the low ranking of hybrid service level performance suggests that management and tracking in an approach based on both consolidation and outsourcing can be very difficult to achieve. Perhaps it is far less common and culturally more difficult to establish a clear internal supplier relationship with the necessary contractual and service level agreements required to achieve real improvement. This finding also suggests a need to transfer the learning and best practices from the HR0 market to internal sourcing relationships.

FOCUSING HR ON BUSINESS STRATEGY

Strategic Focus

Nearly 80 percent of respondents believe that transformation can impact HR's ability to focus on strategic goals "very much" or "somewhat;" 14 percent believe transformation has no real ability to position HR as more strategic, and the remaining six percent believe transformation has limited or no impact.

Those who rely primarily on outsourcing as their transformation strategy indicate less faith in the ability of transformation to focus HR on strategic issues: only 63 percent of those respondents believe transformation is very or somewhat influential, while 86 percent of those pursuing a shared services strategy and 80 percent of those taking a hybrid approach say it is somewhat or very influential.

While across the board respondents believe transformation can positively affect HR's ability to focus on strategic issues, the results they report have not yet entirely lived up to that promise. Across all respondents, only 56 percent say transformation has been effective or very effective at driving this kind of change, while 36 percent say its impact has been neutral; four percent say it has been ineffective, and the remaining three percent state it was not a goal of transformation.

There does seem to be a correlation between transformation approach and effectiveness in driving HR's strategic focus. Only 38 percent of respondents who primarily outsource describe transformation as very or somewhat effective in helping retained HR staff to focus on business strategy, compared to 54 percent for those who pursue a shared services approach, and 58 percent for those who have taken a hybrid approach.

Skeptics abound... the case for making HR more strategic has not yet been made, perhaps because HR managers lack the skills and conviction to drive change, or because business managers do not accept that change, or both.

And surprisingly, those organizations that predominantly outsource doubt that HR can be made more strategic more often than those who employ other strategies. This is somewhat surprising, as much of the transformation "heavy lifting" is the responsibility of third parties, potentially freeing up the retained team to evolve to a more strategic role. Those who are more hands-on in their transformation efforts – pursuing either a shared services or hybrid approach – seem to be better able to make the transition to a value added role.

Metrics

Despite the fact that focusing retained HR staff on the business strategy is cited as the second most important objective of HR transformation, and that most respondents believe transformation can impact HR's ability to focus on strategic goals, organizations are unlikely to establish formal goals for this change: fewer than half of the respondents (43 percent) have established metrics of any description to monitor and change the focus of retained HR staff on strategic business goals.

The following lists metrics and measurement routines that respondents report they have implemented.

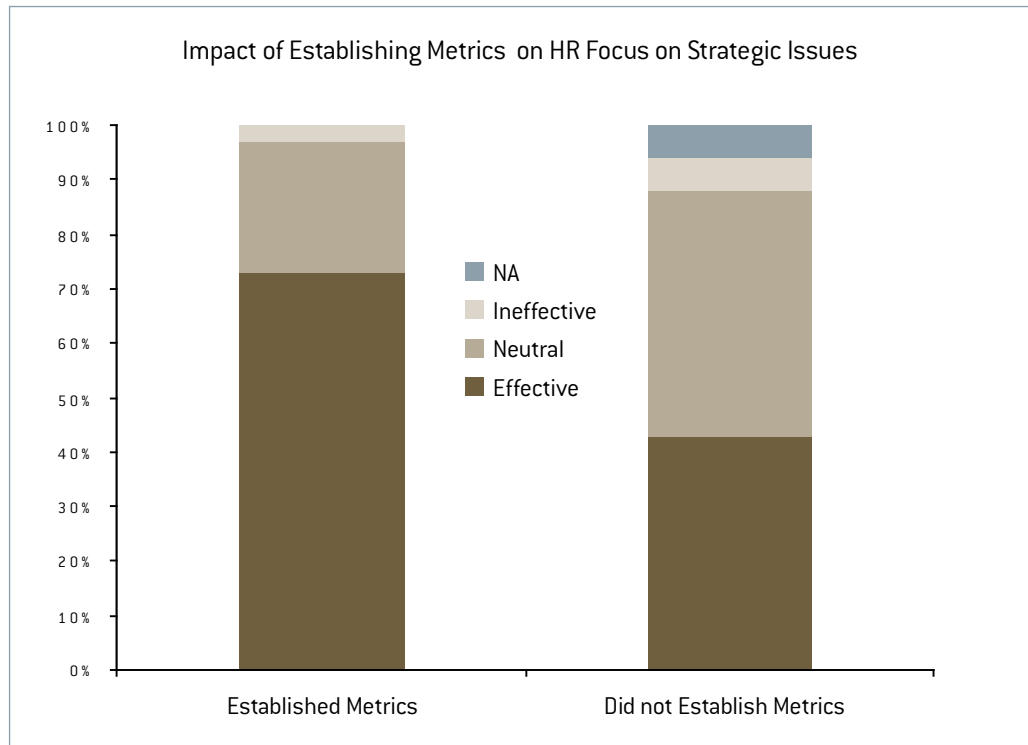
Metrics
Reduction in staff turnover
Reduction in sickness leave
Client satisfaction goals
Quantitative targets on learning, top talent recruiting
Return on human capital
Employee turnover
Rookie ratio (i.e., the ratio of new employees to longer-tenured employees; definitions vary by organization and functional area)
Gender ratio

