HR Transformation – It’s all about the Business

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Today’s speakers

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Overview

- Building Context – HR Transformation Trends
- HR Transformation and the Next Generation HR Model
- Moving to the Next Generation HR Model
  - An approach for moving to the new model
  - What it takes to get there
- Case Study
Building Context –
HR Transformation Trends
HR transformation has been evolving over time

**Initial Focus**
- Enhancing operational excellence
- Improving service delivery
- Making technical process enhancements

**Early Focus**
- Delivering on operational expectations
- Getting “house” in order so HR can focus on more strategic aspects

**Current Focus**
- Managing the organization’s talent
- Separating strategic and transactional work
- Upgrading HR skills
- Partnering with leadership

*Transformation is not a one-time event!*
Although Transformation efforts continue to be prevalent in over 80% of organizations surveyed, reasons for that transformation differ.

### Reasons Organizations Engage in HR Transformation (Americas)

- **To reduce cost or better manage the cost of internal processes**: 56%
- **To add and/or improve service for line management and employees**: 56%
- **To respond to organizational changes**: 53%
- **To align the organization on common objectives**: 52%
- **To free internal staff to focus on strategic issues**: 51%
- **To concentrate resources on core business**: 33%
- **To benefit from a new technology to empower line management**: 33%
- **To facilitate reporting**: 25%
- **To access external sources of talent, expertise or technology**: 18%

### Organizational changes remain a top driver for HR Transformation (down from #1), however organizations seem to be focused on cost reduction and service improvement.
It’s (still) all about Talent!

Top Issues That Are Shaping HR Strategy

Talent Diversity and Succession Planning 76%
Improving Service Delivery Levels 56%
Increasing the Agility of the Workforce 41%
Reducing HR Costs 40%
Developing Data for Decision Making 30%

Top HR issues continue to highlight the importance of proper talent management practices and programs.
Although HR Business Partners are not spending most of their time on talent issues

Employee relations and supporting managers still tops the list of HR Business Partner time

- HR Business Partners have proven to be more effective when they can focus on strategic level activities and have a network of skilled HR professionals to call upon for administrative and transactional tasks.
- Organizations are still working to achieve this balance and educate business leaders / managers about the value that HR can bring to the bottom line.

Ref: Bersin and Associates, 2010
Organizations are taking multiple approaches to transform HR

- While the hybrid approach remains the most popular, internal reengineering seems to be gaining popularity.
- Outsourcing HR functionality has decreased in popularity, falling to levels below what they were in 2008.

![Approaches Organizations are taking to Transform HR](image)
HR Transformation and the Next Generation HR Model
HR continues its move up the value chain toward strategic partnership

1. HR function efficiency
2. Operational excellence/Org. effectiveness
3. Talent superiority
4. Change and culture steward
5. Strategic Partner

HR role:
1. Operational executor
2. People cost/ Productivity
3. Talent manager/ Employer brand
4. Organization Transformation
5. Strategy architect

HR focus:
1. HR role
2. HR function
3. Operational excellence
4. Talent superiority
5. Organization Transformation
HR still needs to change

- The **HR function has been transforming** for nearly 20 years – but with uneven results

- **CHROs have a new mandate:** tackle tough strategic issues while navigating a dynamic work environment

- In order to execute this mandate HR needs to take a hard look at the current **service delivery model**
The HR service delivery model as it stands today
What’s not working in today’s model

- **Implementation** – When HR functions moved to this model they often did not make significant changes in roles
- **HR skill set** – The model requires capabilities that HR, as a whole, does not have
- **Transactional services** – Baseline transactional services are often not being delivered flawlessly
- **Line managers** – Line managers need to have the skills and tools to manage their employees and are not getting the support they need from HR
- **Geographic focus** – The current model often does not account for delivering operational services, that require specialist knowledge, in person
Three key hypotheses about the next generation HR model

1. The role of the business partner needs to significantly change
There are fewer business partners in the future

- Among a very small cadre of highly skilled HR professionals
- Aligned one-on-one to business leaders
- Focused on strategy, not day-to-day operational support
There are fewer business partners in the future

**The Future Role – Business Partners**

- Develop business unit workforce strategy
- Ensure business unit strategies are supported with HR programs
- Ensure people implications of business decisions are understood
- Broker HR services for business units
- Provide coaching and advice for business unit leader
- *Primary customer is the Business Leader*
For discussion

