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Building the Case for HR Shared Services

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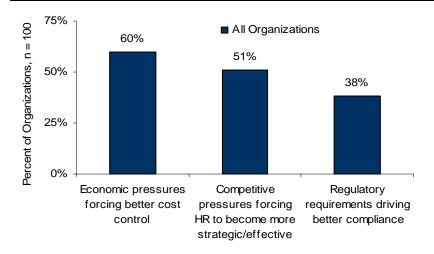
Building the Case for HR Shared Services

In July and August 2010, Aberdeen Group surveyed nearly 350 organizations in order to determine Best-in-Class practices in managing core HR functions. In addition to building the case for process automation, data integration, reporting, and employee self-service, the *Future of Core HR* study reported: "*Global organizations (defined as those that employ workers outside the country where headquarters are located) that experience a slighter burden on HR are 29% more likely to have centralized HR functions. In fact, they are also 10 times as likely to have centralized HR without any local or regional representatives. This shows that as technology evolves, the need to have fragmented HR departments decreases. It also suggests that a share services model of providing HR functions can be successful if implemented effectively and supported by the right tools and knowledge management capabilities.*"

Based on observations in key HR metrics, this Research Brief will build on these findings to prove that adopting HR shared services (HRSS - see sidebar on this page for definition) is a valid, strategic option for delivering quality employee service for any organization with geographically-dispersed workers in multiple locations - whether on a national or a global scale.

Business Context

Analysis of the pressures driving core HR efforts in the aforementioned data sample shows that economic uncertainty is driving organizations to optimize the cost of delivering HR service.

Research Brief

Aberdeen's Research Briefs provide a detailed exploration of a key finding from a primary research study, including key performance indicators, Best-in-Class insight, and vendor insight.
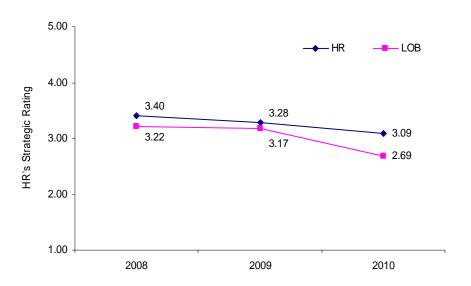
Definition

For the purposes of this study, Aberdeen analyzed 100 geographically-dispersed organizations (nationally or globally). This research defines "HR Shared Services" as a centralized HR function with defined tiered inquiry / issue escalation processes - regardless of maturity in technology adoption. Based on this definition, 44 companies (of the 100) have implemented shared services model for HR functions.

Figure 1: Pressures Driving Core HR Investments

Respondents were asked to select the top two
Source: Aberdeen Group, April 2011

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But the need for HR to be more strategic to the business is also a key focus. This was validated by trends that Aberdeen's HCM practice has uncovered year over year in regards to the perception (of both HR and line of business) as to the strategic contribution of HR to the organization (Figure 2).

Figure 2: HR Perceived as Less Strategic Over the Years

Source: Aberdeen Group, December 2008, December 2009 and December 2010

HR, therefore, must look for ways to support their organizations' growth objectives with efficient processes that create alignment between people strategies and business goals. Now is the time that organizations ought to focus on transforming the HR function in three main ways: become leaner, make employee service customer-centric, and monitor its effectiveness. When respondents were asked to select the top two internal challenges that impact core HR excellence, *too much time spent on manual HR transactions* (42%), the *inability for business leaders to leverage HR data* (40%), and *lack of data integrity / single source of truth* (37%) led the list. These findings are consistent with the larger sample that we analyzed in the August benchmark report, *Future of Core HR*, as well as the December 2010 study, *The 2011 HR Executive's Agenda*, where 52% of nearly 450 organizations cited *HR spending too much time on tactical* activities as a top two barrier to investing in Human Capital Management (HCM) efforts.

Strategic Actions

To determine whether there is a case to be built for having a shared services model, Aberdeen segmented the sample of 100 organizations with geographically (nationally or globally) dispersed workforce into two groups: a group of 44 organizations that adopted an HRSS model regardless of its maturity (see sidebar in page one for parameters), and a group of the remaining 56 companies that don't have that model.