Measurement Routines
Reviewed their time spend and assigned goals for future expectations (i.e., management by objective (MBO))
Linked short term (1 year) HR Balanced Scorecard to Business Balance Scorecard cascades
Correlated HR annual personal objectives and evaluation process with company targets
Created key performance Indicators (KPIs), including time to hire, quality of hire, and employee satisfaction

The establishment of metrics appears to correlate to HR's ability to focus on strategic issues. Among those who have established metrics to measure the change in strategic focus, 10 percent have found transformation very effective in driving this focus, 63 percent somewhat effective, and 24 percent neutral, while only three percent believe it to be ineffective. Contrast this with responses from those who did not establish metrics: among that group of respondents, the highest achievement is effective, with 43 percent of respondents indicating that level of achievement, 45 percent selecting neutral, and six percent selecting ineffective. (Note: the remaining six percent say this was not a goal of transformation for the organization.)

... largely because organizations don't establish metrics to drive that focus.

Metrics matter: 73 percent of organizations that establish metrics to measure the change in strategic focus have found transformation effective in driving this focus compared to only 43 percent of those who have not established metrics.

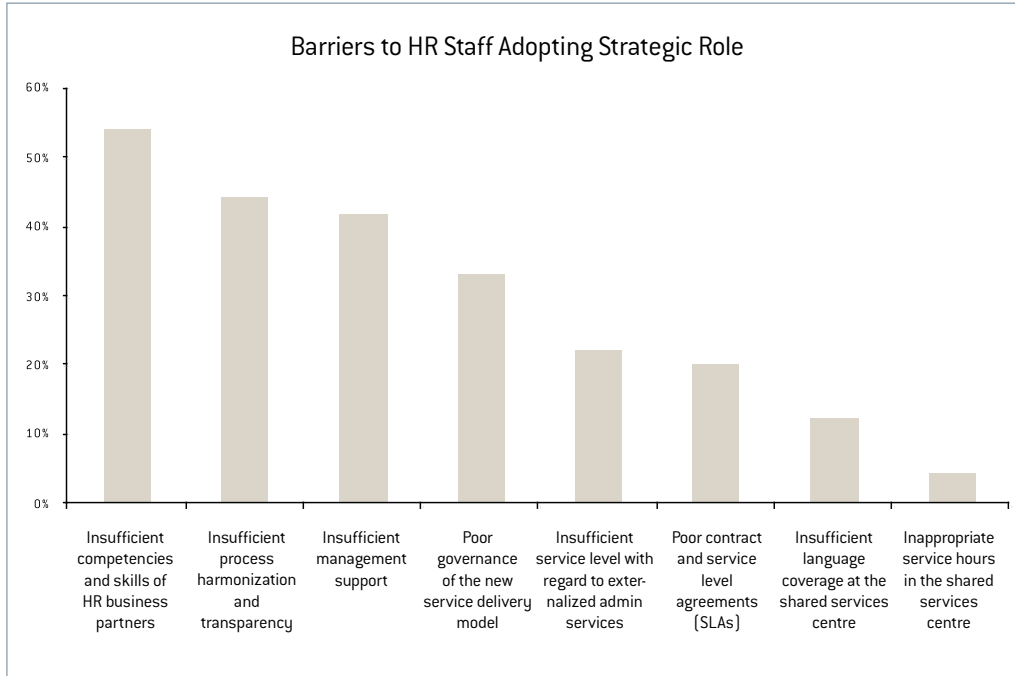


Where organizations do establish and implement measures to refocus HR, they tend to be tactical rather than strategic. The measurement routines cited indicate only the first tentative steps towards linking HR performance with the business strategy. For example, no respondents cite the development of metrics that measure capabilities, motivations and behaviors of their organizations' management and staff that would contribute to making their organizations more competitive. And there are no metrics measuring work practices that support improved performance. Although HR leaders clearly express the aspiration to get to a more strategic level, our data raise the question as to whether the respondents can clearly articulate what "strategic" constitutes.

