

Executive Brief: HR Executives Contemplate their Future

Will Traditional HR Roles Survive?

As a result of the slow economic recovery, today's HR executives are being asked, more than ever, by their CEO's to do "more and more with less and less". The number one challenge for most remains how to improve the quality and delivery speed of HR services and information while constantly reducing the overall administrative costs. Unfortunately, some CEO's still see the HR function as a necessary cost center.

However, a growing number of forward-thinking companies see the HR executive's role making a breakthrough change, evolving rapidly to a much more strategic position.

Over the past decade, many HR departments have responded well to challenging times, experiencing dramatic change. Profound changes have enhanced HR services to the corporation, including the impact of new technology, the outsourcing of select business processes and the creation of new business partnerships for HR. Within staffing limits and budget constraints, continuous improvements in service have been steadily achieved.

In fact, most HR executives readily acknowledge change as the way of business. In a national survey conducted in early 2003 by Chapman University of Orange County, California, over 1000 upper level HR executives who responded rated "managing change" their highest HR issue. Nearly 8000 middle and upper level executives who were members of SHRM were mailed surveys.

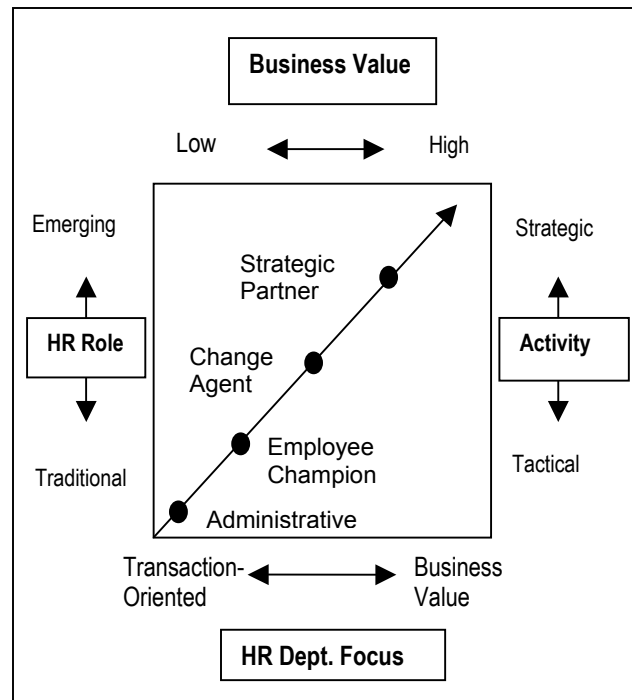
All the while, through all the progress, most HR executives have remained in their traditional roles within the organization, that of expert in HR administration, and employee champion. Not surprisingly, when asked, HR executives indicate that their HR staffs are spending the bulk of their time delivering HR services and processing transactions. In short, staff activities mirror the boss' focus and responsibilities. But will these traditional roles for the HR executive continue undisturbed, and if so, for how long? Or is there a higher calling – a role more critical and strategic to the organizations they serve?

The CEO's Expectations of HR Have Changed

Sure, you've been asked to do "more with less" before. But this time you detect a new sense of purpose from your CEO. He has a revitalization plan for the company in the works, and he expects members of his management team to play major roles in helping him implement the new plan. Specifically, he wants a leader to step up and be the change agent he needs. He needs a trusted advisor and an internal strategic partner, one who can help him achieve the goals set out for the corporate remodeling job. In the end, the rebuilding process must refocus the entire organization on the core business, and produce a profitable business model that is repeatable, sustainable and predictable.

The CEO expects you to be that change agent, that strategic partner who handles these critical issues:

- Ensure organizational preparedness
- Develop new leaders within the business
- Recruit and retain a quality work force
- Align the human capital system with business goals
- Manage performance systematically



The HR executives' role changes as his or her activities evolve.

- Assure business asset effectiveness, including human capital productivity
- Establish the new corporate culture

This is the opportunity you have waited for – to partner with the executive team to deliver real business results. But have you and your staff demonstrated to the organization that you are capable of leading the charge? More importantly, does the CEO personally believe you are up to the task?

Today, study after study indicates that there is a gap between what the CEO needs and what the HR department delivers. What CEO's want from HR is a strategic business partner. But according to the recent feature story in *Human Resource Executive*, "There is sufficient question out there as to whether or not HR people understand enough about business to be effective." The article went on to question "Why is it that financial and accounting people often find themselves in more business decisions and discussions than HR people? It's because Finance and Accounting professionals have a really good understanding of what makes the business work, how it makes money. Their need to understand the financial implications and levers of various business processes drives them to really focus on those processes. The cumulative effect is they develop a working knowledge of the end-to-end business of creating and delivering value to the company's customers."

