



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

HUMAN RESOURCES LINE OF BUSINESS

A COLLECTION OF PRACTICES FOR HUMAN RESOURCES SHARED SERVICES & SERVICE DELIVERY

VERSION 1

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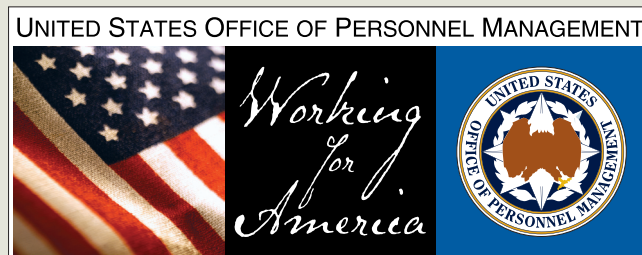


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1 Introduction

The Federal Government's e-Government and lines of business initiatives have wide reach and are transforming how government services are delivered. Services are now being offered via the Internet and allow citizens, businesses, and government employees to use self-service to search for jobs, apply for security clearances, file taxes electronically, apply for government grants, and take advantage of recreational opportunities.

The Federal Government's vision for electronic government is to make government more citizen-centered, results-oriented, and market-based. This program, championed by the Executive Office of the President, is now extending beyond the first wave of E-government initiatives and is currently consolidating the back-office transactions in human resources and financial management services into centers of excellence.

The Human Resources Line of Business (HR LOB) initiative has been tasked to consider business benefits and impact of a new service delivery model that preserves some HR functions at the agency level and moves other HR functions to HR LOB Shared Service Centers (SSCs). The HR LOB proposes a near-term service delivery model in which HR services relating to human resources information systems (HRIS) and payroll operations move from the agencies to HR Shared Service Centers. Over time, as HR Shared Service Centers evolve and expand their capabilities, additional transactional and administrative activities may shift from the agency to the service center delivery model. The potential business benefits are significant: it is estimated at least one billion dollars in cost savings can be attained over ten years, resulting from increased productivity and efficiency gains.

1.1 Purpose

This report identifies practices for Federal agency transformation through a shared services delivery model, providing both customer agencies and service providers a compilation of current, relevant shared services and service delivery practices and sample benchmarks. This report supports the HR LOB vision of governmentwide, modern, cost-effective, standardized, and interoperable HR solutions providing common, core functionality to support the strategic management of human capital and addressing duplicative HR systems and processes across the Federal Government.

1.2 The Business Imperative for Shared Services

The concept of shared services has become broadly accepted in many governments and across many business functions. One source performed 143 interviews with personnel from eleven agencies in thirteen countries (United States, United Kingdom, Australia, South Africa, France, Canada, Sweden, Singapore, Italy, Germany, Ireland, Netherlands, and Spain). This source reports “66 percent of the governments surveyed have already implemented shared services or are in the process of implementing it. Another 28 percent anticipate implementing shared services in the next one to three years. Only six percent have no plans to implement shared services. A majority of governments consider shared services a vital tool for meeting their challenges and are investing considerable resources on their shared services operations. In fact, 85 percent of the governments surveyed believe shared services is or will be important to supporting their organization’s strategic goals.”¹

The following table highlights results from shared services-driven transformations that took place at six U.S. public sector enterprises.

¹ Accenture. “Driving High Performance in Government: Maximizing the Value of Public-Sector Shared Services.” 2005.

Case Studies: Public Sector Shared Services

- United States Postal Service:
 - Shared services and electronic Human Resources
 - HR processes shared: employee benefits, reassignments, job postings, awards and recognition
 - Shared services supports 707,000 employees across 80 geographically disbursed centers
 - Estimated costs savings through shared services and electronic Human Resources. \$50 million over 10 years*
- U.S. Transportation Security Administration:
 - Outsourcing began at TSA's inception
 - All human resource functions are outsourced
 - Supports 55,600 passenger and baggage screeners hired by December 2002
 - Estimated costs savings through outsourcing: 20-25%
- State of Victoria, Australia:
 - Outsourcing began in 1996
 - HR functions outsourced: Payroll, HR information systems and reporting, HR policy
 - Supports 1,800 – 2000 state employees across 3 agencies
 - Estimated savings through outsourcing 30%
- Detroit Public Schools:
 - Outsourcing began February 2001; implementation completed January 2002
 - HR functions outsourced: Medical benefits administration
 - Supports 26,000 employees (largest employer in Detroit)
 - Direct savings realized \$5 million initially; \$1 million per year
- State of Florida, Department of Management Services:
 - Outsourcing began August 2002
 - Total HR functions outsourced
 - Supports 118,000 state employees (with university system employees, 189,000)
 - Estimated savings \$173 million over seven-year contract (\$85 - \$90 million represents cost avoidance from not having to purchase a new IT system)
- Texas Health and Human Services Commission:
 - Outsourcing began 2004
 - Total HR functions outsourced with the exception of policy and planning
 - Oversight of Texas HHS agencies; Texas Medicaid and Children's Health Insurance Programs.
 - Supports 46,000 employees
 - Targeted costs savings of \$1 billion for reorganization within first 2 years; \$63 million in HR savings over five years

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² The Conference Board. "HR Outsourcing in Government Organizations – Emerging Trends, Early Lessons." 2004.

The UK government has embraced the concept of shared services and identified it as a *key enabler* of “Transformational Government”. It believes that shared services “offers the opportunity to accelerate change in the culture of public sector organizations and improve the delivery of services to citizens. Unless taxes and other revenues rise dramatically (one unacceptable, the other unlikely), it follows that maximizing *public value* requires not only greater efficiency but genuine and significant public sector transformation. This must not only occur within individual organizations but critically across organizations, removing unnecessary complexity and duplication at all levels. The move to shared services will greatly improve the main focus of public sector Transformation – improved citizen service – through delivering *efficiency, effectiveness, and employee experience*.”³

For the UK government, cost savings is a primary business driver. In the UK, more than 1,300 government organizations undertake their own finance and HR support processes. They spend about £25 billion (approx \$45.2 billion) on back office services, or 2.5% of their annual expenditure. By comparison, the private sector averages less than 1% on the same services. The cost of a public sector back office in the UK is two and a half times greater than its private sector counterpart.

In addition to cost savings from economies of scale, other business drivers include:

- *Business unit accountability.* Because SSCs charge business units on the basis of services used, shared services help control costs by making business units more aware of the costs involved with using those services. Business units may make more economical choices about the services and level of service they use.
- *Process optimization.* The reengineering and standardization of processes, systems, and data associated with moving to shared services helps the organization achieve operational excellence by:
 - eliminating redundant data entry and other processes that do not add value
 - enabling business units to focus on improving performance in their core business areas
 - focusing the business unit on receiving cost-effective, high quality service (because of charge-back)
- *Improved information.* Information is standardized across the organization as a result of consolidation, standardization, and reengineering of processes, systems, and databases.⁴
- *Reduced risk.* Risk is decreased because of greater spending predictability and the supplier’s proven delivery experience.
- *Recruiting and retention.* Quality of hires may be higher because the supplier often can offer broader and more robust career paths for HR professionals. Retention may be improved through more transparent processes and a more integrated approach to recruiting, selection, and training.

³ “Shared Services in the Public Sector: Vision.” [BuyIt Best Practices Network](#) 2006.

⁴ “Reshaping the Corporation: Emerging Best Practices in Shared Services; American Productivity & Quality Center.” 1997.

- *Improved customer satisfaction.* Surveys show consistently high customer satisfaction from HR shared services – as high as 96%.⁵

One source claims HR shared services combines the advantages of decentralized service delivery with the advantages of centralized service delivery models to improve overall HR performance (see Figure 1).

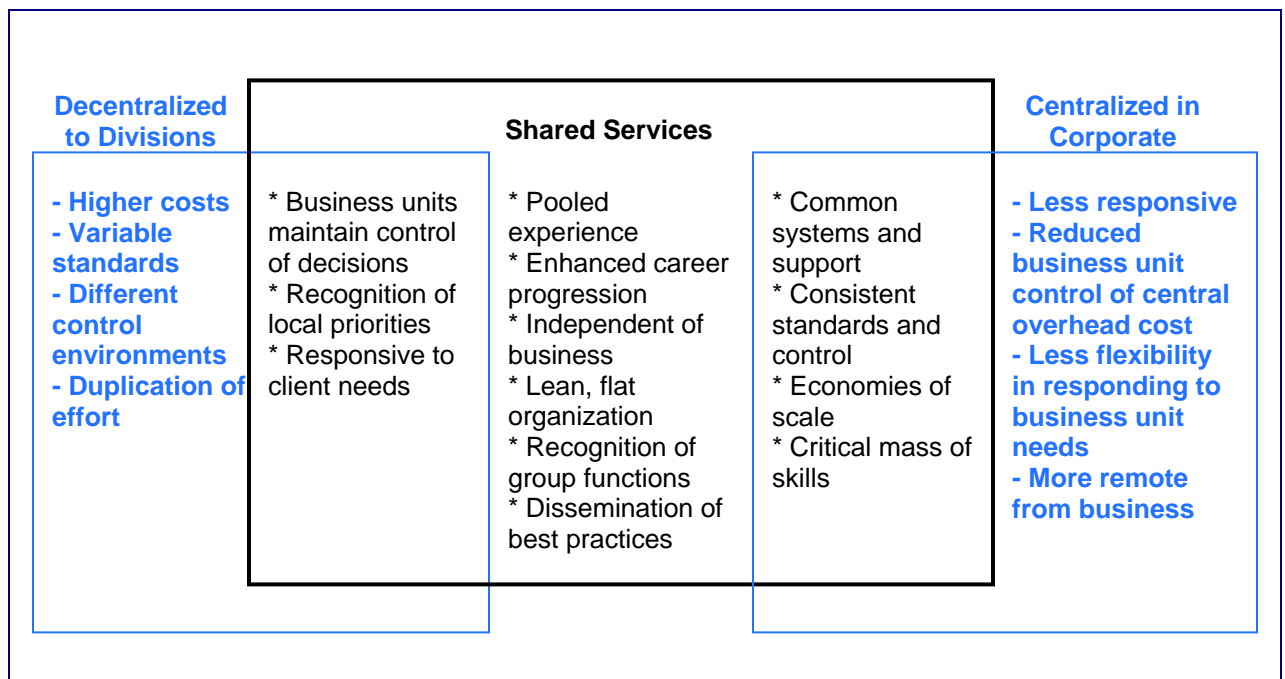


Figure 1: Shared Services – Combined Advantages of Decentralization & Centralization

Shared Services is not without its challenges. Companies that have implemented shared services operational models have reported the following:

- Fundamental lack of awareness; lack of skills in managing change to shared services
- Lack of clear leadership support; commitment to change
- Difficulty maintaining or improving service levels and meeting user expectations
- Establishing a governance structure and clear lines of accountability
- Lack of cooperation between government departments and inability to build consensus
- Inadequate funding strategies; no directive to build and realize a coherent business case
- Lack of a strategic vision
- Complexity in defining the scope of shared services

⁵ Kabrt, Richard, and Beth Ellyn Rosenthal: The Everest Group. “How to Make Full-service HRO Work for You.”

- Finding the right partner
- Working with continued decentralized decision-making authority
- Overcoming organizational resistance to change
- Transitioning staff to the new entity
- Lack of reliable baseline data
- Defining clear goals and objectives
- Establishing appropriate performance metrics

The practices contained in this report should help agencies address these challenges.

1.3 The Concept of Best Practice

Best practice has been defined as “the best way to perform a given process; the best way *thus far* that has been developed to do something; the way that results in the highest demonstrated, measurable performance.”⁶ Another source defines best practice as “a management idea which asserts that there is a technique, method, process, activity, incentive, or reward that is more effective at delivering a particular outcome than any other technique, method, process, etc. The idea is that with proper processes, checks, and testing, a desired outcome can be delivered with fewer problems and unforeseen complications.”⁷

The concept of best practice is not new; it dates back (at least) to Frederick Taylor who said nearly 100 years ago, “...among the various methods and implements used in each element of each trade there is always one method and one implement which is quicker and better than any of the rest”.⁷

Insight: The Fosbury Flop

In the 1968 Summer Olympics, a young man named Dick Fosbury revolutionized high-jumping technique. Using an approach that became known as the Fosbury Flop, he won the gold medal – in a new Olympic record height of 2.24 meters, or 7 feet 4-1/4 inches – by going over the bar back-first instead of head-first. Had he relied on “best practice”, as did all of his fellow competitors, he probably would not have won the event. Instead, by ignoring best practice he raised the performance bar for everyone. **THE BIG IDEA:** The purpose of a standard is to provide a kind of plumb line. Therefore that standard must be “What is possible?” and not “What is somebody else doing?”

This report contains a collection of practices that may be useful to agencies as they transform to new HR delivery models, roles, structures and methods. Because the usefulness of each practice will vary by agency, descriptors such as “best”, “leading”, “emerging”, “commonly-

⁶ “PROACTION.” <<http://www.proaction.net/bestpractices>>.

⁷ <<http://www.wikipedia.org>>.

accepted”, and “lagging” are not being used. In this report, the practices are simply labeled “practices”.

1.4 Shared Services and Outsourcing

Shared Services

Shared services is traditionally defined as an operational model in which services are delivered by business entities internal to an organization but which operate independently – Shared Services Centers (SSCs). SSCs:

- Operate as a business;
- Provide well-defined, process-based or knowledge-based services for more than one unit of a company (division, business unit, or agency);
- Have dedicated resources;
- Utilize contractual arrangements or service level agreements (SLAs) with their internal customers to define the type, scope, and price of the provided services; and
- Are fully responsible for managing costs, quality, and timeliness of services.⁸

Outsourcing

Outsourcing is traditionally defined as “the delegation of non-core operations from internal production to an external entity specializing in the management of that operation.”⁹ The buyer of outsourcing services engages in a formal, legally binding agreement with a third party to perform a service for an organization, taking internal functions and paying an outside firm to perform them. Outsourcing arrangements allow enterprises to:

- Save money in terms of lowering costs;
- Allow the outsourced function to more readily adapt to changing economic requirements; the function becomes a variable as opposed to fixed costs;
- Improve quality;
- Free company resources for other activities such as focusing more on competencies.

HR LOB Shared Services

Because of the *internal* aspect of shared services and the *external* aspect of outsourcing, trying to define shared services and outsourcing for the Federal Government produces an interesting challenge.

⁸ American Productivity & Quality Center. “Activity-Based Management 2000: Best Practices in Shared Services and Information Technology.” 1999.

⁹ <<http://www.wikipedia.org>>.

The HR LOB has selected a number of public sector SSCs to provide HR services for the Federal Government. Should a Federal agency choose to work with one of these Federal SSCs, one could consider it to be a *shared services arrangement* if one views the Federal Government as a single entity and various Federal agencies to be business units within the larger entity. OR, one could consider it to be an *outsourcing arrangement* if one considers Federal agencies to be enterprises external to one another.