That said, the correlation between measurement and evolution to a more strategic focus is obvious. Those who have put in place some kind of scorecard with which to measure the transformation of their role report a greater level of achievement of their goal.

Barriers to Increasing Strategic Focus among Retained HR Staff

Respondents report that there are several barriers preventing HR operations from focusing on strategic issues, led by insufficient competencies and skills of HR business partners (54 percent of respondents), insufficient process harmonization and transparency (44 percent of respondents), and insufficient management support (42 percent of respondents).



“Physician heal thyself” applies here. Though often charged with reskilling, training and change management within their companies this finding demonstrates how difficult it is for HR to apply this kind of change to their own areas. Organizations often vastly underestimate the need to re-skill the HR workforce and manage the transition of HR to the new model. And, the absence of much support or guidance for this kind of change within HR only exacerbates the difficulties.

Transformation Effectiveness



IMPACT OF HR TRANSFORMATION ON THE ORGANIZATION

The most commonly cited impacts of HR transformation can be categorized as specific to HR processes, such as speed of change, compliance, and sharing of best practices. Fewer report impact on “the business of the business,” such as improving sales effectiveness or strengthening corporate identity.

IMPACT	PERCENT OF RESPONDENTS
Enables more rapid change in the organization	46%
Sarbanes Oxley compliance due to improved payroll processing	43%
Internal best practices are shared, e.g. through cross business unit and international trainings	40%
Expansion of services to all employees	39%
Intercompany career planning and recruiting has intensified	35%
Better and faster communication	35%
Shared Services/BPO development in finance	25%
Job satisfaction increase of end-users	23%
International staff exchanges becoming far easier and more frequent	19%
Higher sales effectiveness through greater HR focus on recruiting and organizational development	17%
Pan-European Shared Services/BPO strengthened European identity of company	16%

The impacts and their relative rankings reinforce HR's continuing struggle to become increasingly strategic in focus. The respondents' transformation programs – across all approaches – appear to focus on streamlining the HR function rather than supporting the business in new, more valuable ways.

HR FUNCTION CHANGES

Not surprisingly, HR leaders note that the biggest change in the orientation of their organizations post transformation is a greater focus of their leadership teams on business strategy. However, in rank order, the following two changes – focus on cost, and involvement as an internal customer representative – cannot be termed a step change in strategic orientation. Rather, these foci could be seen as a concerted effort to focus on control and administrative concerns.

Common HR Department Changes Post Transformation, In Rank Order

1. Increased focus of the HR leadership team on business strategy
2. Better visibility of cost
3. Change in role to an internal customer representative and contact point with external service delivery
4. Greater focus of HR business partners on becoming a trusted business advisor to business unit leadership
5. More focus on process and policy redesign
6. Greater involvement in recruiting and succession planning
7. Greater presence in the development of people and organization
8. Greater involvement in training requirements and planning

The impact of HR transformation remains primarily on HR operations.

Transformation is not driving real change in the retained HR staff function, which is surprising since it could be considered a core competency of HR.

The rank order of these findings tends to support the argument that HR transformation acknowledges the need to refocus but is not yet driving “break out” change. They suggest that the retained HR staff (below the leadership level) are not yet embracing a fully strategic role in the business. They also could indicate that the development of the retained organization has been neglected.

These results also highlight the misalignment of strategic HR goals with actual achievement. For example, HR acknowledges the necessity of becoming trusted business advisors if they are to truly add value, but to date the results indicate that they have not been able to drive change in that area. And respondents also acknowledge that they have achieved limited improvement in key aspects of a new strategic role.

This finding points to a paradox: respondents acknowledge their responsibility to change their organizations through the strategic aspects of managing people, yet they have difficulties with reskilling, training, and change management in their own domain.