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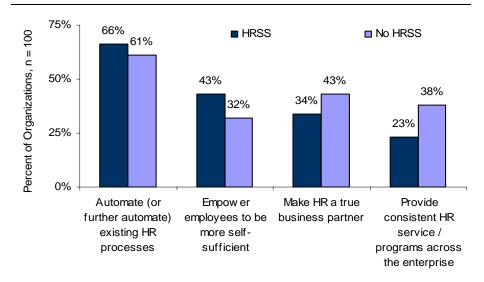A Harte-Hanks Company

When it comes to enhancing overall HR service, analysis of the top strategic actions shows that organizations that have begun adopting HRSS are more concerned about automation and empowering employees through self-service. On the other hand, because standardization before automation is crucial, organizations that haven't moved to an HRSS model are more likely to prioritize consistency and determine how HR can be more strategic to the business. Performance data - presented in the next section - and follow-up conversations with respondents to Aberdeen's 2010 Core HR survey showed that organizations that have moved to an HRSS model are more likely to have standardized processes and made policies consistent across the organization. Furthermore, these organizations are more likely to have already collaborated with the business stakeholders to determine how HR can enable them to execute their operational objectives. In fact, when asked to rate HR's strategic impact on the organization on a scale of 1 to 5 (5 being most strategic), 64% of those with an HRSS model rated 4 or 5 compared to just 50% of all others. Later on we will also show that they are more likely to use analytics tools and regularly track the performance of HR's impact on the business.

Figure 3: Strategic Actions

Source: Aberdeen Group, April 2011

The Case for HR Shared Services

When it comes to managing HR, organizations must be able to optimize a balance of three elements:
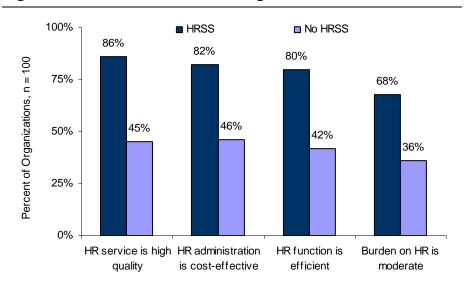
- **Employee/manager satisfaction.** Whether it is payroll, health benefits, earned time off, or other policies, one of the measures of HR effectiveness is the rate of employee satisfaction with the service provided. The "customers" of the HR departments are also the managers that require reports on headcount, recruiting efforts,

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payroll, or labor costs. Not only does HR service impact satisfaction, but it also impacts engagement. In fact, 64% of companies with HRSS indicated the HR service has a positive impact on employee engagement, compared to 51% that don't. For more research on how Aberdeen distinguishes employee satisfaction from engagement, refer to the July 2009 report, *Beyond Satisfaction: Engaging Employees to Retain Customers*.

- **Cost.** Whether it is headcount in an HR department, cost of employee benefits offered to employee, technology investment, or, in some cases, quantifying lost productivity, an organization must be able to balance the quality of service against this critical element. Being able to build a business case for any HR initiative relies on proving cost effectiveness. As Figure 4 shows, organizations with an HRSS model are 78% more likely to indicate that overall HR programs managed in-house are cost-effective.

- **Burden on HR.** While cost and satisfaction are critical, a key stakeholder is HR staff, and organizations must ensure that the burden on HR is manageable in a way that allows HR to continue to be a strategic enabler of business performance. Moving to shared services model has a direct impact on this area. In fact, organizations with HRSS are nearly twice as likely to indicate that the administrative burden on HR is less demanding than those with no HRSS initiative in place. This is significant given the top barrier to making HR more strategic is the challenged posed by the tactical everyday burden of HR activities or transactions.