The HR LOB has also evaluated private sector providers for their ability to provide HR services for the Federal Government. In the event a Federal agency selects a private sector provider – given the above definition of outsourcing – the concept of *outsourcing* applies.

To be consistent, the HR LOB uses the terms “Shared Service Centers” to refer to the operations of the public sector and the private sector providers. Similarly, the HR LOB uses the term “shared services” to refer to the services they deliver.

An important note: This report draws from a variety of sources, some of which discuss shared services and some of which discuss outsourcing. And because this report contains many quotations from these sources, the reader will see various terminologies. For the purposes of this report, “vendor”, “provider”, “supplier” and “Shared Service Center” are all used to designate the seller, or the provider of the service. “Buyer”, “business unit” and “customer agency” are used to designate the purchaser, or receiver of the service.

1.5 Organization of this Report

An agency’s move to shared services *may* be just one piece of a larger HR transformation for the agency. One fundamental tenet of this report is if an agency’s HR organization is going to invest the effort and resources to move some of its HR functions to a Shared Service Center, it should step back and assess its mission and how HR supports the mission of the agency. The key recommendation of this report is for agencies to not simply migrate to a Shared Service Center; but instead, to leverage this migration to transform their HR function.

Recommendation: Leverage the shared services migration to truly transform the HR function

Since the agency’s move to shared services may be just one piece of a larger HR transformation for the agency, this report places practices and benchmarks into a *transformational context*, organizing the practices into five sections, each of which corresponds to a phase of an HR transformation. This report is not a methodology; rather, it identifies practices that are applicable to each stage of transformation, or phase of a business transformation methodology, and contains a section for each stage (see Figure 2 below).

- Section 2: Assess – Laying the Groundwork for Transformation
- Section 3: Define – Designing the Future HR

- Section 4: Select – Establishing and Cultivating the Strategic Partnership
- Section 5: Migrate – Moving Toward the Future HR Service Delivery Model
- Section 6: Operate and Improve – Establishing a Culture of Continuous Improvement

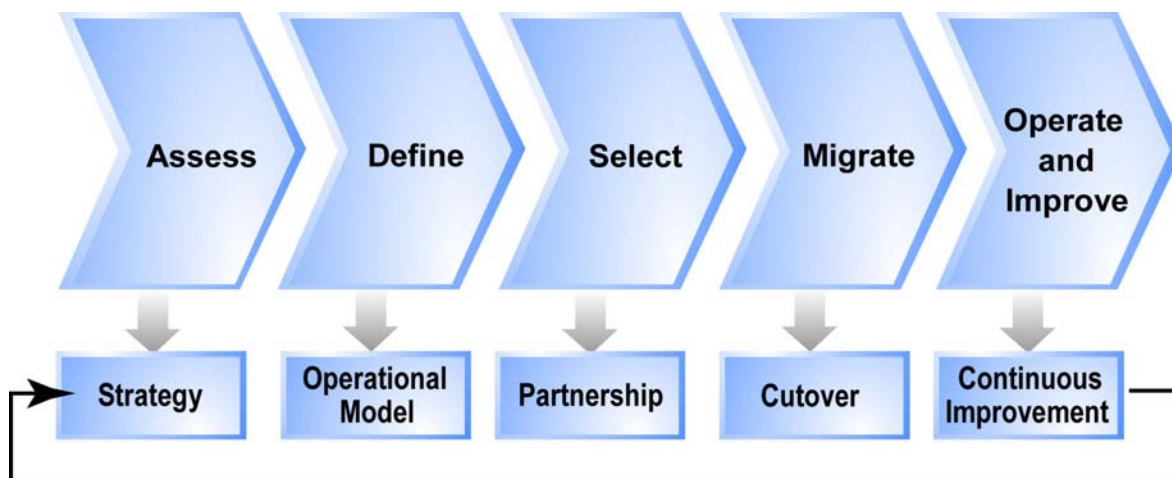


Figure 2: Practices Report Structure

Each section of the document contains the following sub-sections:

1. Context
2. Practices
3. Benchmarking

The Context sub-section of each phase describes the set of circumstances, facts, and overarching principles associated with each phase.

The Practices sub-section includes a collection of practices that may be useful to agencies as they transform to new HR delivery models, roles, structures, and methods. While all agencies and organizations are unique, best practices are often most valuable when they serve as a compass to navigate the “art of possibility” and then adapted to address the needs of individual transformation programs.

Finally, the Benchmarking sub-section provides sample metrics the reader can leverage to track and measure the performance of his or her organization. The benchmarks provided are not a comprehensive set of benchmarks; they simply provide insight into some common metrics used in HR transformation programs. Benchmarking offers the opportunity for organizations to overcome the tendency to continuously look internally for solutions and performance assessments and provides for the analysis of external methods, tools, and performance results. Emma Skogstad for APQC states, “For companies, embracing change

means seeking out and adopting best practices. Benchmarking – the research and analysis of quantitative, empirical data – is a way to isolate weaknesses and strengths and to make connections between best practices and performances. Once these connections have been made, determining which practices are appropriate for an organization to adopt becomes a competitive imperative.”¹⁰

1.5.1 Assess Phase

Many HR strategists agree enterprises cannot focus on strategic HR activities until they are effectively handling administrative and transactional operations. If HR operations are not running smoothly, HR personnel do not have the time or resources to focus on strategy. And, more important, the HR enterprise does not have the credibility to have a seat at the executive table. One way to shift the focus is to shift the burden, moving transactional administrative services and systems to a shared services environment and allowing agency HR resources to focus on more strategic activities. The overall objective of the Assess phase is to envision this strategic HR organization and understand the effort required to realize the transformation within the agency, via shared services.

This phase begins with a reconciliation of the HR mission to the mission of the agency. A future HR service delivery model and operating model are devised to reflect this vision, and decisions are made about which HR functions are to be moved to a shared services environment and which will be retained at the agency. Strategies are developed for IT and organizational change and an initial transformation roadmap is devised to lay out the overall effort and time frame to achieve HR transformation. HR transformation governance is established. A business case is developed to estimate overall costs and benefits and to make a projection about the breakeven point and return on investment.

1.5.2 Define Phase

Each agency will take its own approach to achieving its transformational objectives and moving to the shared services concept. The overall objective of the Define phase is to design a future HR operation that mirrors the Assess phase strategy and operating models and moves the agency toward shared services in a manner that makes sense for the agency while meeting the overall vision of the HR LOB. The results of this phase are used as a basis for the provider selection that is done in the next phase.

This phase begins with further definition of the HR service delivery and operating models. A concept of operations may be developed to define the future business processes, data, and performance measurement indicators. Detailed provider requirements are compiled and validated. A workforce plan is developed to understand the future competencies, skills and abilities required to excel in the new environment, and to compare them to current competencies, skills and abilities so that gaps and plans for closing gaps may be identified.

¹⁰ Skogstad, Emma: APQC. “Using Benchmarking Metrics to Uncover Best Practices.”

The organization readiness assessment and the business case completed in the Assess phase are refined to accommodate this new information. A change management plan is created to specify the effort required to move the agency through the transition to shared services.

1.5.3 Select Phase

The overall objective of the Select phase is to identify a product or service provider that meets the needs of the customer agency and to define and establish the strategic partnership between the two parties.

This phase begins with an effort on the part of the customer agency to proactively define a value-based selection process that will result in a successful partnership decision. The agency identifies applicable requirements and business rules that form the basis for the selection decision. The agency proactively drives its selection decision by gathering and evaluating information about the provider and evaluating the provider's performance and capabilities. A selection decision is made based upon predetermined criteria, the partnership is negotiated between the customer agency and its new business partner / provider, and joint governance is established.

1.5.4 Migrate Phase

The overall objective of the Migrate phase is to move toward the future HR service delivery model, transferring selected operations from the agency to the shared services provider with no disruption of service to customers – agency employees, managers and supervisors – while simultaneously managing the impact of the change upon the customer agency.

The phase begins with a migration strategy and plan that proposes an overall approach to migration and details the resources and time frames needed to move to the end state defined in the Select phase. Process designs are finalized and corresponding procedures and job descriptions are developed. A training strategy and training plan provide for equipping people to perform in this future state. A detailed project plan and data conversion specifications are developed, tested, and executed. During and after the migration, migration costs and lessons learned are gathered and analyzed.

1.5.5 Operate and Improve Phase

The overall objective of the Operate and Improve phase is to ensure providers are meeting service level expectations and to leverage performance experience to identify performance improvement projects.

During this phase, the customer agency and Shared Service Center work together to capture, report, and analyze performance data. The results of this performance analysis are used to identify opportunities for further improvement. The agency HR Transformation Roadmap is updated to include these newly-identified initiatives.

1.6 Downstream Use of this Report

This report is the result of a research scan of published reports, white papers, empirical studies, and Web sites. The intent of the scan was to uncover experiences other enterprises have gained that might be useful to Federal agencies as they move toward the new shared services-based mode of operation proposed by the HR Line of Business.

The scope of the report is limited to *HR shared services* and *HR service delivery* practices, benchmarks, and case studies. This report does not contain an exhaustive set of practices. Rather, practices were selected from the universe of HR practices because of their relevance to HR shared services and service delivery and because they should resonate in the Federal HR community. Sample benchmarks were selected to illustrate how they can be used to support each phase.

Additionally, because the scope of this report is HR shared service and HR service delivery, we have proposed that these new modes of operations can be a catalyst for transformation. This is not meant to imply, however, that this kind of shift is the only potential catalyst; HR transformation in fact can occur independent of any migration to outsourced service providers. Indeed, the HR function can be “truly transformed” with or without a migration to an outsourced service provider.

Agency HR executives are encouraged to use this report as a starting point for thinking about transforming their organizations. This report is intended to accelerate a productive conversation among strategists, designers, and change agents. But this report is just the starting point. Over time, Federal agencies will accrue real transformation experience and insight that must be shared with future transformation initiatives. In the future, the HR LOB may extend this report with lessons learned from Federal agency transformations and migrations and with additional information on how agencies should align their skills and competencies to a shared services environment. Other updates to this report may include a benchmarking study of the Shared Service Centers and payroll providers against industry benchmarks.

2 Assess – Laying the Groundwork for Transformation

Moving highly transactional administrative services and systems to a shared services environment will allow agency HR resources to focus on more strategic activities. The overall objective of the Assess phase is to envision this new, more strategic HR organization and understand the effort required to realize the transformation within the agency, via shared services.

Over the course of the Assess phase, the following key questions are addressed:

- What are the human capital and HR mission drivers that support the mission of the agency?
- What will HR look like in the future?
- How do we get from as-is to the to-be?
- Is there a viable business case for this HR transformation?
- Are we ready to do this?

This phase begins with a reconciliation of the HR mission to the mission of the agency. A future HR service delivery model and operating model are devised to reflect this vision, and decisions are made about which HR functions are to be moved to a shared services environment and which will be retained at the agency. Strategies are developed for IT and organizational change and an initial transformation roadmap is devised to lay out the overall effort and time frame to achieve HR transformation. HR transformation governance is established. A business case is developed to estimate overall costs and benefits and to make a projection about the breakeven point and return on investment.

Major Assess phase activities are outlined below. The agency is responsible for all of the results.

- Reconcile HR vision to agency mission and vision
- Gather detailed operational and administrative data
- Baseline current HR service delivery measures and metrics
- Identify applicable HR benchmarks, practices
- Devise and validate future HR service delivery model
- Describe retained HR scope of services
- Devise and validate HR transformation governance strategy; document governance charter
- Devise and validate HRIT strategy
- Develop agency HR transformation roadmap
- Perform organizational readiness assessment
- Devise and validate change management strategy, communication strategy

- Develop business case

The practices described in this section that support these Assess phase activities fall into two overall categories:

1. Transforming the HR function
2. Change management

2.1 Context

Results of a Society for Human Resource Management (SHRM) survey reveal perceptions of how HR professionals view the benefits of outsourcing some HR functions to a shared services-based operational model. This particular SHRM survey was sent to 2,000 randomly selected SHRM members. Of these, 1,619 emails were successfully delivered to respondents and 298 HR professionals responded, yielding a response rate of 18%.

The majority (75%) of respondents indicated that outsourcing allows HR professionals to focus on core business functions. Another 66 percent indicated that outsourcing allows HR professionals to spend more time on strategy development and execution, while 45 percent stated that it allows HR to be perceived as a strategic business partner. This viewpoint was especially apparent among HR professionals from large-staff-sized organizations, 64 percent of which had this opinion compared with approximately 40 percent of HR professionals from small and medium-sized organizations. SHRM also queried HR professionals if they agreed that the role of HR professionals could become more strategic with the outsourcing of transactional HR functions. 71 percent agreed with the statement. 50 percent indicated that they “somewhat agree” and 21 percent said they “strongly agree.” Only 14 percent of respondents disagreed.¹¹

Shared services has the potential for being a *transformation lever*. The Corporate Leadership Council declares HR “is at a crossroads ... and (HR professionals) must determine whether they are on a path to high performance or low impact.”¹² CLC contrasts *high performing* and *low performing* HR organizations in the following table:

¹¹ SHRM. “Human Resource Outsourcing; Society for Human Resource Management.” July 2004.

¹² Corporate Leadership Council. “Defining Critical Skills of HR Staff.” 2006.

| The Low-Impact, Low-Performance Administrative HR function | The High-Performing, Strategy-Setting HR Function |
|--|---|
| <p>1. HR Follows: The HR function has taken a supporting position in the organization by prioritizing the roles where it aligns to a business strategy and direction that others have set.</p> <p>2. Under-skilled Staff: HR staff lack the critical skills needed to make a business contribution:</p> <ul style="list-style-type: none"> • The organization has failed to focus on building critical skills. • The function is ineffective in the high-impact skill-building methods <p>3. HR Measures Input: The HR function is measured by its activities and processes, few of which create meaningful impact on business results.</p> <p>4. A Vicious Cycle: HR is an organization where careers stagnate, thereby deterring top talent and further depressing skill levels in the function.</p> | <p>1. HR Leads: The HR function has taken a leadership position in the organization by prioritizing the roles where it participates in setting business strategy and direction.</p> <p>2. Highly Skilled Staff: HR staff are highly skilled and effective in their mission-critical roles:</p> <ul style="list-style-type: none"> • The organization has focused its resources on building the <i>effective</i> skills—applying business analytics, applying performance and development expertise, and leading people. • The function takes full advantage of a diverse portfolio of high-impact skill-building methods. <p>3. HR Measures Impact: The performance of the HR function is measured by its leadership of the organization and contribution to business results.</p> <p>4. A Virtuous Circle: HR is a high-performing organization that serves as a magnet for top talent in the organization, thus continuing to build staff proficiency in critical skills.</p> |

Table 1: Low Performing HR versus High Performing HR

As stated in the Introduction of this report, one tenet that underlies this report is that if an agency’s HR organization is going to invest the effort and resources to move toward shared services, it should step back and really assess its mission and how it can better support the mission of the agency. Instead of simply migrating to a Shared Service Center, the agency should leverage this migration to transform HR to a high-performing, strategy-setting HR function. Thus, the key recommendation of this report:

Recommendation: Leverage the shared services migration to truly transform the HR function

The practices contained in this section may help agencies consider this shared services-driven transformation, envision where the HR function is going, and think through how they can get there.