HR EFFECTIVENESS POST TRANSFORMATION

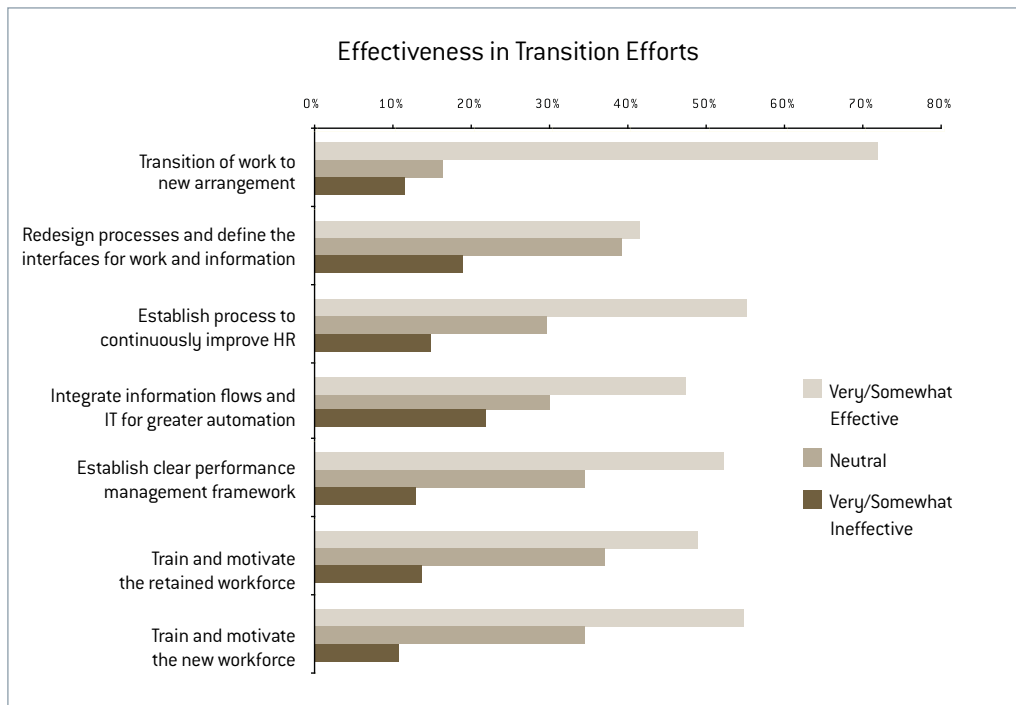
Respondents believe that they have done a good job of transitioning work to a new delivery method such as outsourcing or shared services as indicated by the aggregate 72 percent of respondents who say they have transitioned somewhat or very effectively. This area ranks number one by a significant margin.

Although establishing a process to continuously improve HR, with 55 percent of respondents rating themselves somewhat or very effective, ranks second in overall effectiveness, it actually gets mixed results from respondents, because it also ranks number three on the list of areas in which respondents consider HR least effective.

Rounding out the top three most effective areas is training and motivating the new workforce, with just under 55 percent selecting it as somewhat or very effective.

At the other end of the spectrum, respondents believe they have experienced the least success driving greater automation by integrating information flows and IT – 22 percent say they are somewhat or very ineffective – followed by redesigning processes and defining who is doing what (19 percent say they are somewhat or very ineffective). As noted previously, establishing a process to continuously improve HR receives mixed reviews; with 15 percent saying they are somewhat or very ineffective, this issue finds itself in the top three of both the effective and ineffective lists.

The areas in which HR has been most effective post-transformation reflect a lift-and-shift – rather than transformation – focus.



Curiously, respondents say they are effectively transitioning work into a new delivery model, but less effective in redesigning processes and defining who is doing what. These results imply that HR is doing well in the lift-and-shift aspects of transformation, but not yet achieving true transformation by optimizing upstream and downstream processes and their technology interfaces. They appear to be effectively transitioning administrative, rules-based transactional processes, but not truly changing the ways in which they work.

HR leaders believe they are performing only adequately in implementing initiatives to support change.