Figure 4: Shared Services Has the Edge

Source: Aberdeen Group, April 2011

Defining the Best-in-Class

In its August study on *Core HR Functions*, Aberdeen used three key performance criteria to distinguish the Best-in-Class (top 20% of aggregate performers) from the Industry Average (middle 50%) and Laggard (bottom 30%) organizations, with Best-in-Class achieving the following:

√ 90% percent of employees are satisfied with HR service

√ 7% year-over-year reduction in number of manual HR transactions per month

√ 0.5% error rate in standard payroll processing

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HRSS Enables Best-in-Class Performance

When Aberdeen applied its Best-in-Class framework from the August 2010 study of Core HR (see sidebar on this page), analysis showed that organizations with HRSS models are twice as likely to achieve Best-in-Class designation as their counterparts (25% versus 12.5%). To learn more about this disparity, Aberdeen compared the two groups against a couple of Key Performance Indicators (KPIs) used to define the Best-in-Class. Analysis revealed that HRSS gives its adopter a clear advantage over others. In fact, when it comes to streamlining processes and reducing the burden on HR, those organizations even outperformed the Best-in-Class by experiencing 30% better rate of reduction in the manual transactions handled by HR representatives (Figure 5).

When it comes to excellence in delivering high quality HR service, an organization must instill a customer-centric culture in its HR department. Having HR focus on employees internally as the organization does to its customers externally will prove to be a successful recipe. Yet, to do so, as well as to support key HR strategies, requires a strong set of internal capabilities, including automation.
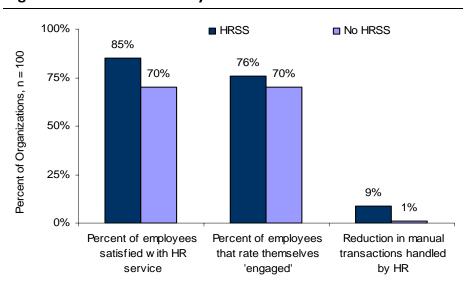
Figure 5: Performance in Key Metrics

Source: Aberdeen Group, April 2011

Differentiating Capabilities and Enablers

As mentioned previously in this research paper, a top strategy pursued by organizations with HRSS models is to empower employees to be more self-sufficient. Moreover, a staggering 98% of these organizations indicated that HR policies and procedures are clearly communicated to employees - compared to just 50% of counterparts. To enable this pervasive communication, organizations with HRSS models are 26% more likely than their counterparts (and 10% more likely than even the Best-in-Class) to

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have an employee communications portal. Self-service portals have proven instrumental in freeing up HR staff and enabling them to be a true strategic entity to the business. In fact, organizations that utilize employee self-service are nearly 50% more likely to achieve Best-in-Class status.

A crucial consideration is to equip such portals with a robust knowledge management capability that enables employees to quickly and accurately search or query the information they seek. After all, the most effective inquiry into an HR representative may very well be the one which doesn't ever take place. Working with the businesses to determine the content and the data most relevant to employees is also vital. Lastly, having a process in place to gauge employee satisfaction with HR service also enables Best-in-Class success. In most cases, organizations solicit employee feedback in satisfaction surveys as it pertains to benefit plans, enrollment, ease of self-service, and the effectiveness of the HR department in addressing their needs. Collecting this feedback also serves as a performance management mechanism that helps organizations to continuously improve its programs and services.
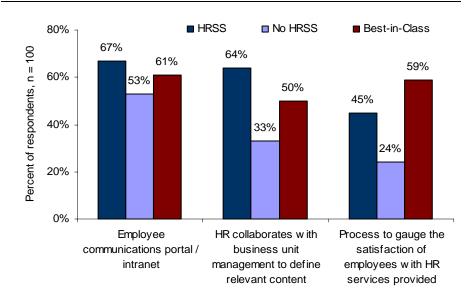
Figure 6: Communication and Involvement are Keys to Success

Source: Aberdeen Group, April 2011

In terms of monitoring and management, two things are critical for execution. First HR management must have real-time visibility into open tasks or inquiries. As highlighted in Aberdeen's report *Future of Core HR*, Best-in-Class organizations were 37% more likely than Laggards to have a portal for HR managers that tracks the progress of tasks and activities. This portal can act as a command center where certain tasks and alerts are automatically fed to managers and practitioners. More sophisticated organizations (as we will show in the case of the Kellogg Company), having a

case management system that automates inquiry tracking and enables real-time visibility and reporting proves effective.