2.2 The Practices

2.2.1 Transforming the HR Function

Practice: Understand what HR will be in the future

One firm recommends, “Define a clear vision, business strategy, and operating model.” Although this sounds very basic, respondents to a survey administered by Accenture “told of problems during implementation that could be traced back to planning that was either incomplete or not detailed enough. Nearly all spoke of the importance of spending the necessary ‘up-front’ time as an important lesson learned. A successful shared services implementation requires a vision that is clear from the outset, extends far beyond initial deployment of the solution, and is shared by stakeholders.”¹³

Many Federal agencies are already doing a very good job of matching HR mission, objectives, and strategies to the mission, objectives, and strategies of their agencies. This practice proposes agencies factor alternative HR service delivery models and operational approaches into their strategic planning and determine what the reinvented HR will look like. For example, will the overall size of the HR function be reduced: can HR “give back” resources to the agency to do agency mission-critical work? If HR is less transactional, can it be more strategic and more focused on problem solving and programs that align with the business requirements of the agency? Will HR be more flexible, adapting quickly to business requirements for new programs and service delivery needs? What can HR executives do to earn a seat at the executive table – with a strategic leadership voice?

More importantly, to really understand what HR needs to be, HR needs to understand *what the agency wants HR to be*. How, in the view of agency executives, does HR add value to the organization? How much does the agency have to spend on HR? How “high-touch” does the agency want HR to be? Can the agency afford this level of service? What services does the agency want HR to retain? What level of quality is expected?

Paul Adler, a management professor at the University of Southern California, recommends that enterprises use six dimensions to evaluate HR processes for outsourcing potential:

- *Dependency*. Are there specific assets that require dedicated facilities, equipment, capacity, training, or investments?
- *Spillover*. Is there confidential information or sources of advantage that could be leaked to competitors?
- *Trust*. Is there a positive relationship between the two organizations that could reduce transaction costs associated with contracting and monitoring?

¹³ Accenture. “Driving High Performance in Government: Maximizing the Value of Public Sector Shared Services.” 2005.

- *Competence.* Can greater vendor capability in process execution lead to improved results?
- *Core capability.* Is this process viewed as a differentiator for the organization in the marketplace?
- *Commitment / flexibility.* Is the process stable enough so that changes in capacity / technology are not required on a frequent basis?

Another source provides the following characteristics typical of shared service processes¹⁴:

- Few interfaces with other processes or technologies
- Geographical independence
- High degree of corporate-wide commonality
- Limited external customer dependence
- Limited product / business dependence
- Low financial or business risk
- Transaction-based activities

Gartner recommends that enterprises consider three factors when making shared services decisions: benefit potential, appropriateness of the new delivery model, and partnership potential (see Figure 3).¹⁵

¹⁴ Corporate Leadership Council. “HR Shared Services: Determining the Scope, Scale, and Structure.” May 2006.

¹⁵ Kost, John and Harris, Richard, Gartner, Inc.; Government Shared Services: Benefits, Risks and Challenges; August, 2004.

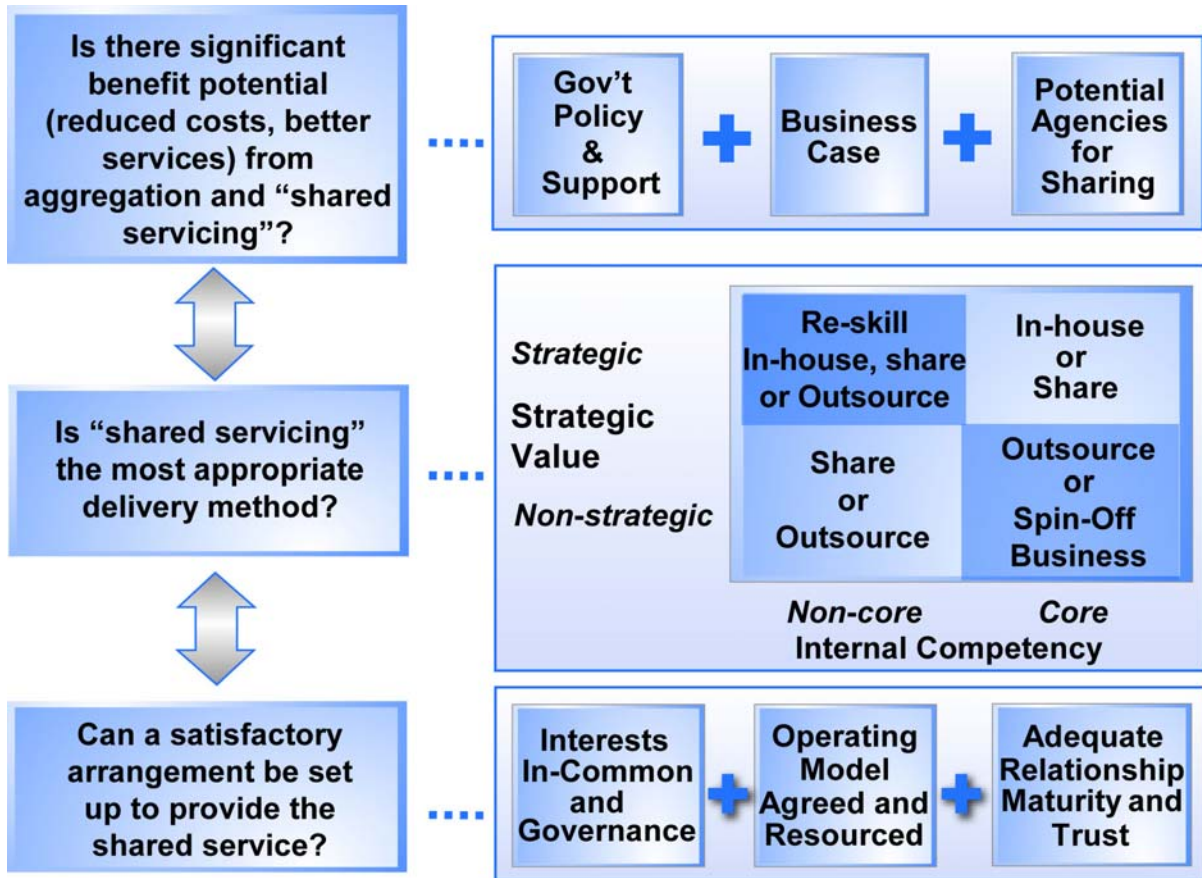


Figure 3: Shared Services Decision Factors

Sources vary as to how many functions to migrate initially. Many sources recommend evolving to shared services in a phased approach because small project scope reduces complexity and risk. One source, on the other hand, recommends including as much as possible in the initial scope because it maximizes the potential for cross-process synergies. It cites the following benefits:

The benefits of large-scale outsourcing from the *provider perspective* include the following:

- Leverages the power of integrated data and access channels (e.g., one web-based front end, one help-desk)
- Offers greater value-add by advising on middle management versus senior management
- Justifies investments more easily since investments can be shared across the cost base of multiple functions
- Enhances ability to apply “business intelligence” to alert client on potential trouble spots and better identify areas of improvement

The benefits of large-scale outsourcing from the *customer perspective* include the following:

- Manages the supplier to the real business impacts (e.g., performance / retention of new hires) versus just processing metrics (e.g., time to fill a hiring requisition)
- Spends more time on strategic HR issues (such as senior leadership development) versus administrative chores (such as resolving multiple supplier interface issues)
- Enhances speed and ease for system users (e.g., enter employee status changes once with automatic updates to all related databases)
- Captures cost benefits of supplier's economies of scope (including third party vendor management)¹⁶

Practice: Develop a firm understanding of how HR is delivered today

At this stage of the transformation program, key dimensions of the “to be” service delivery model have not yet been developed. Prior to fully developing the future state of human resources, leading organizations often take a critical and unbiased look at how HR is being delivered today. This analysis will uncover the true cost of delivering Human Resources today, HR's alignment within the organization, the ability to absorb change, and the true caliber of performance pertaining to people, organization, process, and technology. Multiple approaches exist to assess the current state of Human Resources, including the development of capability maturity models, gap analysis scorecards, analytical tools to measure data, and survey instruments. When used correctly, these tools provide the data to support the case for change and to determine what processes should migrate and when. Typically, if a process is low cost, high capability with a high service level, the organization needs to carefully consider retention. On the other hand, if the cost is high, and service levels are moderate or poor, the decision to outsource is clear.

*“If capabilities and service levels are low and the activities are not being performed in a cost-effective manner, the decision to outsource is clear.”*¹⁷

Assessing enterprise technology solutions invokes the same principles as assessing other performance dimensions. If the cost is high and performance is lagging as a result of maintaining and operating multiple legacy systems and interfaces, gaps need to be addressed in the development of the “to be” service delivery model.

Practice: Get HR out of the picture and empower your customers

The best HR processes eliminate HR from the picture. In other words, through self-service and workflow, employees and managers are empowered and enabled to manage their own

¹⁶ Kabrt, Richard, and Beth Ellyn Rosenthal: The Everest Group. “How to Make Full-service HRO Work for You.”

¹⁷ “Fortune in partnership with International Association of Outsourcing Professionals.” The Global Outsourcing 100. 2006.

data. This, coupled with the services provided by the SSC, allows HR to get out of transaction processing business – and focus more on strategy (see Figure 4).¹⁸

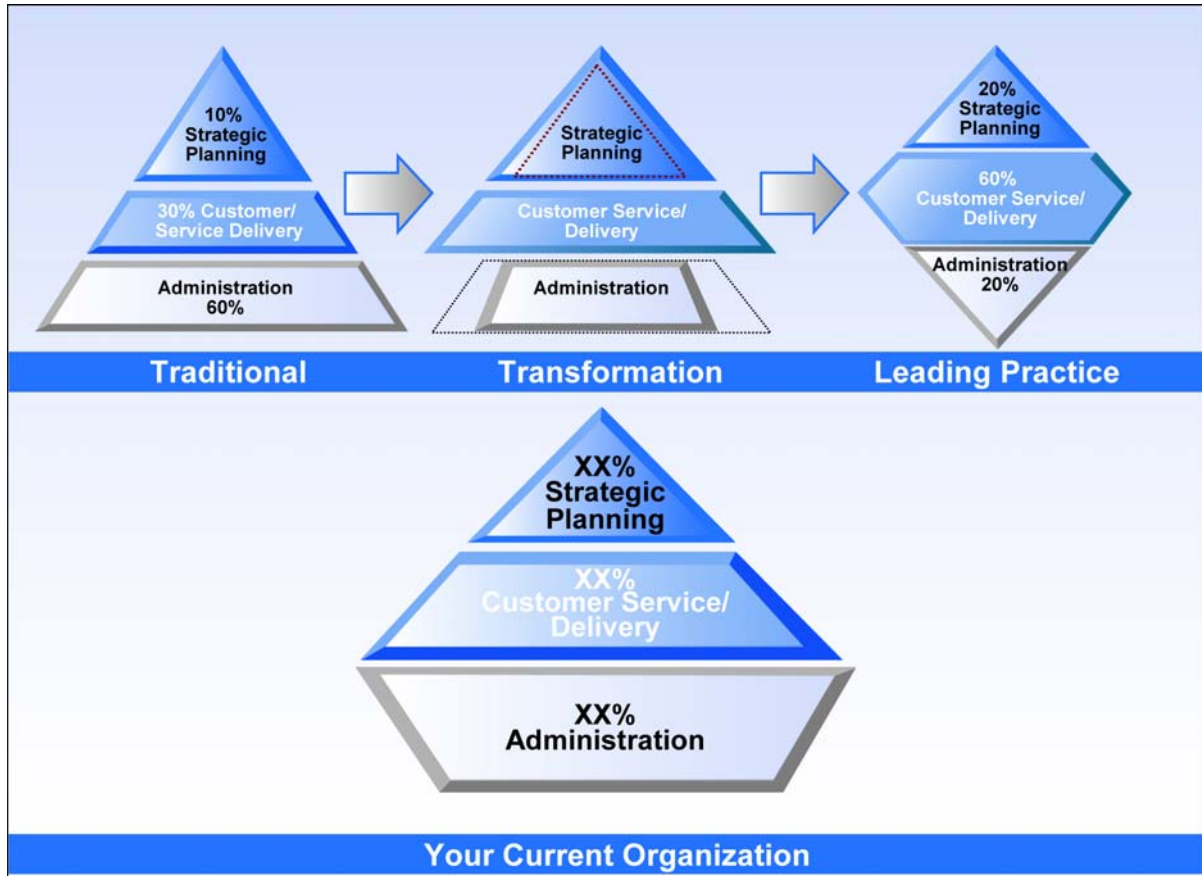


Figure 4: Inverting the Traditional Service Paradigm

Because fewer HR staff are needed to do administrative activities, more are available to focus on strategy and implementation of strategic initiatives. The HR function is turned “upside-down”, from a primarily administrative-centric function to a strategically focused one.

Practice: Describe the compelling need for change

Transformation efforts require tremendous resources – time, people, dollars, energy, and focus. A case for change that describes the business imperative for HR transformation can be used to convince people to allocate their limited resources. A case for change describes transformation in terms of how it supports the mission and strategic direction of the enterprise. It creates a “*burning platform*” by laying out the costs of failure and the benefits

¹⁸ Accenture. “Driving High Performance in Government: Maximizing the Value of Public-Sector Shared Services.” 2005.

of success. The burning platform established by the case for change can also *sustain* a transformation initiative – convincing people who are impatient for results to continue to allocate their limited resources.

An effective case for change is fact-based and written in a language that is understood by stakeholders. It reflects a thorough understanding of agency business drivers and lays out where HR is today compared to where it needs to be in terms of supporting the agency mission, cost versus quality, customer service, and competency profile of the HR staff.

Enterprises that have constructed a successful case for change around strategic HR transformation include the following three key aspects:

- *Cost reduction.* Increased pressure on HR budgets results in HR departments needing to outsource transactional processes, such as payroll, to provide services at a lower cost. A strategic HR structure results in more cost effective and efficient management with fewer employees but retains the ability to take on large scale projects rapidly. A large financial services company notes it went from a HR full-time equivalent (FTE) ratio prior to its service migration of 1:74 to a ratio of 1:131 three years later. The company reports an HR cost reduction of approximately 25% in the seven years since it moved towards a strategic HR model.
- *HR alignment with the business strategy.* Creating a strategic HR structure allows the HR function to participate as a strategic member tightly connected to the business rather than as a reactive and administrative function, and so best deliver value to the organization.
- *Resource optimization.* Profiled companies note a strategic HR model enables the function to take advantage of available HR technology solutions, including business process reengineering, and implementing employee self-service and management desktop solutions to free HR staff from transactional responsibilities.¹⁹

One source suggests that the case for a shared services operation needs to be a strategic one.²⁰ It must show a clear link to the business outcomes of the change program it supports, including:

- Improvement in front-office service levels
- Cost reduction through efficiencies
- Greater professionalism in service provision
- Introduction of standardized processes, infrastructure, and technology
- Generation of greater knowledge and understanding of the organization
- Fulfillment of departmental objectives

¹⁹ Corporate Leadership Council. “Centers of Expertise: Structures, Roles, and Career Pathing.” June 2005.