There is no compelling reason why HR professionals can't also develop that same working knowledge of the business. So how does the HR executive earn a seat in the decision-making conference room? Simply put, the HR executive must shift the emphasis, time and resources of the HR department from the traditional role to the emerging role, from process transaction-oriented to business value-oriented, from tactical to strategic.



First, the HR executive must transform the HR department, changing the focus of the HR staff's time and the use of its limited resources. The transformation must produce an HR function that spends most of its energy being a change agent for the company and a strategic business advisor to the executive team. To accomplish this, the HR team must understand key business trends in the markets and industries the company serves. They must spend much more time getting connected with the company's line managers, learning the details of the core business. Finally, they must link the HR strategy and practices to the core business, creating real business value. The result is dramatic – once and for all transforming the image of the HR function from cost center to value center.

But the investment of time to get the result is significant.

To be successful, today's HR executive has to make the transition from manager of detailed administrative processes to strategic corporate leader. In the closing comments of the Chapman University survey, the authors said "...the results of this study suggest that HR executives do not place great importance on financial, technical, and general business skills. This study should serve as a wake-up call to HR executives that we may be listening to, but not hearing, what the CEO has to say about the skills required to serve as a true HR business partner."

It has been suggested that the HR transformation should follow the footsteps of the finance function. In an article appearing on the *ceoforum.com* website dated July 2002, the authors reflect back 30 years when "responsibility for sophisticated financial strategies rested with the same part of the organization as the day-to-day transactions. To deliver what the business needed, the function was transformed – bisected, so to speak, so that financial strategy could be created and executed (the CFO role), while operations could be managed (the Controller role). That's what needs to happen to HR." This may be a possible solution for the larger, Fortune 500 firms. But this solution isn't practical if you work for a mid-sized company (500 to 10,000 employees). You have broader responsibilities and fewer direct reports to whom to delegate. Corporate resources are probably slimmer and product lines and margins may be narrower. You're expected to compete with much larger, better-funded and better-staffed companies, without all the advantages they enjoy.

Meeting the New Expectations

No HR Executive can meet all of these expectations at once. Somehow you must find ways of focusing on those responsibilities that are most critical. What alternatives do you have to meet your new responsibilities and the expectations of executive management?

Among the choices are:

- Reduce drastically your time investment in HR administrative tasks;
- Shift responsibilities as the employee champion to other members of the HR team;
- Require more performance and service from existing vendors and service providers;
- Redefine your mission to include only those functions that really matter;
- Find ways of outsourcing important functions that are critical, but not core, to the corporate mission (for example payroll, benefits, etc.); and
- Find a service provider that can deliver a number of these functions more efficiently while supporting the mission of the company -- for example, outsourcing all back-office human resources functions.

Sorting through these alternatives and reaching the best formula for balancing traditional roles and new responsibilities is a critical strategic choice for the Human Resources executive.

The logical conclusion many HR executives are reaching is to embrace their new priorities and delegate critical tasks that aren't part of their strategic mission and don't support the company's core business goals. At the same time, driven by the same forces, corporations as a whole have begun to look for solutions that can demonstrate current-year cost savings, produce real improvements in key business processes, and focus limited resources on the core business. And, as always, management must choose the solution from one of the three known alternatives - build, buy or outsource. Many HR executives have concluded that newly created outsourcing options available in the market can be a key element in the formula for success.

Outsourcing Becomes Strategic

Outsourcing, or subcontracting, responsibility for completing certain business functions, has been a way of life with your department for years. Traditionally, HR has outsourced individual business functions, such as payroll processing. Your outsourcing decisions were made, more than likely, on the basis of whether the outsourcing vendor could provide the service more cost effectively than could be done with internal resources. With the changing business climate and the demonstrated success of outsourcing, companies have begun to ask for, and service providers have begun to offer, more comprehensive outsourcing solutions.

"... today's HR executive has to make the transition from manager of detailed administrative processes to strategic corporate leader..."

Typically these solutions extend the focused outsourcing of a single task to encompass the entire business process of which that task is a part. This emerging approach has become known as business process outsourcing (BPO). Outsourcing entire processes can be very appealing to corporations because it enables them to expand the scope of the outsourced services dramatically, while containing them within a scope that can be readily monitored and managed. This means the performance of the outsourcing provider can be more directly judged and the return to the corporation can be more clearly determined.

The vast majority of BPO initiatives have been successful enough that corporations have chosen to continue and expand their use of business process outsourcing. In fact, the creation and management of BPO relationships has become a recognized business discipline. While outsourcing information

technology processes typically has been the first place companies implement BPO, savvy HR executives have come to understand that even greater benefits can be realized in their own departments. The Outsourcing Institute reported in May 2003 that human resources processes are receiving more attention than any other area as candidates for BPO.