Figure 7: Visibility Key Benefit of HRSS

Source: Aberdeen Group, April 2011

Another element is defining metrics and regularly tracking the effectiveness of HR service. Lastly, as the shared services model matures, integrating talent management data with HRIS / HRMS can also payoff. Currently, 56% of HRSS organizations have this capability in place compared to 29% of those without HRSS and 47% of the Best-in-Class. Organizations that integrate core HR with talent management were 35% more likely to achieve Aberdeen's Best-in-Class designation in the August study. It is noteworthy in Figure 6 and Figure 7 that organizations with that have an HRSS model in place are outperforming Aberdeen's Best-in-Class in most of these key capabilities. This is further validation of the HR shared services model enabling organizations to achieve excellence and execute on the strategies they have set forth to enhance employee service.

Case in Point — Kellogg Company

Headquartered in Battle Creek, MI, Kellogg Company is the world's leading producer of cereal and a leading producer of convenience foods, including cookies, crackers, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles, and vegetarian foods.

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Case in Point — Kellogg Company

The company's brands include Kellogg's®, Keebler®, Pop-Tarts®, Eggo®, Cheez-It®, All-Bran®, Mini-Wheats®, Nutri-Grain®, Rice Krispies®, Special K®, Chips Deluxe®, Famous Amos®, Sandies®, Austin®, Club®, Murray®, Kashi®, Bear Naked®, Morningstar Farm®, Gardenburger® and Stretch Island®. Kellogg products are manufactured in 18 countries and marketed in more than 180 countries around the world. The company employs approximately 31,000 employees worldwide, including 21,000 in the Americas.

Kellogg grew significantly through acquisitions since 2000, without harmonizing HR policies and processes across the company. Other challenges included decentralized and inefficient data entry, which diluted accuracy thanks to several touch points between employees, managers, HR and data specialists. Due to a decentralized HR delivery model, employee service was inconsistent and varied. Lastly, the internal HR portal was difficult and time-consuming to navigate, which limited its use by the employees.

In 2007, Kellogg started evaluating a shared services model. Though it was a significant investment, the company's leadership understood the company needs and the magnitude of the challenges facing employee service. In September of 2008, the company began designing its shared services model with three goals in mind:

- Streamline transactional work
- Provide quality service to employees
- Become more strategic to management and business units

Thirteen months later, the Kellogg Americas went live with HR shared services. "Change management is one of the most critical elements for successfully rolling out such a project," said Anne York Paterra, Senior Director, HR Shared Services Operations at Kellogg, "You cannot underestimate or over-deliver on change management – before, during, and after implementation. Stakeholder communication before deployment, and ongoing employee communication during and after is crucial. Explain what their role is and what the expectations are. You can't put enough energy into that."

Another enabler for HR shared services success at Kellogg revolves around knowledge management. Working with employees, managers, generalists and other HR staff to decide what is relevant and how it can be best accessed determines what should be made available to employees on the portal, and what should be kept for HR representatives. Auditing existing content and updating it to reflect the need and the direction of the business is also vital.

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Case in Point — Kellogg Company

Since completion, the new model has served 21,000 active employees in 15 countries, and an additional 18,000 that include retirees, vested terminated employees, dependents and survivors. The employee self service portal and HR representatives support four languages: English, Spanish, Portuguese and French Canadian.

Reports following one year of performance since implementation tracked the speed to resolve employee issues, the burden on HR staff and the strategic alignment with the business. Averaging 12,000 calls, 3,000 Manager Self-Service (MSS) transactions and 1,700 Employee Self-Service (ESS) transactions per month, Kellogg was able to deliver against Service Level Agreement (SLA) targets:

- 30 seconds or less speed to answer

- 5% or less abandonment rate

- 60% or higher first call resolution

- 70% or higher first day resolution

- 80% of manager self service transactions are complete and live within 2 business days

Some of the efficiencies delivered and customer responses:

- 13% reduction in staff time spent on first call resolution over a 4 month period

- after delivering significant technical simplifications, a 25% decrease in self-service coaching calls while maintaining volume of transaction

- 60% of survey respondents state they can do self service without help

- Reduced the average number of steps (from 8 to 2) to make HR data changes

- 86% customers were satisfied or very satisfied with their overall experience

Ms. Paterra concluded, "We have experienced measurable employee satisfaction with the service provided. We have met or exceeded our SLA goals. We continue to seek input from our employees, and make improvements on a monthly basis. Soon we hope to plan our next phase of rolling this model out globally."