²⁰ “Shared Services in the Public Sector: Strategic Business Case” [The BuyIt Transformation Network](#) August 2006.

One source advises against putting too much focus on cost reduction. “Many people assume that privatizing will always yield savings. This notion presupposes ‘that government agencies are inefficient, whereas in many cases they are actually understaffed,’ points out New York City Fire Department’s Steve Rush. ‘Outsourcing would definitely improve service levels, but the baseline doesn’t reflect appropriate staffing needs.’ For all these reasons, it may be tough to justify outsourcing on a cost/benefit basis.”²¹

Practice: Construct a realistic business case

In addition to the case for change, many (perhaps most) organizations moving toward shared services also construct a classic financial business case for the initiative. The business case includes a projection of costs over time including:

- One-time implementation or migration costs
- Cumulative operating costs over time including both direct and indirect costs
- Systems and depreciation costs and amortization

The business case also includes financial benefits of the initiative and projects benefits streams over time. It matches costs to benefits streams to calculate the breakeven point – the point in time at which the initiative begins to turn a profit – and return on investment – net benefits over time. Business cases are difficult to develop. They require an understanding of the current cost structure of the HR organization plus a prediction of future cost structures. They also require a number of assumptions about benefits to be realized and – even more difficult – when those benefits will begin to be realized. The Federal appropriation process and other Federal financial management processes add a layer of complexity to public sector business cases.

A business case is used to justify transformation initiatives by showing a positive return on investment; it can also, however, be used to *enhance* an initiative. For example, initiatives can be shaped so benefits begin to accrue early on; the “low-hanging fruit” is picked early. Benefits from these early efforts are used to fund subsequent efforts; benefits from the next series of efforts fund subsequent efforts, and so on. Transformation initiatives in fact become *self funding*.

It may also be advantageous to perform a more qualitative benefits analysis. Using this approach, agency HR management team convenes to identify the business benefits of moving to shared services and the tangible business outcomes that might result. A benefits realization process is managed over time to track benefits realized and determine how to use those results to substantiate prior program efforts and justify future efforts.

²¹ The Conference Board. "HR Outsourcing in Government Organizations." 2004.

2.2.2 Change Management

Practice: Build a team that can deliver results

Critical to the success of any change effort is identification of an executive to serve as the executive sponsor of the transformation initiative – to personify the new vision and provide visible, vocal support. This senior level executive *legitimizes* the business change across the enterprise because he or she has sufficient authority to set goals and cascade these goals throughout the enterprise. The sponsor works to ensure the enterprise’s leadership team is committed to the transformation, balancing consensus with unilateral decision making.²² This individual also builds and sustains political support for the change. The sponsor must buy into the transformation roadmap – the overall scope and timeline of the change – and make sure this information is thoroughly communicated. A number of experienced practitioners even recommend setting specific change-related targets and incentives to focus change leaders on effecting successful change in the organization.

*“Successful shared services implementation requires a strong executive champion who leads by example, with words and actions.”*²³

Enterprises that have successfully managed complex change efforts do not take change leadership for granted. They have instituted change leadership programs in which change leaders are identified and taught change leadership concepts and techniques. John Kotter, a recognized leader in organization change management and author of *Leading Change*, states that “Change, by definition, requires creating a new system, which in turn always demands leadership.” One source cited, in fact, that lack of change leadership skills is *the biggest challenge* for those organizations implementing shared services.²⁴

When an organization faces major change, it is important for the leadership team to clearly communicate and support the change and its impact on stakeholders.

*“Outsourcing doesn’t work overnight. It has to be tweaked and nurtured over time. For this reason it needs the support of top management, who can provide the commitment and company resources that outsourcing requires.”*²⁵

The purpose of the change leadership program is to develop and implement a plan that delineates the steps to be taken for utilizing key people to promote change. The change

²² “Reshaping the Corporation: Emerging Best Practices in Shared Services; American Productivity & Quality Center.” 1997.

²³ American Productivity & Quality Center. “Reshaping the Corporation: Emerging Best Practices in Shared Services.” 1997

²⁴ Accenture. “Driving High Performance in Government: Maximizing the Value of Public Sector Shared Services.” 2005.

²⁵ “Fortune in partnership with International Association of Outsourcing Professionals.” The Global Outsourcing 100 2006.

leadership program addresses the issues and concerns of agency employees regarding the HR transformation by anticipating needs, developing action plans, and educating key people in their role as a change leader. The executive sponsor spearheads this change leadership program.

Develop and implement a plan for identifying *change agents* for an extended change management team and teaching these individuals how to be effective advocates of change:

- Identify change leaders and define change leadership roles
- Assess change agents in terms of their willingness and capability to perform change leadership roles and in terms of their degree of influence
- Develop change leadership action plans
- Execute against plans and track and report progress

“Even an enthusiastic leader will not be able to push the change through without the fundamental skills to do it.”²⁶

Transformation initiatives in the public sector can face vital political challenges. Political forces can create barriers and public sector enterprises that have successfully implemented shared services “spoke of the importance of having a strong political mandate to drive the transformational change shared services fundamentally implies. As Mike Burnheim, creator of the Shared Services Initiative, for the State of Queensland, Australia, described, ‘You won’t get agencies to magically coalesce’ without it.”²⁷

²⁶ Accenture. “Driving High Performance in Government: Maximizing the Value of Public-Sector Shared Services.” 2005.

²⁷ IBM. “Shared Services – Driving UK public sector transformation and revitalization.” 2006.

Case Study: Gwinnett County Public Schools

Over the course of 2002 – 2003, Gwinnett County Public Schools implemented PeopleSoft’s HR and Payroll modules. They leveraged this technology implementation into a full-scale HR transformation, redesigning many processes and reshaping many roles to accommodate the new technology. The Gwinnett project is widely regarded throughout the education industry as a highly successful business transformation initiative.

To head the HR transformation team, they hired their recently retired HR Director. This individual previously led the school district’s HR management team for many years. This experience provided him with the strategic insight, operational knowledge, and relationships that were critical to the success of the HR transformation initiative. Gwinnett invested in transformation leadership, and the investment paid off.

Practice: Ensure clarity of direction

Make sure the vision is understood in operational terms by the employee communities so they can anticipate the changes, make sound long-term decisions, and make shorter-term decisions that are compatible with the vision. For any vision to be achieved, personnel throughout the enterprise must understand what is changing and be ready, willing, and able to adapt to new ways of doing business.

Recognize that multiple change programs may compete for resources. People tend to have limited capability to absorb change and multiple change programs may be more than people can handle. Adopt a “single program focus” and try to eliminate competing programs or align and consolidate them into a single change program.

Practice: Establish a formal change management program

Anticipate the changes associated with the transformation and take a holistic approach to addressing change issues. Identify and manage measurable goals. Define transformation project goals and identify achievable milestones. Track progress and communicate results. Celebrate success.

Build a roadmap for change, identifying all the process changes, organizational changes, technical changes, infrastructure changes, and governance that must take place during each stage of transformation. Identify issues and risks and ensure activities are included to manage and mitigate issues and risks. The roadmap will enable the enterprise to:

- Embrace the need for change
- Establish a pace for change that the enterprise can sustain
- Mitigate risks associated with the transformation
- Promote buy-in and sponsorship from key stakeholders
- Provide an environment across the enterprise that institutionalizes change
- Manage the transition to the future end state

Practice: Ensure targeted, effective communications

Put into place a formal communications program that orchestrates consistent communication about the transformation over time and across various audiences inside and outside the enterprise. Ensure communication needs at the individual employee level are being met. Put effective two-way communication mechanisms into place. Leverage successes to accelerate additional change.

Change-related communication can serve at least two purposes: it creates *awareness* and it builds *commitment*.²⁸ Many organizations are reticent to communicate until details are finalized and approved. This is particularly true in the public sector environment where officials place accountability high on their agenda. However, effective communication is critical to the success of any change initiative – at every step of the initiative. Change leaders cannot delay change-related communication, waiting for details to be perfected. Voids in communication allow for distorted assumptions, miscommunication, and opportunities for uncommitted employees to undermine the change initiative.

An effective communications program is essential to the success of any business initiative. The information must be timely, meaningful, and linked to both the transformation objectives and agency business objectives. Sponsors and stakeholders must support the communications efforts. Because this transformation program will produce changes to the current work environment, it is essential that a structured communications approach is created to address the changes before, during, and after the completion of each project segment.

The communications program creates a group of integrated activities for planning, developing, and managing project-related communications. It is designed to build stakeholder acceptance and provide support – both internally and externally – for the changes that arise from the transformation.

The communications program:

- Identifies messages needed to provide clear and timely exchange of information
- Determines the media to use to bring specific information to the agency as well as other external stakeholders who need information

²⁸ American Productivity & Quality Center. “Reshaping the Corporation: Emerging Best Practices in Shared Services.” 1997.

- Organizes media and messages into campaigns that correspond to transformation milestones, progressively building from awareness to acceptance
- Facilitates and influences the motivation for change to enable users to institutionalize change at the desired pace with minimal resistance
- Defines measurable objectives for communication effectiveness
- Builds feedback mechanisms for gaining continuous information about how the change efforts are perceived by the stakeholder groups
- Plans, builds, and maintains the level of active participation with the understanding and commitment necessary to achieve successful change

An effective communication program is a two-way program. Information is provided, and information is sought. Listen to employees and other stakeholders to gain an understanding and appreciation of their concerns, their apprehensions, and misinformation. Communication content can then be shaped to address all of this.

Practice: Encourage broad-based expert participation

An HR transformation initiative presents significant design challenges and organizational and change management issues. It is quite important top talent be involved from the beginning and through the duration of the initiative. Although it is clearly quite difficult to release top talent from their day-to-day responsibilities, enterprises must demonstrate commitment to the initiative and dedicate top talent. Have employees who will be *affected* by the change *actively involved* in designing the change. Involve subject matter experts and customers in focus group sessions to understand their point of view and factor it into the solution.

Select full-time program team members to be responsible for transformation from inception to completion. These team members have demonstrated proven ability to execute complex solutions and effectively implement enterprise-wide programs. The team is comprised of top performers.

*"The high performers were much more likely to plan proactively and to execute HR outsourcing and retained HR redesign in an integrated way."*²⁹

In addition to identifying key talent to manage and implement a transformation program, it is equally important to incentivize the team. Best practices research suggests rewarding program members for the achievement of program milestones. A successful implementation greatly increases the likelihood of realizing program benefits and increases retention of top talent.

Communicate with and work with union leadership from the onset to help foster a willingness to accept change. Helping union leadership and members understand the benefits

²⁹ "Designing Retained HR to Complement Outsourcing; Society for Human Resource Management." 2006.

of transformation before any changes take place will help to alleviate some resistance. Be sensitive to the fact that when individual employees are unhappy with any change, their first call is typically to the union, not to their supervisor or project office. If the union can accept the vision, it can serve as an advocate of change to its members.

2.3 Benchmarking During the Assess Phase

During the Assess phase, benchmarking can be used to drive transformation. Enterprises use benchmarks to identify other enterprises that have been successful. They then look *behind the numbers* to understand the practices those enterprises have put into place to achieve that success. And they sift through those practices to identify practices that may work in their own enterprise. Strategic benchmarks are thus one means to identifying practices that have the potential for transforming the enterprise. They also provide a starting point for thinking about results. Once the practices are implemented, the enterprise can set performance goals based on the benchmarks and then over time, track performance against its own goals – and against external benchmarks.³⁰

For example, HR FTE ratio is often cited as an important strategic benchmark. It shows the average number of employees serviced by an HR employee. The total number of FTEs in an organization is divided by the total number of HR employees. In isolation, this number means very little. The real significance lies in the practices that lead to high-servicing ratios. How do enterprises with high ratios configure their business processes? What technology do they have to support the business processes? What do they do with employee self service, manager self service, portal technology? What is their HR service delivery model?

“Although metrics are useful, it is important to also look at the facts behind the numbers. Simply knowing that cost per full-time employee (FTE) is higher than the industry average, for instance, will not help an organization improve its performance.”³¹

Research done by Saratoga Institute resulted in the following benchmark data for *HR FTE ratio*. The formula Saratoga uses to calculate HR FTE ratio is: Regular FTEs divided by direct HR FTEs. The median HR FTE ratio is 1:89 for all enterprises surveyed. That is to say, the enterprise has 89 employees for each HR employee. The median HR FTE ratio for public sector enterprises surveyed is 1:70.³²

(Note: All refers to all companies providing results data including private sector, public sector [when available], and non-profit [when available].)

³⁰ Skogstad, Emma: American Productivity & Quality Center. “Using Benchmarking Metrics to Uncover Best Practices.”

³¹ Skogstad, Emma: American Productivity & Quality Center. “Using Benchmarking Metrics to Uncover Best Practices.”

³² Saratoga. “U.S. Human Capital Effectiveness Report.” December 2005.

| | 10 th | 25 th | Median | 75 th | 90 th |
|---------------|------------------|------------------|--------|------------------|------------------|
| All | 57 | 68 | 89 | 120 | 152 |
| Public Sector | 49 | 54 | 70 | 82 | 104 |
| Non-profit | 60 | 89 | 110 | 142 | 168 |

Where cost is a bigger concern, enterprises look at *HR spend per FTE*, which shows dollar amount invested in HR for each employee. Organizations track this investment over time to see if increases or decreases can be correlated to changing workforce patterns and structures. According to Saratoga, the formula for HR spend per FTE is: the sum of direct HR costs and indirect HR costs divided by number of regular FTEs. The median is for all enterprises surveyed: \$1,519. The median for public sector enterprises is lower: \$1,423.³²

| | 10 th | 25 th | Median | 75 th | 90 th |
|---------------|------------------|------------------|---------|------------------|------------------|
| All | \$729 | \$1,027 | \$1,519 | \$2,202 | \$3,764 |
| Public Sector | \$363 | \$1,015 | \$1,423 | \$1,964 | \$2,211 |
| Non-profit | \$601 | \$752 | \$1,028 | \$1,425 | \$1,983 |

HR expense percent provides visibility into what organizations are spending on HR. It can be used to show the relatively low cost of HR, particularly when data showing the effectiveness of the HR organization can also be provided. According to Saratoga, the formula for HR expense percent is: direct HR costs divided by total operating costs. The median is for all enterprises surveyed is 0.56%. The median for public sector enterprises is 1.02%.³³

| | 10 th | 25 th | Median | 75 th | 90 th |
|---------------|------------------|------------------|--------|------------------|------------------|
| All | 0.19% | 0.37% | 0.56% | 0.88% | 1.35% |
| Public Sector | 0.55% | 0.58% | 1.02% | 1.39% | 1.64% |
| Non-profit | 0.29% | 0.49% | 0.58% | 0.83% | 1.34% |

³³ Saratoga. "U.S. Human Capital Effectiveness Report." December 2005.