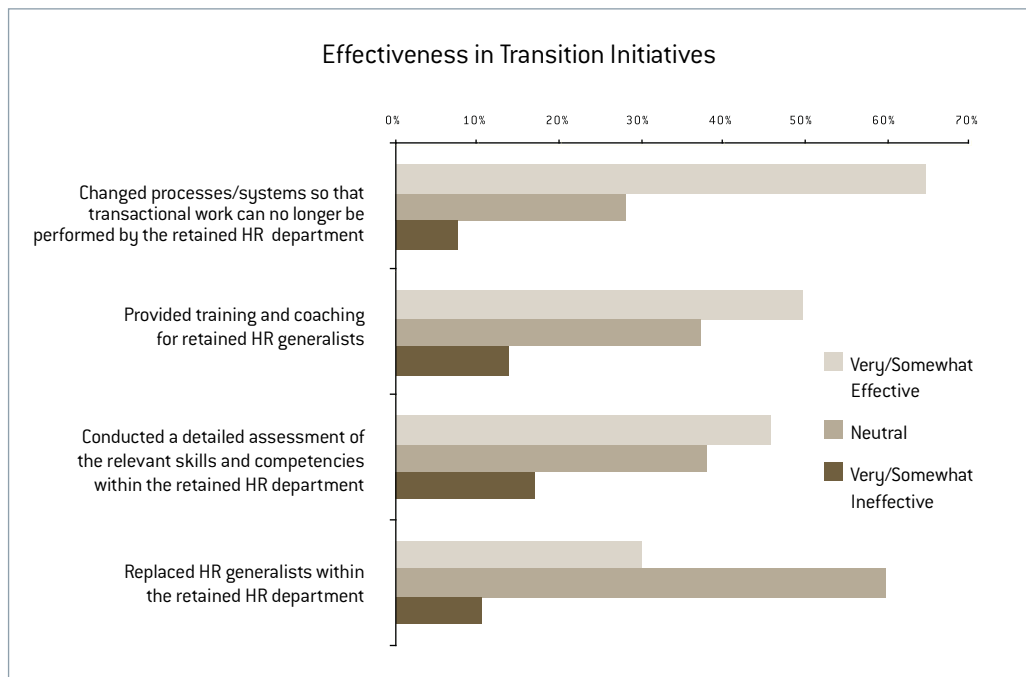
SUPPORTING CHANGE TO A NEW MODEL

Organizations report that they are selectively undertaking key initiatives to ensure that their retained HR departments adapt to a new delivery model and are changing the way they work – whether as managers of a shared service center network, or as customers of an outsourcing relationship.

TRANSFORMATION SUPPORT INITIATIVES	PERCENT OF RESPONDENTS
We have changed processes and systems so that transactional work can no longer be performed by the retained HR department	55 %
We have conducted a detailed assessment of the relevant skills and competencies within the retained HR department	45%
We have provided training and coaching for retained HR generalists	37%
We have replaced HR generalists within the retained HR department	22%

In terms of actual implementation, respondents generally believe they are doing only an adequate job. For all initiatives except “changing processes so transactional work can no longer be performed by retained HR staff,” respondents most commonly grade themselves as neutral in effectiveness; for that exception, 65 percent rate themselves as somewhat or very effective in that area.

Respondents rate themselves lowest in “conducting detailed assessments of the relevant skills and competencies within the retained HR department;” 17 percent say they are very ineffective in that initiative.