- Why isn’t the Business Partner role more strategic?
- What can be done to make it more strategic?
Three key hypotheses about the next generation HR model

1. The role of the business partner needs to significantly change

2. COEs need to let go of transactional work
Centers of Expertise (COEs) will focus on strategy and design

- Break the current model of automatically making all the specialist areas COEs
- Shift COE transactional work to Shared Services
Centers of Expertise (COEs) will focus on strategy and design

**Future Role – Centers of Expertise**

- Set strategy for functional area
- Design common solutions applied across organizational boundaries
- Design specific business unit solutions
- Develop global policies with input from Business Partners
- *Primary customer is Business Partner*
Typical COEs include:

- Total Rewards (Compensation & Benefits)
- Talent Development (often includes Learning)
- Talent Acquisition
- Employee/Labor Relations
There are new requirements that may demand new COEs

- Risk Management, Responsibility & Compliance
- Inclusion & Engagement
- Workforce Metrics & Measurement
- HR Effectiveness
- HR Controller
For discussion

- How do COEs in your organization work with Business Leaders?
- How have you shifted transactions from COEs to Shared Services?
Three key hypotheses about the next generation HR model

1. The role of the business partner needs to significantly change

2. COEs need to let go of transactional work

3. Line managers and employees need more support from HR; How they get it will change
Shared Services and outsourcing will be key to achieving the strategic model

- The bulk of HR’s administrative, transactional and operational work should sit in Shared Services
- Most HR resources will be in Shared Services
- Case & Geography Managers may be embedded locally as operational executors
Shared services and outsourcing will be key to achieving the strategic model

Future role – HR shared services

- Handle transactional activities and inquiries by phone, email or, if required locally, in person
- Manage outsourced vendors
- Responsible for HR systems and data
- **Primary customers are employees and line managers**
Business success depends on line managers

- Critical that line managers be responsible for managing their employees
- HR needs to leverage People Development Managers to support other line managers
Business success depends on line managers

Future role – People dev managers

People development Managers

- Are line managers that have an additional role in coaching other line managers
- Receive additional training on delivering their people management services
- Are “super-users” of HR tools, programs and technology
- Primary customer is the line manager
For discussion

- What in your organization is effectively delivered through a service center?
- How far has your organization leveraged self-service technology?
Leadership is what makes the model work

- Setting formalized HR governance is critical to managing the model
- HR Leadership needs to be committed to the governance structure and to making this model work as designed
The outcome

The role of HR will shift to be more:

- **Strategic** – developing, managing and operationalizing the human capital strategy

- Focused on **metrics and measurement** – providing the business with information and tools to guide fact-based decisions

- Enabled to **execute the fundamentals flawlessly** – using technology, co/outsourcing and/or internal shared services

- Effective in **supporting line managers** – providing enhanced HR operational support and easy-to-use tools

- **Cost effective** – ensuring HR is organized to perform in the most efficient manner
Moving to the Next Generation
HR Model
Mercer’s HR business design framework ensures that the business, environmental and stakeholder context is firmly established from the outset. With that foundation, we can determine the organizational capabilities that will most significantly contribute to business results and develop an HR function strategy and service delivery model in alignment with the business and human capital strategies.

Mercer’s HR business design framework

How to get there
Mercer’s HR business design framework

People strategy
How will the organization manage and motivate a workforce that can execute the business strategy?

HR function strategy
How does the HR function support the people strategy, deliver expected value and contribute to the organization in support of business priorities?

What HR programs and initiatives are required to meet the function strategy:

- Talent management
- Rewards
- Learning
- Recruiting

HR operating model

Sourcing
What activities will the HR function do themselves/ have others do?

Infrastructure
What internal capabilities are needed to fulfil the HR function strategy?

- Process
- Technology
- Talent
- Organization

Governance
How will the function be led and how will related investments be managed?

How will success be measured?
### Mercer’s HR transformation framework

**How to get there**

Set direction for design

Design the future state structure, processes and technology and align by milestone

<table>
<thead>
<tr>
<th>Current</th>
<th>Future</th>
<th>Roadmap</th>
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<tbody>
<tr>
<td><strong>Understand your starting point and set transformation objectives</strong></td>
<td><strong>Set direction for design</strong></td>
<td><strong>Design the future state structure, processes and technology and align by milestone</strong></td>
</tr>
<tr>
<td>Strategic business understanding</td>
<td>Develop service delivery model</td>
<td><strong>Milestone 1 – 2010</strong></td>
</tr>
<tr>
<td>Current state HR time allocation</td>
<td>Develop sourcing strategy</td>
<td><strong>Milestone 2 – 2Q 2011</strong></td>
</tr>
<tr>
<td></td>
<td>Develop HR governance model</td>
<td><strong>Milestone 3 – 4Q 2011</strong></td>
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<tr>
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<td><strong>Milestone 4 – 4Q 2012</strong></td>
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Let go of benchmarks
Benchmarks should not be used to size the HR function or determine staffing