3 Define – Designing the Future HR

Each agency will take its own approach to achieving its transformational objectives and moving to the shared services concept. The overall objective of the Define phase is to design a future HR operation that mirrors the Assess phase strategy and operating models and moves the agency toward shared services in a manner that makes sense for the agency while meeting the overall vision of the HR LOB. The results of this phase are used as a basis for the provider selection that is done in the next phase.

Over the course of the Define phase, the following key questions are addressed:

- How will HR services be delivered in the future?
- What will our to-be processes look like?
- What is our target service delivery model?
- What skills and competencies will our workforce need?

This phase begins with further definition of the HR service delivery and operating models. A concept of operations may be developed to define the future business processes, data, and performance measurement indicators. Detailed provider requirements are compiled and validated. A workforce plan is developed to understand the future competencies, skills, and abilities required to excel in the new environment and to compare them to current competencies, skills and abilities so that gaps and plans for closing gaps may be identified. The organization readiness assessment and the business case completed in the Assess phase are refined to accommodate this new information and a change management plan is created to specify the effort required to move the agency through the transition to shared services.

Major Define phase activities are outlined below. The agency is responsible for all of the results.

- Develop detailed requirements for in-scope processes
- Evaluate workforce to develop workforce plan
- Revise organization readiness assessment
- Develop change management plan
- Devise and validate training strategy
- Develop performance framework and service level management process
- Revalidate the HR IT Strategy against detailed requirements
- Refine business case to incorporate additional information

The practices described in this section that support these Define phase activities fall into two overall categories:

1. Defining the role of shared services

2. Defining the retained HR organization

3.1 Context

The Define phase is the link between the case for change developed during the Assess phase and the informed value-based decision made during provider selection. It is during this phase that the high level assumptions made during the previous phase are validated and a more detailed vision of the HR organization is described. There are two dimensions to this vision. The first dimension involves the new service delivery model and begins to specify the processes and roles that will be shifted to a provider. The second dimension involves the retained HR organization and begins to specify what this organization is to become.

During the Define phase, the agency will conceive the HR operational model and design a service delivery model that clearly supports the drivers identified in the case for change. The agency conceives an end-to-end design and considers the steps necessary to implement these designs. This phase specifies how shared services can support the enterprise and meet the enterprise's business case imperatives.

Define phase activities build on Assess phase outcomes. During the Assess phase, the *concept* of the HR function is established. The strategic direction of the HR function is agreed upon and new operational and delivery models are devised. During the Define phase, the concept is expanded into *design points* for the scope of the design effort. Multiple Define phase initiatives may be identified to accomplish the strategic outcomes outlined during the Assess phase. The challenge around scoping these efforts lies in finding the right balance between meaningful outcome and manageable scope.

It is important to note that many design decisions will be revisited with the provider – after the provider selection decision is made. However, this phase allows for the specification of detailed requirements that provide the *basis* for value-based provider selection – before the selection takes place.

3.2 The Practices

This section addresses two dimensions of the *Define* effort:

- Defining the role of shared services – preparing the organization for the eventual transfer of people, processes, and / or technologies to the service center
- Defining the role of retained HR – determining what the remaining HR function can become

3.2.1 Defining the Role of Shared Services

Practice: Be proactive in designing your future service delivery model

This practice proposes that the enterprise produce a high level service delivery model design that supports its business drivers for shared services. During the subsequent selection process, then, provider capabilities can be evaluated against this high level design to identify providers that can perform against the business drivers.

Services are typically delivered via a four-tiered model:

- *Tier 0.* The **Direct Access** tier enables the user to perform an action related to the task or activity without any direct involvement or guidance from another person. This environment provides the capability for managers and employees to directly enter and receive data.
- *Tier 1.* The **Call Center** tier enables the user to speak to a Human Resource generalist who utilizes scripts and knowledge base to respond to a wide variety of questions and issues. If necessary, a call center human resources generalist may escalate a call to a subject matter expert.
- *Tier 2.* The **Subject Matter Expert** tier interprets policy to respond to escalated issues and questions. The subject matter expert usually has a specialized experience or knowledge in a specific topic that the service component is related to (e.g., benefits processing) and is typically empowered to make routine or low risk decisions. A subject matter expert may escalate a question or issue to the decision maker.
- *Tier 3.* The **Decision Maker** tier responds to complex issues, questions, and critical incidents. The decision maker interprets policy and has decision-making authority around complex issues, questions, and critical incidents. The decision maker also maintains operational oversight and focuses on employee satisfaction.

During the Define stage, decisions are made about what processes will be primarily supported by which tier, what percentage of process volume will be performed by each tier, and which services are maintained by these processes. Lower tiers have lower costs; designers face the challenge of balancing cost with customer service. One principle that often proves useful to service delivery planning discussions is: "... service delivery should be *innovative* – encouraging innovation in the use of tools and technology – but also *realistic* – acknowledging that each user type's propensity for certain behaviors."

Private sector enterprises have achieved significant use of Web-based facilities to drive down costs, while retaining positive customer satisfaction. Following are some representative results:

- Direct access (Tier 0) handles 80% to 90% of service requirements
- Call center (Tier 1) handles 10% to 20% of service requirements
- Subject matter expert (Tier 2) handles 1% of service requirements

- Decision maker (Tier 3) handles 0.1% of service requirements

Analytical tools can be used to predict and plan for service demand.

Practice: Build analytical tools to predict future workload and staffing forecasts

To effectively define the workload migrating to a shared services organization during a transformation, leading organizations use quantitative approaches to forecast the workload for both migrated and retained staff. The Corporate Executive Board cites typical approaches to workforce planning:

- *A workforce analytics approach* – mining both current and historical workforce data to identify the key relationships among the variables and between employee and business data. Dow Chemical has used this approach throughout a 10-year evolution of its workforce planning process.
- *Forecasting and scenario modeling* – using data to create forecasts that incorporate multiple what-if scenarios. These various scenarios enable executives to evaluate strategic options. One study describes how a "major bank" decides where to locate a new call center based partly on this approach.
- *Human capital planning* – used by Corning and others to segment jobs on a basis of their "mission-criticality", making different levels of workforce investment in each segment. This approach focuses on broad three- to four-year trends rather than precise headcounts and short-term plans.

Practice: Focus on the business first, technology second

As companies transition to a strategic HR model, all processes must be reviewed in the context of the new model; new process designs propose *standard* processes that support the future service delivery model. Functional requirements are compiled to augment the process design. Process analysis should provide a description of the current process and a specification of the future standardized process. The new design should accommodate a majority of cases; exceptions should be a secondary concern at this early point. Additionally, while individual units within an enterprise may have unique business rules underlying their processes, the processes should not vary to accommodate individual units.

During the analysis of processes and activities, the level of detail will depend on the time allocated for this activity. It is not necessary to have a perfect as-is analysis, but one that provides enough insight to validate business case measures. Typically, the as-is analysis should provide enough detail to develop cost and workload estimates associated with the activities being analyzed.

To achieve the financial and operational benefits outlined in the business case, organizations must choose the process improvement approach that is ideal for achievement of the service

delivery model. In *Shared Services*, Donniel Schulman defines process reengineering as, “Fundamental analysis and radical redesigning of business practices and management systems, job definitions, organizational systems, and beliefs and behaviors in order to achieve dramatic performance improvement.” Schulman goes on to define Process Design as, “Changing strategic value-added business processes and the systems, policies, and organizational structures that support them, in order to optimize productivity and the flow of work.”³⁴

“Although process reengineering is not a requirement of engaging in shared services, process redesign is a requirement at some point in the journey to a full operational shared services organization ... Reengineering processes can play a key enabling role in moving to a shared service method of operation.”³⁵

As enterprises envision the future HR organization, certain considerations should be addressed. These considerations will ultimately be addressed with the selected provider, subsequent to selection. It is important, however, to consider these factors early on.

- At what point will activities be migrated to the Shared Service Center:
 - Early on, transforming the process first (standardize, then consolidate the process)
 - During IT system implementation
 - At outset of new HR delivery model (consolidate first then reengineer the process once it is in shared services)
- Will agency employees working in disparate locations transition to the Shared Service Center once agency processes migrate?
- Will agency personnel transition to private sector firms if HR processes are migrated to private sector companies?

Some sources recommend the distribution of SSC personnel throughout customer sites.³⁶ They assign a (limited) number of staff members to work directly with – and as dedicated agents for – a particular business unit. The staff members may even be co-located with business unit personnel. Providers, however, are advised against dedicating a large number of employees to a single business unit.

Practice: Plan early for technology

Technological advances have had a tremendously positive impact on employee service delivery in recent years. Research indicates HR service delivery and technology have in fact *merged* – through the use of Web-based portals, self-service, and workflow – allowing

³⁴ Harmer, Martin J., and Donniel S. Shulman. “Shared Services: Adding Value to the Business Units.”

³⁵ Harmer, Martin J., and Donniel S. Shulman. “Shared Services: Adding Value to the Business Units.”

³⁶ American Productivity & Quality Center. “Reshaping the Corporation: Emerging Best Practices in Shared Services.” 1997.

employees and managers to access information and perform tasks at their convenience – 24 hours a day. Service providers also reap benefits through advances in technology. Customer service representatives now utilize case management software, business unit-specific knowledge bases, and automated scripts to field more complex calls and spend more time helping employees.

One source cites the *data integration* that can result from shared services as being a key benefit of transformation to shared services.³⁷ Since cost reduction plays a less important role in the public sector, data integration may in fact be the key benefit realized from public sector shared services transformations.

Although ubiquitous today, research indicates that use of Web-based systems that integrate data from multiple sources for decision making, data sharing, and routine transactions will grow even more dramatically in the years ahead.³⁸ Because technology is integral to many service delivery models and because of the time it takes to acquire, configure, and deploy technology, technology initiatives are on the critical path to transformation. Enterprises must recognize this and plan early.

Case Study: International Paper

One lesson learned from the transformation at International Paper involves timing of portal development. They advise others to focus on the portal at program onset, claiming, “The biggest surprise was the timing for rolling out the portal. ‘Consultants and others told us to do the portal after we got live with SAP... However, as the team started to look at process changes, it became evident that security, user interface and other portal features had to be tackled sooner rather than later. We pushed the timing forward.’”

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A *transformation roadmap* can be a useful for planning large-scale initiatives with multiple dependent parts. It lays out the various initiatives that must occur over time, showing overall timeframes, dependencies, and responsibilities.

³⁷ The Conference Board. “HR Outsourcing in Government Organizations” 2004.

³⁸ Corporate Leadership Council. “Fact Brief - Centers of Expertise: Structures, Roles, and Career Pathing.” June 2005.

³⁹ Goolsby, Kathleen: The Everest Group. “Impact of Best Practices in Outsourcing Arrangements.”

3.2.2 Defining the Retained HR Organization

Practice: Align HR with the business strategy and invert the traditional HR paradigm

The view of HR becoming a *strategic partner* is at the heart of transformation. As HR organizations evolve, fundamental changes are taking place with regard to how human resources are managed. HR organizations are becoming more strategic and more complex. And, ironically, they are simultaneously being forced to become leaner. The resulting question is: how can HR be organized to assume this new role and while best leveraging the existing human capital within HR. (see Figure 5)

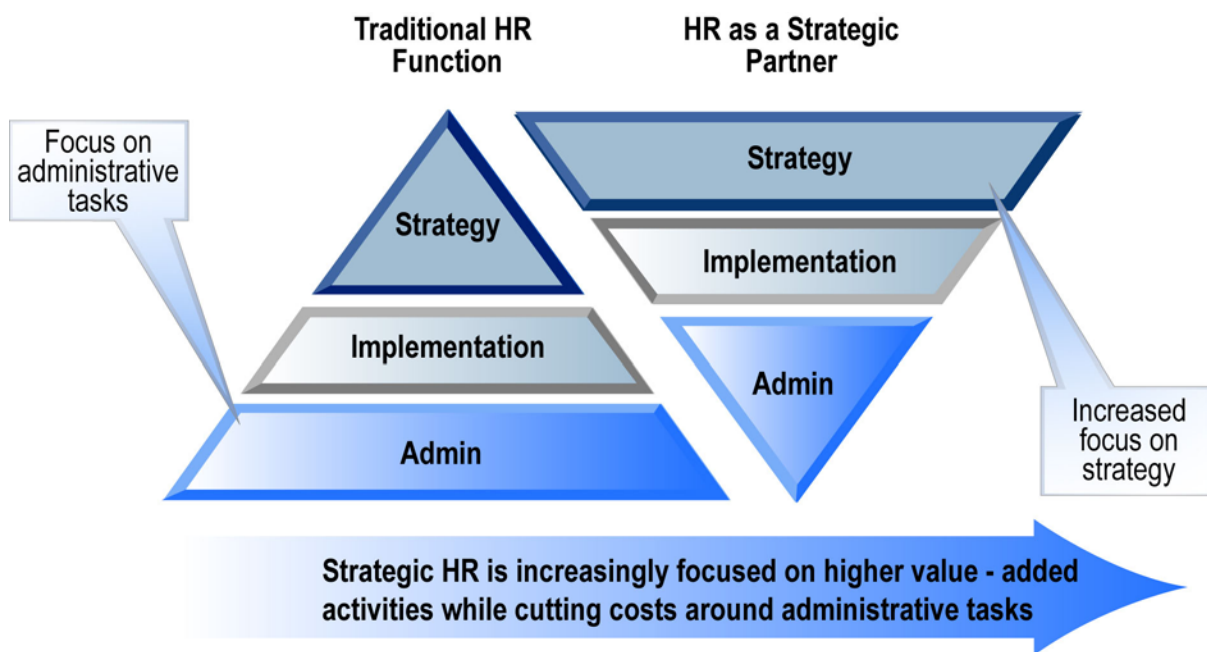


Figure 5: Evolving into a Strategic Partner

Transforming HR implies *inverting* administrative workload with strategic capability. Creating a strategic HR structure enables the HR function to participate as a strategic member tightly connected to the business rather than as a reactive and administrative function, thus delivering best value to the organization.

" ... Strategic HR leverages human resource activities, services, and technology with the overall direction, goals, and objectives of the businesses that we support. ... It is characterized by being forward-thinking, proactive, and most of all creative. That is in contrast with a non-strategic approach, in which HR is reactive and generally adds little

*business value outside of performing day-to-day transactional activities.*⁴⁰

Case Study: Monsanto

Theresa McCaslin, vice president of Human Resources at Monsanto and a member of the group that formed Monsanto Business Services (MBS), has witnessed the transformation of the organization's human resources function from being merely an implementer of business strategy to becoming a full partner in helping create business strategy.

With transactional duties now being contracted to shared services, HR has a more strategic staffing and advisory role, facilitating the people-portion of long-term planning that supports business growth and the company's goals. HR also puts strategic teams together, enabling people to work through change. McCaslin says, "Instead of solving a benefit or payroll problem, or moving people from one position to another, we are analyzing strategic issues and asking how can we utilize the people resources of Monsanto, creating opportunities for them and, in turn, benefiting the organization."