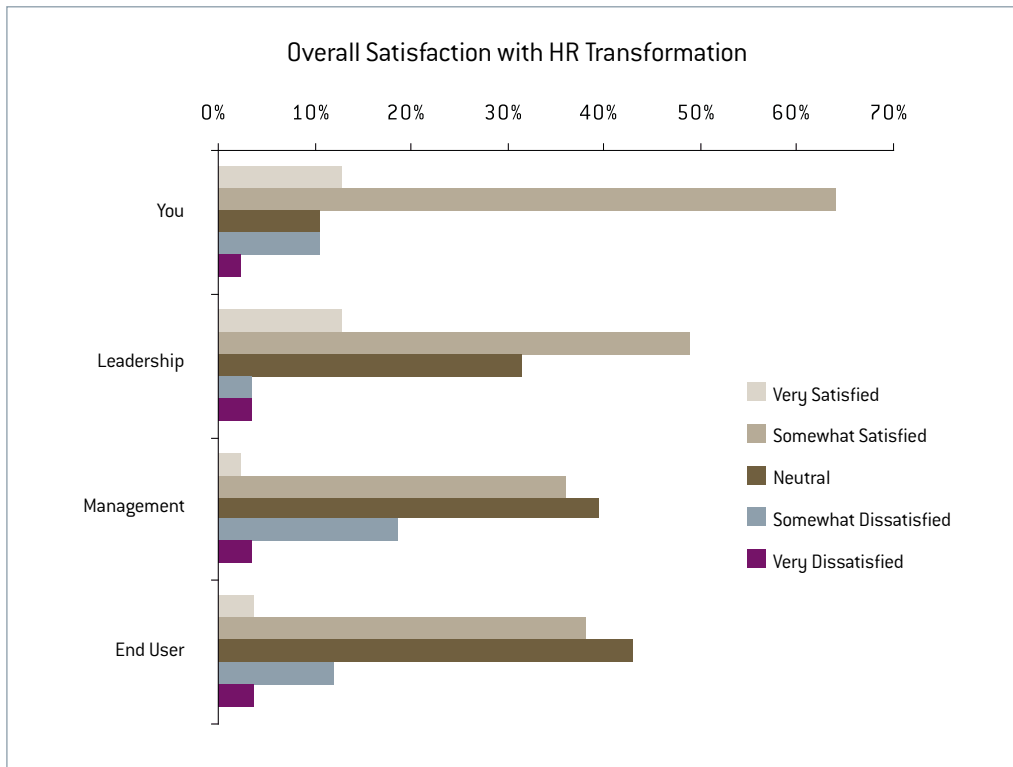


This data suggests that the amount of preparation for change – training, upskilling, process redesign – is inadequate to build a well functioning shared services or HRO service delivery model and support expectations. It is most likely one of the key reasons for the gap between targeted and actual business partner performance.

OVERALL SATISFACTION

Neither of HR's main clients – business managers and end users – are particularly satisfied with HR transformation; across those two groups, only 38 percent and 42 percent, respectively, are classified as satisfied or very satisfied.

Not surprisingly, sponsorship and ownership are factors: HR management and executive leadership (the C-suite) indicate the highest satisfaction levels. However, even among each of these two groups satisfaction levels could be termed low: only 13 percent of each group report being very satisfied with the effort. HR professionals are most likely to be somewhat satisfied with the effort, with 64 percent selecting that response. And executive leadership trails behind, with a rating of somewhat satisfied indicated by 49 percent of the respondents.



“Somewhat” satisfied is indeed faint reward for the trials of transformation. And the decline in satisfaction levels from sponsoring department to client are of concern. This lack of approbation suggests that HR’s clients need more involvement and consultation in shaping the solution and that a suitable level of change/expectation management has not occurred.

The low satisfaction with the HR transformation of the business managers also is particularly worrisome because without the support of business managers it becomes much more challenging for HR to effectively develop a business partner role.

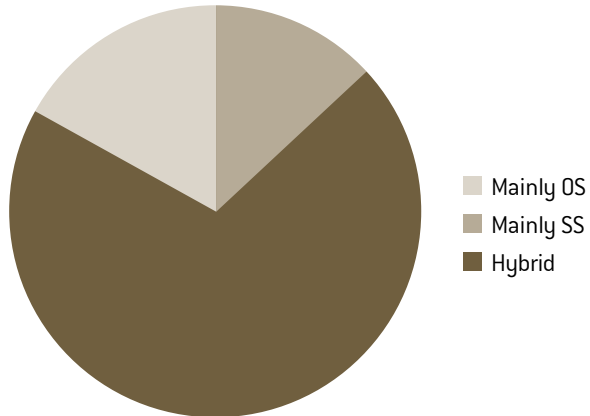
Satisfaction with HR transformation among HR’s main clients is low.

About the Participants

A total of 106 respondents completed our 2006 survey, representing a spectrum of organizations and industries.

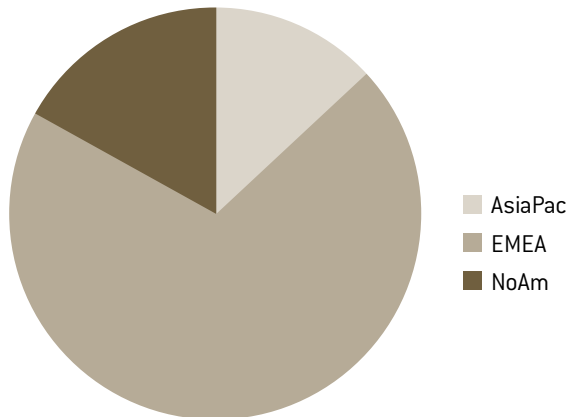
Transformation Strategies

Among respondents, 58 percent are employing a hybrid approach to transformation, combining consolidation with selective outsourcing (“hybrid approach”), 32 percent are transforming mainly through centralizing delivery in shared services centers (SSC), while the remaining 10 percent are using outsourcing as their primary transformation tool.