What is HR Outsourcing?

Non-core internal business processes are prime candidates for outsourcing, among them the repetitive transactions related to providing human resources administration and services. For many years companies have been outsourcing payroll services, tax preparation and similar focused, tactical functions. Some companies even progressed to the point that they outsourced a number of functions, each to a best-of-breed service bureau. In fact, it's not uncommon to find as many as six or seven individual HR functions such as COBRA administration, employment verification, benefits management and payroll have been outsourced to multiple providers. This is especially true in middle market companies.

Human Resources Business Process Outsourcing (HR BPO) is a logical extension of the trend toward outsourcing and the inclination of companies to delegate individual functions. In HR BPO, the company outsources complete responsibility for an integrated set of functions such as Benefits Administration, Payroll Management and general Human Resources Administration to a third party. It's generally accepted that Human Resource departments provide 22 standard services to the corporation, some of them strategic (they contribute to the central mission of the company), and some of them tactical (they don't contribute to the central mission, but they're necessary to carry on business day-to-day).

Of these 22 functions, eleven are tactical, back office functions, are transaction intensive and can consume as much as 80 percent of the time and energy of an HR department. Among these eleven are: compensation, benefits, payroll, time and expense reimbursement, employee data and records management, HRIT/HRIS, employee and manager self-service, workforce analytics, expatriate administration, domestic relocation and policy and legal compliance.

Comprehensive HR BPO generally encompasses most, if not all, of these eleven functions. Some, such as expatriate administration, are less critical to mid-sized companies. When properly implemented, HR BPO can help an organization deliver industry-leading HR practices through the innovative use of technology. This enables its own internal HR department to focus on the truly strategic human issues that can have a significant impact on organizational goals. For mid-market companies, outsourcing the tactical functions, so the organization can focus on strategic issues, can have a dramatic impact on corporate performance.

Benefits to the HR Executive of Implementing HR BPO

Although the benefits of outsourcing human resources processes vary from company to company, most firms that have implemented comprehensive HR BPO programs have seen significant financial savings (30 to 50% of the operating budget) and a variety of less tangible, but equally important benefits. Among the key benefits of HR BPO for the HR executive are:

- Reducing current budget expenditures required to deliver the transaction intensive, HR back-office services, redirecting the resources toward strategic deliverables for the organization;

- Eliminating the most time-consuming and cumbersome processes that make your staff appear inefficient;
- Eliminating inefficiencies resulting from non-integrated and redundant HR processes;
- Reducing the total amount spent on currently outsourced services to vendors;
- Streamlining and simplifying relationships with several HR service bureaus to a single strategic partner;
- Gaining access to HR best practices and subject matter experts at a fraction of the cost to bring them in-house;
- Aligning the activities and time investments of the HR staff with the organization's goals; and
- Refocusing HR personnel on strategic activities such as compensation planning, human capital development and recruiting and succession planning, where they can truly add value to the core business.

Until recently, human resources business process outsourcing was an alternative only for the largest companies. Conventional wisdom was that the economies of scale required to gain true benefit could only be achieved in companies with more than 10,000 employees. Large companies such as Bank of America, Prudential Financial, British Petroleum and Motorola have made the move to comprehensive HR BPO.

With the cadre of HR BPO providers expanding, some firms have already targeted their services to mid-market companies. If you're a mid-sized firm, the key to success is finding an outsourcing partner that offers the unique scope and quality of services your organization requires and has achieved the economies of scale through working with multiple clients.

HR BPO Makes Sense

As you work to refocus your role as Human Resources Executive, offloading non-core functions such as back office human resources activities can be one of your key initiatives in shifting your focus to strategic activities that support the core mission of your company. Outsourcing human resources functions not only reduces operating expenses and improves internal performance, but it frees your HR staff to become as strategic as you need to be. By selecting the right HR BPO partner and carefully deploying the solution, mid-sized companies can achieve the same benefits as their larger competitors. Equally important, the HR department enhances its strategic value to the corporation, and the HR executive forms a closer business alliance with the rest of the executive team.

This white paper was prepared by The BrightTrack Group at the request of PlatformOne, Inc.

About PlatformOne

PlatformOne is an innovator and leader in the delivery of State-Of-The-Art human resources solutions. Evolving over 17 years, PlatformOne offers HR Business Process Outsourcing (BPO) solutions that include HR Technology, HR Administration Services, and HR Professional Support.

About BrightTrack Group

The BrightTrack Group provides sales, marketing and business development services, including market research and validation. You can contact BrightTrack at info@brighttrackgroup.com.