Practice: Build a strategic HR organization

Many enterprises that move toward shared services concurrently deploy a new, more strategic structure for the retained HR organization. This structure includes Centers of Expertise and the HR Business Partner.

Centers of Expertise focus on strategy formulation and strategic direction for particular areas of focus. They also typically design and deploy the processes, roles, technologies, and other enablers that operationalize these strategies. Responsibilities of a Center of Expertise include:

- *Policy* – ownership for policy engineering, expertise in setting policy, and strategy alignment
- *Process* – responsible for improving the design of processes within the company
- *Knowledge Management* – responsible for competency knowledge and knowledge development, sharing practices within the organization and with external organizations, and providing HR information to support programs across the enterprise⁴¹

⁴⁰ Society for Human Resource Management. "The Look and Feel of Strategic Human Resource Management: Conversations with Senior HR Executives." 2006.

⁴¹ Corporate Leadership Council. "Centers of Expertise: Structures, Roles, and Career Pathing." June 2005.

HR Business Partners typically address the implementation and rollout of HR policies, programs, and processes at the business unit level, often serving as consultants to the business unit on strategic HR-related issues. Responsibilities of HR Business Partners include:

- *Business Unit Consulting* – partners with business unit as HR consultant on strategic HR-related needs and is accountable to meet business unit expectations
- *HR Representation* – represents HR and provides people management and other HR services to the rest of the organization
- *Process and Policy Implementation* – aids in facilitating projects in the business units and implements and rolls out projects at the business-unit level using business-specific knowledge⁴²

The third component of this strategic structure is HR shared services, which handles administrative services and provides the infrastructure required to support these administrative services.

This division of responsibility allows each component to focus on their area of responsibility, conceivably improving effectiveness and overall quality.

Practice: Focus on competencies

Leading companies look to the future to determine the overall set of HR competencies they will need to make the strategic HR organization successful – and devise a *strategic workforce plan* to build those competencies. The Corporate Leadership Council identified 16 critical skills for Human Resource personnel and then surveyed Chief Human Resources Officers about their staffs' capabilities. Responses were relatively favorable in more traditional HR areas (e.g., recruiting and retention, compliance, compensation) and in “people management” areas (e.g., influencing others, leading people, communicating clearly) but less favorable in some areas that might prove critical to the new more strategic HR structure (e.g., managing change, applying technology, applying business analytics).⁴³ (see Figure 6)

⁴² Corporate Leadership Council. “Centers of Expertise: Structures, Roles, and Career Pathing.” June 2005.

⁴³ Corporate Leadership Council. “Defining Critical Skills of Human Resources Staff.” 2006.

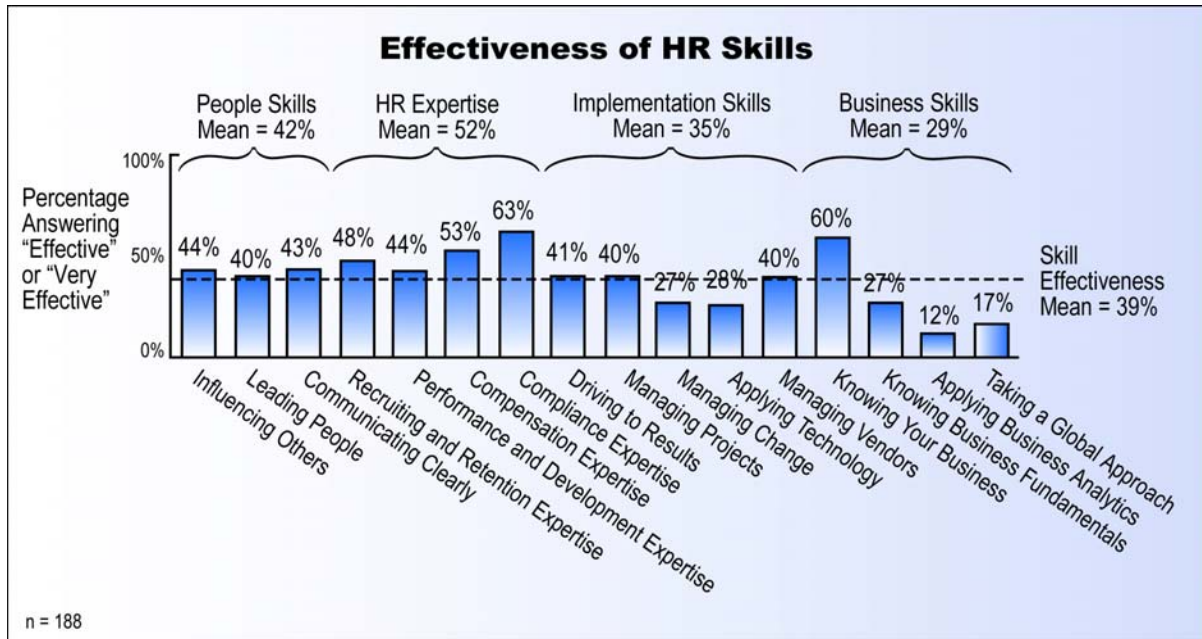


Figure 6: Effectiveness of HR Skills

A strategic workforce plan focuses on competencies rather than FTE budgets and organization structures. Existing competencies are compared to the competencies required for the new more strategic HR organization. It lays out a plan for how any competency gaps can be narrowed.

The U.S. Office of Personnel Management's Human Capital Assessment and Accountability Framework (HCAAF) defines *standards for success* for Human Capital management for the Federal Government. One standard requires that "workforce strategies be based on identified current and future human capital needs, including size and deployment of the workforce and the *competencies needed to carry out the mission*."⁴⁴

HCAAF advises that a Federal agency meets these standards when:

- The agency has a comprehensive strategic workforce plan that addresses both current and future workforce competency requirements
- Human capital strategies are derived from workforce demographic studies, agency staffing information, competitive sourcing studies, and analyses of the effectiveness and efficiency of the agency's organizational structure
- Human capital workforce strategies include descriptions for recruiting, hiring, deployment, retention, and other staffing initiatives
- Human capital staffing and training strategies anticipate changes due to e-Government and competitive sourcing
- Agency tracks demographic information on the workforce

⁴⁴ <<http://apps.opm.gov/humancapital/standards/standard2.cfm>>.

HCAAF provides the following performance indicators that can signify achievement of these standards:

- Published strategic workforce plan includes mission-critical positions, current needs, projected business growth, future needs by competency and number, and basic plan to close the gaps identified
- Staffing data showing trends in appointments, promotions, conversions, separations, and retirements are analyzed regularly
- Review of demographic data and management decisions based on HR staff recommendations are documented
- Analysis of workforce demographics includes indicators such as size, distribution of workforce (including SES) by grade/series/geographic locations, types of positions occupied, pay plan, veterans' representation, gender, Race and National Origin (RNO) representation, average age, average grade, etc.
- Agency conducts regular assessments regarding the effectiveness of SES allocation process

Practice: Increase the focus on skill-building

To meet the strategic needs of the organization and deliver value-added service to customers, HR roles must be reshaped and redefined: inverting the HR function from administrative workload to strategic capability requires that people possess that strategic capability. The migration of administrative activities creates opportunities for retained staff, but also creates a real need for education and training to equip these people with the competencies required of their new roles. To understand the need, current competencies are compared to competencies required by the new model. The results of the analysis will guide employee development activities.

In addition to this competency analysis, the following key questions are often used to define critical HR skills:

- How well have HR functions aligned their priorities against business needs?
- Where must HR functions build capabilities for the future?
- What skills are most important to increasing HR function performance?
- What methods should organizations use to build HR staff skills?
- How should organizations evaluate and execute shifts in their approach to increasing function effectiveness and staff capabilities?

According to a study conducted by the Corporate Leadership Council, “Correlating effectiveness in strategies to build HR function capabilities with HR’s overall contribution to business performance shows that developing HR staff is the most powerful path to increasing the function’s effectiveness. Incremental investments in staff development lead to more than three times the impact of investments in HRIS and twice the impact of changes to HR’s

structure. However, few organizations are leveraging this opportunity, as only one-third of Chief Human Resource Officers assess their organizations as effective in developing their HR staff.”⁴⁵

Practice: Use multiple approaches to building competencies

Retraining existing staff is not the only way to build a competency base; competencies can also be acquired. SHRM research indicates “most HR organizations find that for certain higher-level skills in areas such as talent management and workforce planning, they need to turn to external recruitment, severance payments, and formal reduction-in-force (RIF) processes.” Bruce Barge, managing director of Buck Consulting states, “In general, the high-performing companies had a higher bar and were more willing to go to external hiring, and more likely to use formal assessment processes to evaluate internal staff.”⁴⁶

High performers also “consistently invest more in HR skills training than their counterparts.” That often involves:

- Consultative skills training – teaching staff how to diagnose, scope, and contract with internal customers in order to make change happen
- Orientation sessions to introduce staff to their new roles
- The use of organizational assessment and diagnostic tools

*“Companies have difficulty filling strategic roles. Profiled companies share that a major challenge in transitioning HR staff to a strategic HR structure is to ensure that new roles are filled by staff who hold the necessary skills to effectively perform as a strategic partner ...”*⁴⁷

In the past, HR generalists would focus primarily on administrative and tactical roles, with very little emphasis on strategic development, “What you’re going to see in the future, in mid-sized and larger companies, is that these will be different career tracks, with increasingly different skills. Possibly, those functions may even be scattered across different parts of the company.”⁴⁸

One source emphasizes the importance of career paths. “Companies must consider what types of career paths will be available and how to structure those career paths. Another key aspect in a strategic HR model is building a succession pipeline of future HR leaders.”⁴⁹

Two approaches to career paths are proposed. One is *vertical career pathing*, where a clearly

⁴⁵ Corporate Leadership Council. “Chief Human Resources Officer Briefing: Defining Critical Skills of Human Resources Staff.” 2006.

⁴⁶ Society for Human Resource Management. “Designing Retained HR to Complement Outsourcing.” 2006.

⁴⁷ Roberts, Bill. “Processes First, Technology Second; For International Paper, successful HR Transformation depends on getting the steps in the right order.”

⁴⁸ Andrews, Nick. “Six Steps to Avoid ‘Value Leakage’ in Outsourcing Deals.” November 2005.

⁴⁹ Corporate Leadership Council. “Centres of Expertise: Structures, Roles and Career Pathing.” June 2005.

defined vertical career path exists for both transaction-intensive and strategic HR functions. Another approach is *transactional to strategic career pathing*, which allows transactional staff to develop skills so they can progress to more strategic roles.

Case Study: SafeCo Insurance Company

SafeCo Insurance Co., with some 9,000 employees nationwide, "... has faced these issues in real-world situations," said Alison Talbot, the company's Vice President for HR. "We learned as we've outsourced benefits administration and changed our shared services delivery model the importance of paying attention to the retained HR organization," she said. "If you don't focus on role definition, there will be confusion over who is going to do what, and when. If you don't combine outsourcing and redesign of the retained organization, it can be a very difficult road." To redesign its retained HR organization in order to better meet customer and business needs, SafeCo took the following steps:

- Identified categories of key stakeholders, their issues and needs
- Gathered extensive customer input regarding needs for HR service
- Conducted activity-based costing survey for retained HR staff
- Defined roles / competencies for staffing and relationship management
- Developed an overall change and communication plan

The Corporate Leadership Council suggests that "stretch roles incorporate key job experiences that drive employee potential to succeed in more senior, more critical roles."⁵⁰ In a highly effective stretch role, HR personnel take responsibility for improving employee performance in a struggling line of business. They:

- Analyze data to diagnose failure of existing performance management system and propose needed modifications
- Build business case for allocating more manager time to employee development
- Design and implement strategy for addressing low performance

The characteristics of these roles that drive employee development are:

- Persuade senior managers to take difficult actions
- Modify work to adapt to changing circumstances
- Creatively solve problems
- Assess employee performance

Ineffective on-the-job development experiences, on the other hand:

⁵⁰ Corporate Leadership Council. "Defining Critical Skills of Human Resources Staff." 2006.

- Involve rotations across the business
- Promote the goal: “Learn about the business and provide the HR perspective.”
- Interact with organization’s external customers to develop a better understanding of the business

The characteristics of these experiences that drive employee development are quite different:

- Number of functions worked in
- Interaction with existing customers

The CLC reports that “personal challenges and management experiences have the greatest impact on development while roles that offer broad but superficial exposure to the organization provide little development in and of themselves.”⁵¹

The CLC proposes fourteen different skill-building methods for HR staff⁵²
Recruiting Methods:

1. Systematic screening of HR staff candidates for critical skills
2. Recruiting HR staff from outside the organization
3. Recruiting HR staff from other parts of your organization

On-the-Job Development:

4. Designing stretch HR roles to provide greater business exposure and personal risk
5. Rotations for HR staff in different areas of HR
6. Rotations for HR staff outside the HR function

Peer and Mentor Relationship:

7. Formal mentoring and coaching of HR staff
8. Internal network building (e.g., connecting managers possessing skill strengths with staff deficient in those skills)
9. External network building – connect staff with skill deficiencies with peers in other companies with skill strength

Formal Training:

10. Cross-functional programs that include HR and staff from other functions
11. Conferences and seminars
12. Executive education programs at accredited institutions
13. Internally developed custom training

⁵¹ Corporate Leadership Council. “Defining Critical Skills of Human Resources Staff.” 2006.

⁵² Corporate Leadership Council. “Defining Critical Skills of Human Resources Staff.” 2006

14. Self-managed courses

3.2.3 Define Phase Exit

The Define phase culminates with an understanding of the current state and desired future state including a workforce plan, a change management strategy including a communication plan, and detailed requirements. The phase should also result in commitment from each member of the project team who will be executing the design vision. At the conclusion of the phase, answers to the following questions should be clear:

- ✓ Are we clear about what processes are migrating to shared services?
- ✓ Have we documented the considerations for selecting our approach to shared services?
- ✓ Have we documented the key metrics and drivers for each process?
- ✓ Is our model designed to be easily adopted into other models or services?
- ✓ Have we developed a detailed design as to how the new service delivery model will be run?
- ✓ Is our governance structure in place with defined responsibilities?
- ✓ Is our organization committed to the vision, goals, and objectives of the HR LOB?
- ✓ Has our plan for implementing shared services been commenced?
- ✓ Do our stakeholders understand shared services and how it will be implemented and run?
- ✓ Are we actively engaged with the relevant labor unions and associations?

3.3 Benchmarking During the Define Phase

During the Define phase, benchmarking can be used to compel good design. Enterprises use benchmarks to identify other enterprises that have been successful. Benchmarks used in the Define phase focus on the new model's operational efficiency. Measures that address these issues answer questions such as "How will my services be delivered and what are the costs of those delivery channels?" or "How many FTEs should my organization have if I am operating at best in class?"