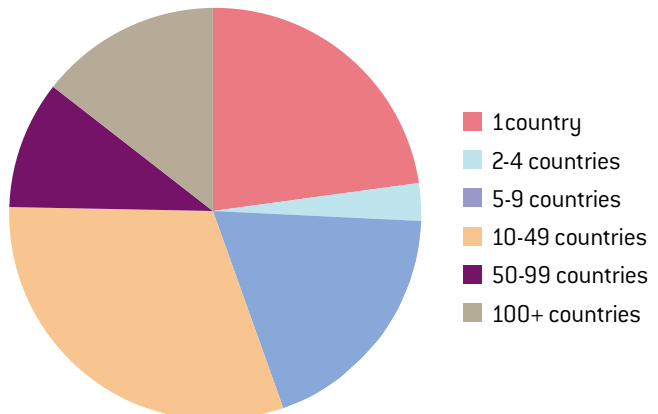
Respondents' Regions

The majority of respondents are based in EMEA (70 percent), with strong representation from North America (17 percent), and the remainder (13 percent) emanating from the Asia Pacific region.

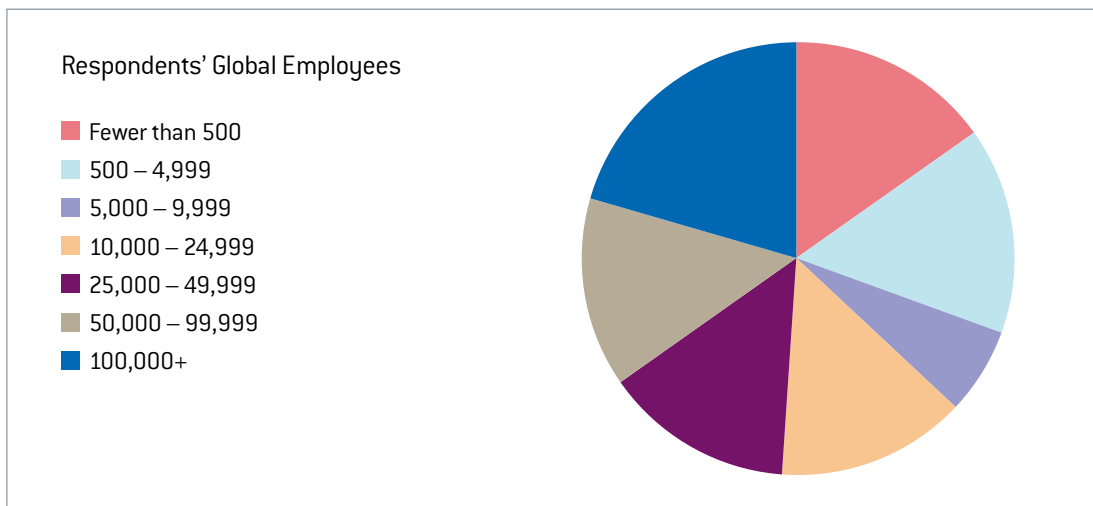
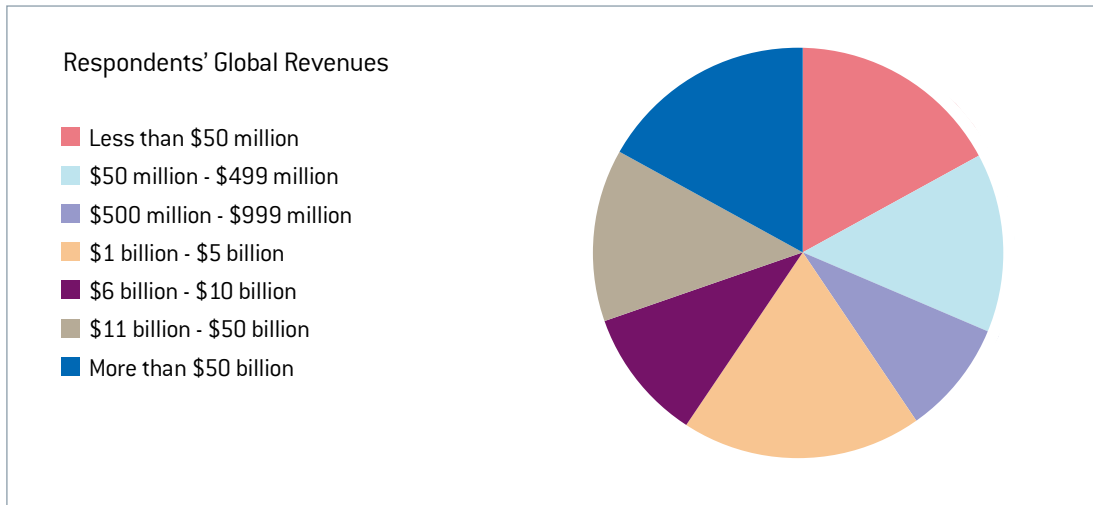


Number of Countries in Which Respondents Operate

Respondents represent a full spectrum of companies, from global to operating solely in one country.