Staffing levels and HR structure need to be unique to your organization. They should be based on many things, including:

- How HR fits into the company’s structure
- Your degree of technology, outsourcing and co-sourcing
- Geographic scale and scope of services provided by HR
- What you can afford

There is no one right answer, don’t be misled by benchmarks
Use the balanced scorecard to measure HR

The HR Vision

Organization Effectiveness
“Are we building the capability of the workforce?”

HC Program Effectiveness
“Are HR programs delivering desired results?”

HR Customer Satisfaction
“Are internal customers satisfied with HR services?”

HR Department Effectiveness
“Is the HR function operating efficiently and effectively?”
Use the balanced scorecard to measure HR

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Department Effectiveness
Sample Measures
- Time to fill key positions
- HR budget variances

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Customer Satisfaction Sample Measures

- Percent of HR customers satisfied with HR service levels
- Percent growth in use of online tools
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**The HR Vision**

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**HR Department Effectiveness**
“Is the HR function operating efficiently and effectively?”

**Human capital Program Effectiveness**
Sample Measures
- Percent of incentive pay received by high performers, by high potentials
- Behavior changes resulting from training programs

**Customer Satisfaction Sample Measures**
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Sample Measures
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The HR Vision

Organization Effectiveness

“Are we building the capability of the workforce?”

Organization Effectiveness Sample Measures

- Percent of gaps in critical workforce segments
- Retention rates for high potential employees

HC Program Effectiveness

“Are HR programs delivering desired results?”

Human capital Program Effectiveness Sample Measures

- Percent of incentive pay received by high performers, by high potentials
- Behavior changes resulting from training programs

HR Customer Satisfaction

“Are internal customers satisfied with HR services?”

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- Percent of HR customers satisfied with HR service levels
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HR Department Effectiveness

“Is the HR function operating efficiently and effectively?”
Critical success factors

- HR staff capabilities
- Flawless execution of transactional work
  - Reliance on technology and outsourcing
- HR leadership vision and conviction
- Formalized HR governance model
- Leadership that recognizes the value of line managers having strong managerial and people skills
- Develop a business case
Case Studies
Case Study – Global Chemical Company

Background

- New Chief HR Officer for a global company with a declining employee population in key geographies and increasing population in emerging markets
- No HR technology or global processes
- HR function seemed to have the right number of resources, needed to determine if they were allocated correctly
- Desire for HR to operate more strategically – fully define the role of the HR business partner and shift work appropriately
- Company establishing corporate shared services – HR needed to determine what HR work should be part of that organization
- Global HR structure and roles needed to be refined
Case Study
Chemical Co’s Approach to transformation

Phase 1 - Data Gathering and Analysis
- HR staff completed Operations Scanner time allocation survey
- HR Value and Effectiveness survey completed by HR staff and selected managers and leaders
- CHRO conducted executive interviews
- Reviewed best practices/benchmark information

Phase 2 – Design Future Service Delivery Model & Governance
- CHRO and small core team developed the new HR service delivery model
- CHRO determined HR governance guiding principles and identified at what level (business unit, geography) HR strategies, processes and programs would be common and where they could be unique
- CHRO developed new organization structure and named direct reports
- CHRO direct reports developed Centers of Expertise roles and responsibilities, Business Partner roles and identified work for North American shared services

Phase 3 – Implementation
- CHRO and direct reports mapped all HR staff to new structure
- Shared Services resources identified and began SAP technology implementation
- HR activities shifted into shared services as staff moved into shared services roles
- Centers of Expertise leaders led design of global processes
Results of the time survey
HR processes are fragmented and primarily focused on delivering services & transacting and recordkeeping

- HR staff’s priorities are not completely aligned with HR customer priorities
- HR is currently required to focus on “getting things done” while customers want a more strategic HR function
- Lack of HR technology and fragmentation/duplication of work efforts inhibits HR’s efforts to act as a strategic advisor to the business
The data informed the new HR service delivery model