For example, one might expect the cost of recordkeeping to decrease at the agency level when that agency migrates to a Shared Service Center – particularly if that migration is coupled with conversion to the (EHRI) Electronic Employee Record. Saratoga Institute⁵³ has established a metric for *Employee records and administration function costs per employee*.

⁵³ Saratoga. "U.S. Human Capital Effectiveness Report." December 2005.

The formula Saratoga uses to calculate this benchmark is: costs associated with employee records and administration function divided by regular headcount. These costs include salaries and benefits, outsourcing costs, consulting and contractor expenses, technology and systems expenses, and miscellaneous costs of:

- Employee records administration
- Transaction processing and reporting
- Employee records
- Knowledge base management

The Saratoga median for this benchmark is \$32. Because this was a new benchmark in 2006, data was not segmented; public sector and non-profit data is not separately available.

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | \$16 | \$23 | \$32 | \$63 | \$142 |

Another benchmark that may be interesting to Federal agencies during the Define phase is *Compensation function costs per employee*. The formula Saratoga uses to calculate this benchmark is: costs associated with the employee records and administration function divided by regular headcount. These costs include compensation salaries and benefits, outsourcing costs, consulting and contractor expenses, technology and systems expenses, and miscellaneous costs of employees supporting compensation strategy, design and administration.

The Saratoga median for this benchmark is \$91. Again, because this was a new benchmark in 2006, data was not segmented; public sector and non-profit data is not separately available.

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | \$45 | \$53 | \$91 | \$175 | \$274 |

Similarly, *HRIT function costs per employee* provides insight into the cost of delivering HRIT services. The formula Saratoga uses to calculate this benchmark is: HRIT function costs divided by regular headcount. These costs include amount spent on HRIT salaries and benefits, outsourcing costs, consulting and contractor expenses, technology and systems expenses, and miscellaneous costs.

The Saratoga median for this benchmark is \$88. And because this was a new benchmark in 2006, data was not segmented; public sector and non-profit data is not separately available.⁵⁴

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | \$13 | \$61 | \$88 | \$148 | \$283 |

⁵⁴ Saratoga. "U.S. Human Capital Effectiveness Report." December 2005.

4 Select – Establishing and Cultivating the Strategic Partnership

The overall objective of the Select phase is to identify a provider that meets the needs of the customer agency and to define and establish the strategic partnership between the two parties.

Over the course of the Select phase, the following key questions are addressed:

- How do I select a strategic partner?
- How do I define my strategic partnership?
- How do I cultivate a win-win partnership over time?

This phase begins with an effort on the part of the customer agency to proactively define a value-based selection process that will result in a successful partnership decision. The agency identifies applicable requirements and business rules that form the basis for the selection decision. The agency proactively drives its selection decision by gathering and evaluating information about the provider and evaluating the provider's performance and capabilities. A selection decision is made based upon predetermined criteria, the partnership is negotiated between the customer agency and its new business partner / provider, and joint governance is established.

Major Select phase activities, along with entity(s) responsible for results, are outlined below.

- Compile and validate detailed requirements (responsible: customer agency)
- Devise marketing strategy (responsible: provider)
- Create task order (responsible: customer agency)
- Conduct provider demonstrations (responsible: customer agency and provider)
- Build decision model (responsible: customer agency)
- Use decision model to select provider (responsible: customer agency)
- Establish joint governance (responsible: customer agency and provider)
- Negotiate partnership (responsible: customer agency and provider)
- Fill key partnership roles:
 - Transition Manager (responsible: customer agency)
 - Relationship Executive (responsible: provider)

The practices described in this section that support these Select phase activities fall into three overall categories:

1. Selecting a partner
2. Negotiating the agreement
3. Managing the relationship

4.1 Context

Top Causes of Outsourcing Failures

- Buyer's expectations unclear up-front
- Interests become misaligned over time
- Poor communication
- Not mutually beneficial

The 2000 Barometer of Global Outsourcing researched and published by Dunn & Bradstreet shows that within the past two years, a quarter of all firms' functions reported an outsourcing relationship "failure" – defined as the termination of a contract by the client before its expiration date for contracts that had been in place for at least one year. A recent Gartner study found that 55% of all enterprises with IT infrastructure outsourcing arrangements have renegotiated terms. The cause? Outsourcing relationships fail most often because they got off on

the wrong foot from the beginning and they were poorly structured and managed, according to a recent Everest Group study.⁵⁵

Results of a Vantage Partners study quantify the impact of both good and bad provider-customer relationships. Researchers identified certain results reflective of an effective partnership and determined that these results can increase contract value up to 15%. Similarly, they identified issues reflective of an ineffective partnership and determined that these issues can decrease contract value. Putting this together, at least 30% of contract value is dependent on effective relationship management. (see Figure 7)⁵⁶

⁵⁵ "PROACTION." <<http://www.proaction.net/bestpractices>>.

⁵⁶ "Fortune in partnership with International Association of Outsourcing Professionals." The Global Outsourcing 100. 2006.

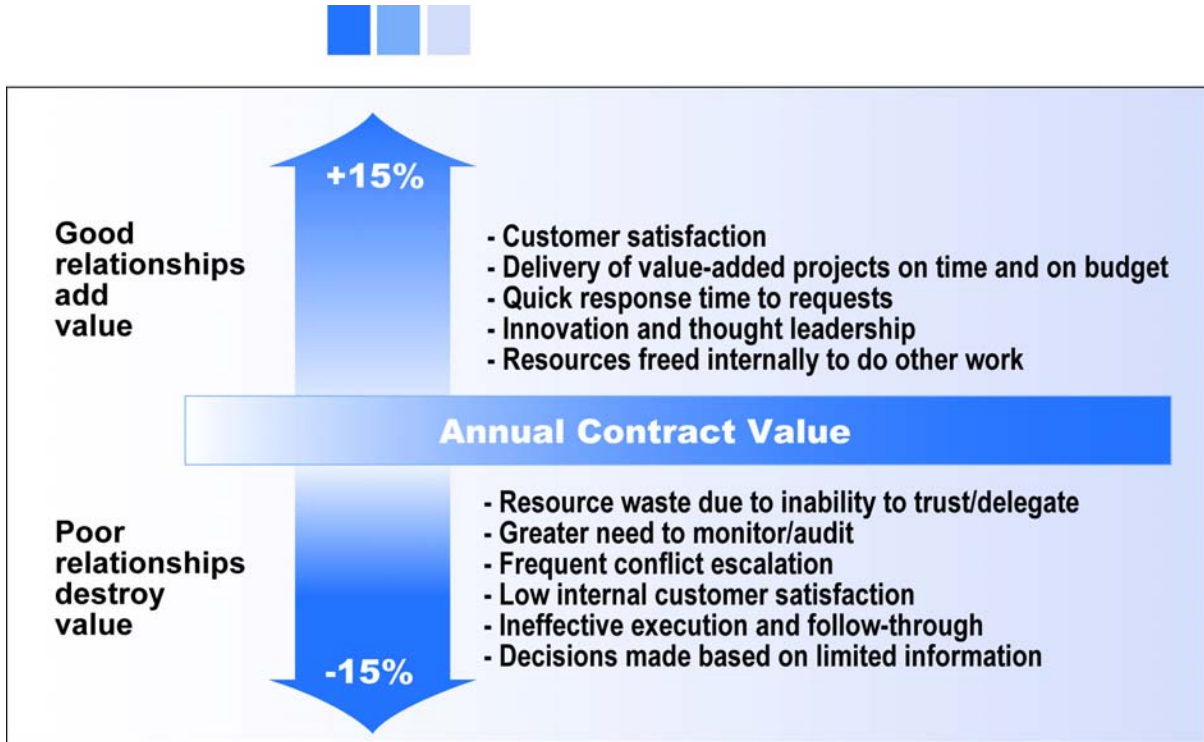


Figure 7: Relationship Management Drives Value

The outsourcing industry has matured over the years; providers have learned from experience and have adopted replicable relationship management principles and practices. Unisys, for example, is focusing on three themes to forge deeper, more integrated partnerships with its customers: visibility, flexibility, and relentlessness.⁵⁷

⁵⁷ Kabrt, Richard, and Beth Ellyn Rosenthal: The Everest Group. "How to Make Full-service HRO Work for You."

Case Study: Unisys

Unisys is focusing on three themes: visibility, flexibility, and relentlessness. “Visibility means the ability to see how we execute outsourced processes,” says E. Philip Smith, vice president of global solutions management at Unisys. “If the customer doesn’t see this, they can’t integrate with us in a way that will work for them.” Flexibility means that although a provider has standards and best practices for how it does the work, it can modify its procedures to better meet the customer’s needs. “Successful outsourcing is about achieving the customer’s goals, not saying, ‘Here’s my solution,’” says Smith. But visibility and flexibility must work in tandem with the third factor: relentlessness. “That means working hard every day to make sure the solution succeeds by continually improving the value we deliver to the customer.”

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This section provides practices and insight into how to circumvent or address relationship issues; how to maximize relationship value; and how to establish, cultivate and maintain deep integrated partnerships. This section also provides insight into how benchmarks can be used to support the practices.

4.2 The Practices

4.2.1 Selecting a Partner

Practice: Agree on what to agree on

Begin the selection process by agreeing on a set of objective criteria to guide provider selection. Agreeing on the criteria up front – and sticking to them – minimizes the “dog and pony show” effect: buyers focus on more important decision criteria and less on sales tactics, elaborate presentations, etc.

Recent studies reveal the principal criteria buyers use to make provider selection decisions are the vendor’s track record for delivering service, the costs associated with the outsourcing service and the willingness of the vendor to guarantee service levels. Other criteria include the vendor’s technological capability and competence, process expertise, flexible contracting, recommendations from other companies, relevant industry experience, the ability to manage transition risk, and client experience.⁵⁹

⁵⁸ Kabrt, Richard, and Beth Ellyn Rosenthal: The Everest Group. “How to Make Full-service HRO Work for You.”

⁵⁹ IBM. “Preparing for human resources business transformation outsourcing: Key questions and decisions.” 2005.

The Global Leadership Initiative recommends that public sector enterprises use the following decision criteria when making decisions about shared services models and providers:

- *Service Level and Functionality.* The ability of the provider to provide the required functionality at the right time with the right level of reliability and customer service; also the ability of the provider to continue to respond as requirements change.
- *Control.* The control and access the provider affords its clients to their data to fix errors and complete analysis.
- *Cost and Unknown Costs.* The transparency of costs maintained by a provider, such as what items are included in the upfront costs and which costs might be hidden or unknown.
- *Accountability.* The ability of a provider to monitor operations after the transition. Who is responsible for failure to meet requirements? How is the success of the transition and operations monitored? What risks and rewards does the service provider face with respect to agency operations?
- *Risk.* The ability of the provider to manage program risks, while minimizing the impact to benefits realized.⁶⁰

Multiple sources recommend buyers evaluate potential providers in terms of their partnering abilities and relationship potential, in addition to the more traditional evaluation criteria. Vantage Partners, in fact, reports that 66% of customers surveyed formally considered the providers' partnership capabilities when they made their selection decision.⁶¹ They advise buyers to ask potential providers for references and describe tangible investments they have made in their relationship management capability.

Towers Perrin encourages buyers to *focus on the basics* during the selection. "Few respondents either expect – or, in fact, want – their vendor to “transform” their HR function. While reshaping the function remains a key goal, respondents don't believe their vendor has either the ability, or the responsibility, to meet that goal. Rather, what they want from their vendor is solid, consistent and reliable performance on the basics – meeting the needs of their employees, managers and HR generalists efficiently and effectively, without errors or delays. In their view, the vendor's job is to build a sound delivery foundation so they can focus on the strategic goal of HR transformation – unimpeded by administrative burdens, slow or antiquated processes, or excess costs."⁶²

SHRM research reports a proven track record, cost, guaranteed service levels, and flexibility as the most important factors for outsourcing vendor selection (see Figure 8).⁶³

⁶⁰ IBM. "Optimizing Government Effectiveness Through Shared Services: Perspectives from IBM Corporation." 2007.

⁶¹ Vantage Partners. "Negotiating and Managing Key Supplier Relationships." 2006.

⁶² Towers Perrin HR Services. "HR Outsourcing: New Realities, New Expectations." 2005.

⁶³ "A Study by the Society for Human Resources Management" SHRM Human Resources Outsourcing Report July 2004.

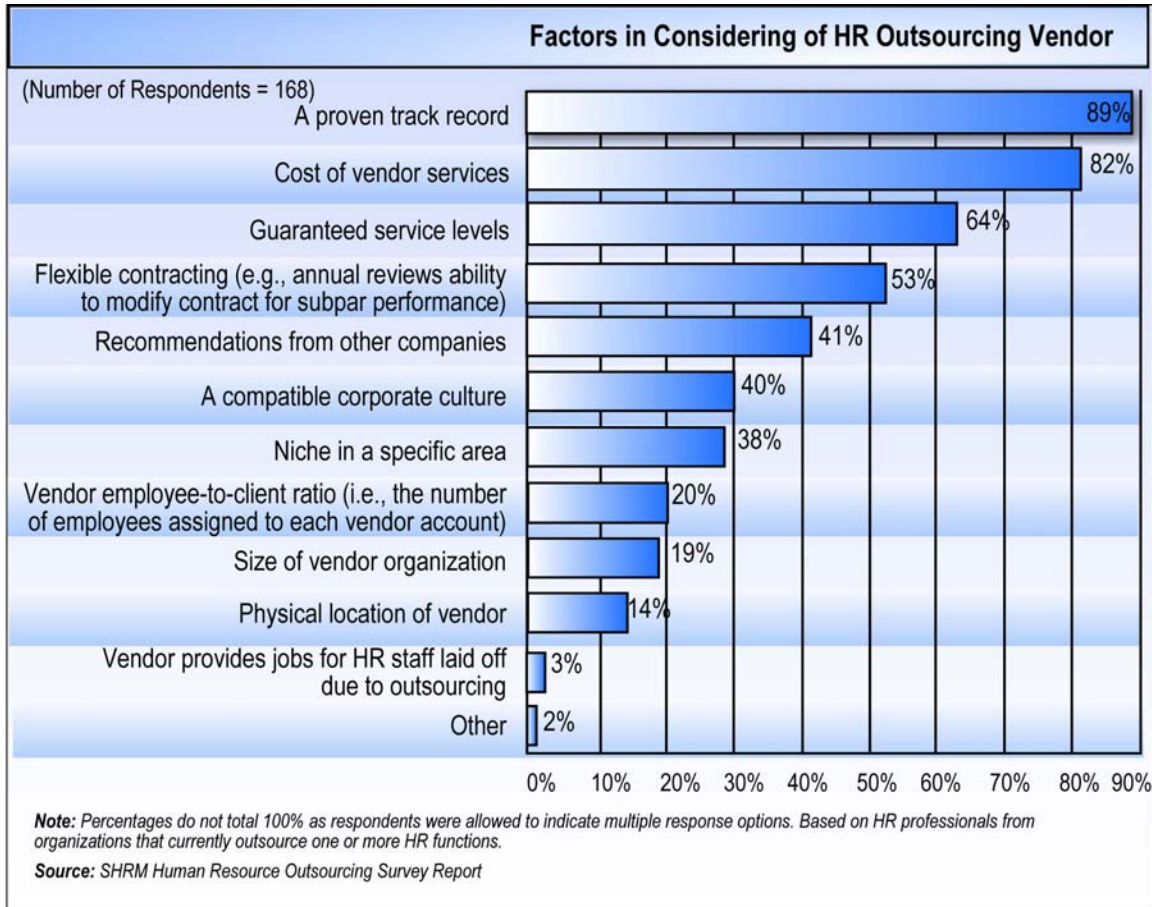


Figure 8: Factors in Considering HR Outsourcing Vendors

One source recommends looking for alignment by focusing on the provider’s *standard* offering, rather than the ability to customize processes and systems. “Similar to understanding the overlap of supplier capabilities and buyer needs, it is also important to understand the degree of overlap between a supplier’s preferred systems and processes and those preferred by the buyer. Some suppliers may have offerings that look remarkably like the HR systems, formats, or processes that the potential buyer already has or wishes to have in place. Examine how suppliers think about the HR process. One might stand out as looking at the process or software in a similar manner [as the buyer], thereby creating greater alignment between the supplier and buyer.”⁶⁴

⁶⁴ Kabrt, Richard, and Beth Ellyn Rosenthal: The Everest Group. “How to Make Full-service HRO Work for You.”