Respondents' organizations cover the full spectrum of size, both in terms of revenue and number of employees.



Survey respondents reflect a wide industry distribution.

INDUSTRY	PERCENT OF RESPONDENTS
Services	29%
Manufacturing	27%
Finance, Insurance & Real Estate	15%
Non Classifiable establishment	8%
Retail trade	5%
Transportation, Communication, Electric, Gas & Sanitary Services	5%
Public Administration	3%
Construction	2%
Wholesale trade	2%
Government	2%

About HROA



WHO WE ARE

HROA Europe, the European arm of the HR Outsourcing Association (HROA), is the only professional membership association committed to promoting the advancement of human resources transformation in complex organizations. Membership in HROA Europe provides you with access to the largest Pan-European network of HR executives and experts who are pioneering the transformation of their organizations and creating HR's new future.

WHAT WE DO

Events

HROA Europe produces a variety of strategic, highly interactive events – delivered by globally-recognized peers and industry experts – for executives, managers and practitioners in the HR transformation, shared services and process outsourcing communities. It also partners with other leading conference organizers around the world to ensure its members are aware of other knowledge-based, thought-provoking events.

Training

The HROA Europe transformation training series helps HR executives and managers put the transformation puzzle pieces together by providing the “how-to” tools, knowledge and insights necessary to direct, control and manage the entire transformation process.

The training series harnesses the talents of the world's foremost experts – consultants, advisers, lawyers and corporate leaders – in all aspects of business process transformation. And all courses focus on making transformation leaders smarter, increasing their ability to achieve successful, sustainable change.

Research

HROA Europe carries out annual market reviews, benchmarking surveys, and customized research projects for HR-related for shared services and outsourcing initiatives. The results are used in the development and fine-tuning of business process delivery to ensure the most value possible is gained from transformation initiatives.

MEMBERSHIP BENEFITS

If you are involved in transforming HR, membership in HROA Europe is a must. You'll not only become part of the largest community dedicated to HR transformation, you'll also enjoy all the benefits associated with HROA Europe membership. Membership in HROA Europe gives you access to a worldwide network of HR experts and peers, all of whom share one common goal – HR transformation. Several membership levels and types are available; **please visit us at www.hroaeurope.com for more information.**

About TPI

About SharedXpertise Forums



INFORMATION
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SHAREDXPERTISE® FORUMS

Helping Organizations Transform
Formerly SBPOA

TPI established the sourcing advisory industry when it was founded in 1989 and remains the global market leader, working with leading organisations throughout the Americas, Europe and Asia Pacific.

TPI is committed to helping clients optimise their business operations through the best combination of insourcing, offshoring, shared services and outsourcing. Leveraging the insight derived from serving as the advisor on more 780 sourcing transactions valued at more than €320 billion, we help our clients to develop, implement and manage sourcing strategies that support their core business strategies.

Our advisors share a genuine conviction for the value that we help clients achieve. With almost 400 expert advisors across the globe, no other firm can match the skill, expertise, experience, creativity and proven, flexible approach that TPI applies through fair and objective processes that have become the industry standard.

For further information about TPI and our services, please visit our website at www.tpi.net

Alternatively, please contact Denise Colgan on +44 (0)1737 355202 or at denise.colgan@tpi.net

SharedXpertise (previously known as the SBPOA) is the world's definitive source of expert- and peer-based knowledge and insights for organizations examining or engaged in business process and function transformation through outsourcing, offshoring or shared services.

Through our Research, Training, Events and Forums, we help organizations navigate the frequently turbulent seas of business process transformation. And our Transformation through Capability Training Series courses, based on our proprietary Transformation Roadmap, arm corporate executives and managers with the "how-to" tools and knowledge they require to gain success in six critical areas: Change, Sourcing, People, Performance, Risk and Governance.

If business process and function transformation is on your organization's strategic agenda, we're here for you. Leverage our research, participate in our training series courses, attend our events, and join one or more of our forums.

Helping organizations transform - it's our passion, and our honor, to help you transform yours.

For more information on our forums, training series and research, please visit us at www.sharedservicesbpo.com.

These survey results are intended as a general guide and not as a substitute for detail advice. Neither should it be taken as providing technical or other professional advice on any of the topics covered. So far as the SharedXpertise, HROA and TPI are aware the information it contains is correct and accurate but no responsibility is accepted for any inaccuracy or error or any action taken in reliance on this publication.

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