Corporate

HR Governance
Emphasis on guiding principles, policy, and decision process

Shared Services

Outsource Provider(s)
Emphasis on cost competitiveness and on geographic capabilities

HR Center(s) of Expertise
Emphasis on subject expertise & consulting

HR Operations Center(s)
Emphasis on administrative efficiency, consistency and economy of scale

Business Units

Geography/Business Unit HR
Emphasis on customer relationship management and unique local needs

Regions

Local HR Service
Emphasis on personal contact local customer service when it outweighs efficiencies of consolidation

Managers and Employees

Self-Service
Emphasis on pushing transactions, information and decision making to user

Technology Platform
Emphasis on access to consistent, integrated data
Actions and Desired Outcomes

- Create small centralized Centers of Expertise to design global programs and provide tools and technology to business and geography HR
- Realign resources and utilize outsourcing and co-sourcing to support emerging markets
- Drive efficiency in larger markets through shared HR Operations
- Clarify roles and responsibilities through defined HR governance
A health care organization focused on a multi-phase transformation to “fix the wheels on the bus while still moving”

HR transformation consisted of 4 main themes:

- Governance – link HR priorities to business priorities
- Strategic services – activate strategic partners as part of the service delivery model
- Internal HR operations – transform the internal operations of HR to improve quality
- Rebalance investments – increase investments in recruiting, decrease investments in health and welfare administration and in the administration of programs

<table>
<thead>
<tr>
<th>Roadmap</th>
<th>3 Months</th>
<th>6 Months</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behaviors</td>
<td>▪ Set tone for change</td>
<td>▪ Begin behavior change</td>
<td>▪ Expect behavior change</td>
</tr>
<tr>
<td>Staff</td>
<td>▪ Announce department heads</td>
<td>▪ New hires for Tier 1 Operations</td>
<td>▪ Fill remaining open positions externally</td>
</tr>
<tr>
<td></td>
<td>▪ Other moves for HR staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure</td>
<td>▪ COEs in place</td>
<td>▪ Service center in place</td>
<td>▪ Model fully implemented</td>
</tr>
<tr>
<td>Programs</td>
<td>▪ Design programs</td>
<td>▪ Rollout management training program</td>
<td>▪ Rollout other new HR talent programs</td>
</tr>
</tbody>
</table>
An energy company achieved their service and technology objectives through outsourcing

A highly integrated (people, process and technology) HR function that provides employees and management with top quartile HR service delivery.

<table>
<thead>
<tr>
<th>Component</th>
<th>Before</th>
<th>After</th>
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<tbody>
<tr>
<td>People</td>
<td>Internal US Only service center</td>
<td>Out-sourced Global service center</td>
</tr>
<tr>
<td>Process</td>
<td>Local, fragmented, inefficient</td>
<td>Global, harmonized, integrated</td>
</tr>
<tr>
<td>Technology</td>
<td>US ADP Payroll only</td>
<td>Global SAP HR, implemented and managed by outsourcer</td>
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</tbody>
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Post-transformation – the HR function:
- Successfully implemented SAP on a global basis, enabling HR to provide sophisticated workforce analytics to support the business
- Consistently provides service globally to employees through self-service technology and outsourced call center
- Enables HR business partners to provide more strategic advice to their business leaders
- Provides global onboarding process, technology and tools – improving retention, a key business metric
A large public school system used internal service center and technology to increase service levels to employees and managers.

**Post transformation the HR function:**

- Shifted the HR Partner role from policing to problem solving, and provided a much higher level of support to principals.
- Enabled teachers to conduct transactions either on line or over the phone to the HR Service Center rather than taking a day off to come to the personnel office in person.
- Delivered services in areas previously not supported by HR, such as talent management and compensation.
Key Takeaways
Key takeaways

- The HR service model generally in place is not working appropriately for many reasons, mainly the different skills required

- Looking forward, we envision that the next generation HR function will have:
  - Fewer, higher skilled Business Partners, focused in business strategy and advice/coaching to the business leaders
  - COEs centered on design of policies and programs; there are new CoEs emerging
  - Shared Services should concentrate all the administrative, transactional and operational activity and will be heavily supported by outsourcing

- Leadership and governance is what makes the model work

- Don’t focus on benchmarks, use an HR scorecard to measure effectiveness and efficiency

- **KEEP MOVING FORWARD, HR TRANSFORMATION IS NOT A ONE-TIME EVENT, IT IS A CONTINUOUS JOURNEY!**