Conclusion

Aberdeen's research shows, that regardless of size or industry, any organization with employees in multiple locations should consider moving to a shared services model. The performance gains highlighted in this research

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build a business case for transforming fragmented HR units and inconsistent processes. Whether it's organic growth, merger or acquisitions, or the need for HR to keep up with the business plan, organizations must start by identifying the challenges facing employee service and then build a plan to address them.

The following is a roadmap that briefly highlights some key elements of a successful shared services model:

- Standardize HR processes across the enterprise

- Centralize HR and identify first-line (tier 1) representatives and second-line (tier 2) managers

- Define and formalize an escalation response process

- Have a system of record for all HR data

- Consider outsourcing the tactical elements of HR like payroll or benefits administration

- Empower employees through a front-end portal and equip it with search / knowledge management capabilities that are robust enough to address employees needs and also robust enough for the reps to be able to search and find the answers

- While HR inquiries can come via email or phone calls (as is the case with Ann Taylor), having a case management system can streamline reporting and provide better visibility into the daily load and output of the department

Implementing a shared services model can be as simple as tracking everything via spreadsheets or as sophisticated as automating all processes and backing it up with robust analytics and reporting tools. Depending on the magnitude, this transformation doesn't happen overnight. Change management through communication and stakeholder involvement is essential for such an endeavor. When implemented effectively, HR shared services can be a tremendous boon to efficiency, employee satisfaction, engagement, and service excellence.

Case in Point — Specialty Clothing Retailer

Take the case of this leading specialty retailer for fashionable women's clothing, which serves clients across the United States and Puerto Rico. On annual average, the company has 18,000 employees on payroll, including 3,000 in its corporate offices.

As evident in its high-touch customer service, the company's mission is to have employees focus on maximizing client satisfaction in all its stores. "One of the keys to maximize client satisfaction is to ensure employees at the frontlines are satisfied with the service our HR staff provides," said the director of HR Shared Services.

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Case in Point — Specialty Clothing Retailer

"Therefore, it's necessary for us as a company to ensure their concerns about health benefits, paychecks, 401(k) plans, etc. are addressed quickly and completely," the director continued. Furthermore, the less time employees or their managers spend on the phone with HR staff addressing their issues, the more time they can spend on the floor serving clients and executing operations.

In 2008 the company completed the implementation of a new HRMS to provide the basis for its shared services function. Several months later, the company added self-service portals, which were made available at the store-level. Managers were involved in designing the front-end, where the goal was to ensure the system was built from the outside in. The portals facilitated the onboarding process. In an industry where turnover is relatively high, and cyclical employment brought on board thousands of employees a year, the company's intent is to streamline the process (i.e. form management, I-9, benefit communication, policy, etc.) and get the employees ramped up as quickly as possible. In addition, the easier it is to onboard new employees, the more effective store managers are in running the business.

Until a case management system is fully rolled out (currently planned for Q3 2011), employee inquiries are submitted via email. Since last year HR inquiries went from 90% phone calls and 10% emails, to 60% phones and 40% emails. In addition to freeing up HR personnel to focus on strategic alignment with the business, employees, now, feel less frustrated or concerned about paychecks, benefits, etc. while they work at the stores, which are open several hours later than corporate offices thanks to the 24-hour availability of the portal. The director concluded, "When employees use the portal to submit inquiries and know someone will work on it and resolve it in a timely manner, they will have less to worry about and will spend more time focusing on our core business."

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
Onboarding 2011: The Path to Productivity; February 2011	*The 2011 HR Executive's Agenda*; December 2010
Future of Core HR; August 2010	*Beyond Satisfaction: Engaging Employees to Retain Customers*; July 2009

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