Insight: Why Vendors are Sometimes Reluctant Innovators

Vendors typically don't initiate process innovation as often as do the companies themselves. This remains a sore spot for many respondents [buyers]. It's not that vendors can't innovate; it's that they don't want to — and for a very valid reason. Innovation destabilizes the status quo, and vendors are paid for *stability*, for delivering consistent performance day after day. It takes time to implement new ideas and get them right, and during that time, routine activities may suffer or go awry. From the vendor's perspective, therefore, innovation can be as much a problem as a solution — and therefore something to be avoided. And, in fact, respondents' focus on having vendors get the basics right does suggest innovation may be an appropriate focus for the next generation of deals rather than this generation. In the interim, companies need to work with vendors to develop mutually agreeable approaches to tap into vendors' experience, but in ways that won't penalize vendors for their initiative or jeopardize their ability to meet contractually mandated cost and service levels.

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A thorough selection process may include the following activities:

- *Review and rate 'experience questionnaires' (request for information).* Devise a standard survey and distribute it to potential providers. Review and rate the responses to provide an initial view of prospects. Questionnaires include topics such as providers' areas of expertise; client experience; approach to contract development; service level creation and management; and how they address changes in project scope.
- *Conduct a financial review.* Examine prospective providers' fiscal responsibility and regulatory compliance history. The objective of this review is to determine whether the provider has the financial means to meet requirements and agreed-upon service levels and to look for any possibility of a merger, acquisition, or major restructuring of provider operations.
- *Conduct a security review.* Review prospective providers' history of security and data integrity compliance. Look for providers' demonstrated knowledge of related legislation, policy, rules, and regulations – both governmentwide and agency-specific. Investigate any non-compliance incidents.
- *Get first-hand knowledge of provider performance at other clients.* Conduct reference checks and visit client sites to gain insight into the provider's partnering capability and to uncover potential partnership issues. Probe the client about provider flexibility, willingness to support new client programs, and whether the vendor has met the client's overall expectations. Many companies also find it quite useful to

⁶⁵ Towers Perrin. "HR Services; HR Outsourcing: New Realities, New Expectations." 2005.

- visit provider call centers to get a sense of how the operation is organized, effectiveness of technology support, level of professionalism, and morale.
- *Meet potential delivery team leaders.* Arrange a meeting with the person who will be managing the account for the provider and with the individuals who will be delivering service. This can provide a view into managerial style, accountability and delegation of authority, and culture. And these initial meetings will lay the groundwork for the partnership, should the provider be selected.⁶⁶

Practice: Conduct 'two-way' evaluations

Vantage Partners⁶⁷ recommends that in addition to evaluating potential providers, the buyer should encourage those providers to evaluate the buyer. Going beyond exploring the provider's ability to deliver against the buyer's requirements, the two parties come together to talk about joint goals, strategies, organizational culture, approaches for addressing issues and challenges, and risk management. The discussions are both strategic – covering vision and direction for the relationship – and operational – brainstorming about day-to-day processes and working relationships. During these discussions, parties learn about one another and experience how they can work together toward a specific objective. The experience can provide:

- A more complete view, allowing a more thorough evaluation and reducing surprises later
- Information that may be useful during negotiation
- A foundation for the future relationship

⁶⁶ Goolsby, Kathleen: The Everest Group. "Impact of Best Practices in Outsourcing Arrangements."

⁶⁷ Vantage Partners. "Negotiating and Managing Key Supplier Relationships." 2006.

Insight: The Exploratory Workshop

A ... comprehensive process employed by some organizations entails conducting “exploratory workshops” with some suppliers. These workshops are designed to deepen the parties’ understanding of one another and to facilitate joint discussions of working together challenges and way to mitigate those challenges. These workshops often include:

- Opening remarks about the overall evaluation and selection process
- Briefing by both parties (about the organizational strategy, interests behind pursuing a relationship with the other party, relevant business processes, etc.)
- Question-and answer sessions relating to the product or materials to be procured as well as the organization themselves
- Brainstorming sessions designed to consider and address any potential challenges to working well together
- Visits by both organizations to one another’s sites

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“Cost may drive the decision to outsource, but quality of service drives satisfaction with the outcome.” ⁶⁹

⁶⁸ Vantage Partners. “Negotiating and Managing Key Supplier Relationships.” 2006.

⁶⁹ Towers Perrin. “HR Services; HR Outsourcing: New Realities, New Expectations.” 2005.

4.2.2 Negotiating the Agreement

Insight: Negotiate to Avoid These Common Errors

A study performed by the Conference Boards in the spring of 2004 revealed that most problems organizations encounter can be traced to flaws in the negotiating stage. They offer the following reasons why buyers don't get what they need from their providers.

1. **Failure to clearly define the scope of services.** Don't leave the negotiating table without a detailed statement of work to be performed by the provider; focus on *services* to be provided, not products.
2. **Failure to proactively manage the vendor relationship.** Many clients spend resources responding to the day-to-day issues; that's the *providers* job!! Use your resources to focus on service quality.
3. **Insufficient time provided for the contract period.** Given the time it takes to migrate, and given the inevitable dip in service levels post-migration, give the relationship a chance. Negotiate an initial contract of at least five years. In fact, initial contract periods of seven to ten years are not uncommon.
4. **Failure to let market competition improve service quality.** Give the relationship a chance but also give yourself an out: don't assume the resources required to switch providers is greater than the cost and effort required to fix a broken relationship. If a provider isn't delivering, consider replacing it.
5. **Not bringing sufficient negotiating gravitas to the negotiating table.** Your providers likely have some keen negotiating skills. Bring your own best negotiators and legal minds to the table to match, even surpass, their capability.

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Practice: Collaborate to negotiate

Focus on maximizing value for both parties.⁷¹ Both parties are encouraged to sit down at the negotiating table with a collaborative problem-solving attitude and begin the negotiation process by laying out goals and interests and then brainstorm to identify ways to achieve them. When considering options on the table, negotiators should use objective approaches to shaping those options such as marketplace standards, analytical tools, and industry best practices. Both parties should avoid coercive negotiating tactics. These tactics can produce

⁷⁰ Towers Perrin. "HR Services; HR Outsourcing: New Realities, New Expectations." 2005.

⁷¹ Vantage Partners. "Negotiating and Managing Key Supplier Relationships." 2006.

terms that are favorable in the short-term, but a collaborative negotiation process can produce results that are far more strategic and beneficial to both parties in the long-term.

Furthermore, a collaborative approach to negotiation provides a foundation for a good working relationship. Parties should really negotiate on two tracks: negotiating terms that result in maximum value for both parties while simultaneously building a strong working relationship.⁷² Negotiation interactions represent the initiation of relationship interaction patterns; they should provide an effective basis for future patterns.

Bank of Canada negotiated a “partnership charter” with the service provider at the outset of its relationship.

Case Study: Bank of Canada

“A ... comprehensive process employed by some organizations entails a partnership charter. Bank of Canada, fiscal agent for the government of Canada’s Retail Debt Program (RDP; similar to the U.S. Savings Bonds program run by the US Treasury), outsourced its back office operations and systems support for administration of the RDP to EDS Canada, Inc. At the outset of their outsourcing relationship, both companies established and developed a partnership charter as a means of governing their relationship. The charter’s intent is to ensure both parties’ flexibility in resolving issues, not only to their mutual satisfaction, but also to the betterment of the RDP. It establishes a framework for building trust so the parties will be able to work together in resolving issues.

One of the Bank of Canada’s measurements of return on investment (ROI) in this outsourcing initiative is based on the number of issues resolved at the operational level instead of escalating to the management level. Because of the partnership charter and the two parties’ efforts to work together, it has not been necessary to bring any issues to the attention of the bank’s board of directors since the RDP program was outsourced.”

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Practice: Involve implementers early

Vantage Partners recommends having delivery personnel involved in the negotiation process. “Negotiation teams should include those who will stay around to implement the deal. Knowing they will have to implement something will cause people to behave differently than if they could just walk away from it. They will be less likely to agree to a term that sounds good conceptually but may be challenging to operationalize. Negotiators will need to have

⁷² Vantage Partners. “Negotiating and Managing Key Supplier Relationships.” 2006

⁷³ Goolsby, Kathleen: The Everest Group. “Impact of Best Practices in Outsourcing Arrangements.”

proper incentives to include implementers and you will have to make sure that the appropriate implementers are selected and available early enough in the negotiation.”⁷⁴

Practice: Negotiate the right service level agreement

“It is not uncommon to see an outsourcing arrangement where the service provider is meeting all of the contractually-specified service levels but the overall deal objectives are not achieved; the service provider is doing the wrong things right.”⁷⁵

The American Productivity and Quality Center (APQC) proposes that service level agreements must answer a number of key questions, including:

- What must be done, and what will it cost?
- How will we measure it?
- How well do we do it today?
- Are we providing what the users want?
- How well should we do it?
- Who is the competition, and how well do they provide these services?
- Who pays for it?
- Which business groups will use the services?
- Can I justify the costs of these services to the business groups?

To create and manage service level agreements, APQC recommends performing the following activities:⁷⁶

1. *Recognize the need for a shared services environment.* Don’t assume just because the decision has been made, everyone is aware of the rationale behind it. “It is important to develop a common understanding of the potential benefits of operating in a shared services environment.”
2. *Understand activities.* Both parties need to understand the services provided and the activities to be performed to deliver the services.
3. *Understand causal relationships.* Discuss the costs of varying service levels plus how customer behavior can influence that cost. This helps both parties understand and manage the trade-offs associated with the various service levels.
4. *Understand both parties’ influence outcomes.* Make users aware of the costs of special services – expedited services, custom solutions, etc. Providing visibility to these costs is one step toward managing these costs.

⁷⁴ Vantage Partners. “Negotiating and Managing Key Supplier Relationships.” 2006

⁷⁵ Vantage Partners. “Managing Outsourcing Relationships.” 2006.

⁷⁶ American Productivity & Quality Center. “Activity-Based Management 2000: Best Practices in Shared Services and Information Technology.” 1999.

5. *Match service levels with user needs.* Frequently, customers request premium services but over time – and faced with the actual costs of premium services – realize they can be satisfied with less costly services. Having this dialog during the SLA process raises early awareness about tradeoffs between cost and service level.
6. *Identify and benchmark external alternatives.* Providers must find a way to provide objective data supporting their price and service level structures.
7. *Forecast demand levels.* Forecasts form the basis for capacity planning and SLA pricing assumptions.
8. *Set service level and prices.* Once the scope of services is selected and a demand forecast is agreed upon, parties can agree on service level and associated costs; these become part of the SLA.
9. *Finalize the service level agreement.* Execute the formal document.
10. *Monitor and mediate performance.* Some partnerships review performance against the SLA with predetermined regularity; others review it on an exception basis. Agree up front on a review process.

APQC describes a “maturation process” regarding SLAs. They may be more formal and detailed during early years and become less formal as the partnership evolves.

Case Study: Chase Manhattan Bank

Chase Manhattan offers the following recommendations about service level agreements:

- Needs of customers:
 - A product set that is simple, easily understood, and fair
 - Charges that relate to their business
 - Charges that are actionable
 - Volumes that are highly correlated with costs
 - Details to enable management of their expenses
- Needs of providers:
 - The ability to differentiate and modify user behavior
 - Highly accurate user, product, and activity costs
 - Cost-reduction opportunities through benchmarking and process re-engineering
 - Solutions that meet users’ needs

APQC reports that 80% of the companies they surveyed established incentives for Shared Service Center staff tied to “service level, agreement-specific performance measures.” These incentives help the SSC staff maintain a strong customer focus.

“... what gets incented, gets done ...”⁷⁷

⁷⁷ American Productivity & Quality Center. “Reshaping the Corporation: Emerging Best Practices in Shared Services.” 1997.

Although bonus structures vary by organization, the following is illustrative of the levels of incentives offered:

- Senior Management 25% to 50%
- Middle Management 10% to 40%
- Individual Staff Members 10% to 20%⁷⁸

4.2.3 Managing the Relationship

“Processes and operations matter, but it’s the success of the client-vendor partnership — and the people supporting it — that make the difference. Some of our respondents went so far as to say that the quality of their vendor relationship was not just a critical aspect of outsourcing, but the only thing that ultimately drove success or failure. For these companies, success equals an effective partnership and vice versa.”⁷⁹

Practice: Conduct a joint relationship launch

Rather than waiting for problems to arise and then addressing them after the fact, buyers and providers need a systematic means for getting ahead of issues and putting in place mechanisms that will help them address the challenges that will inevitably arise over time. A joint relationship launch provides this means. Through a flexible process, scalable to meet the complexity of the deal, both buyer and provider come away with:

- A common understanding of the key terms and conditions of the contract, and the resulting obligations of both parties
- A shared picture of both parties’ business goals for the arrangement
- A set of procedural agreements that define the operating assumptions for working together
- A joint governance model to ensure that the relationship is meeting objectives and delivering value
- A set of working relationship metrics and a process for (1) assessing performance against those metrics over time, and (2) using the data to inform whether and how to make adjustments
- Methods and protocols for joint decision making, problem-solving, conflict resolution, and change management
- New skills and tools for collaboration

⁷⁸ American Productivity & Quality Center. “Reshaping the Corporation: Emerging Best Practices in Shared Services.” 1997.

⁷⁹ Towers Perrin. “HR Services; HR Outsourcing: New Realities, New Expectations.” 2005.

A relationship launch is segmented into three critical components, each with specific purposes and different audiences:

1. Team Briefing and Relationship Planning
2. Joint Risk Management and Applied Governance
3. Communication and Change Management

Figure 9⁸⁰ shows the intended outcomes of a successful launch program.

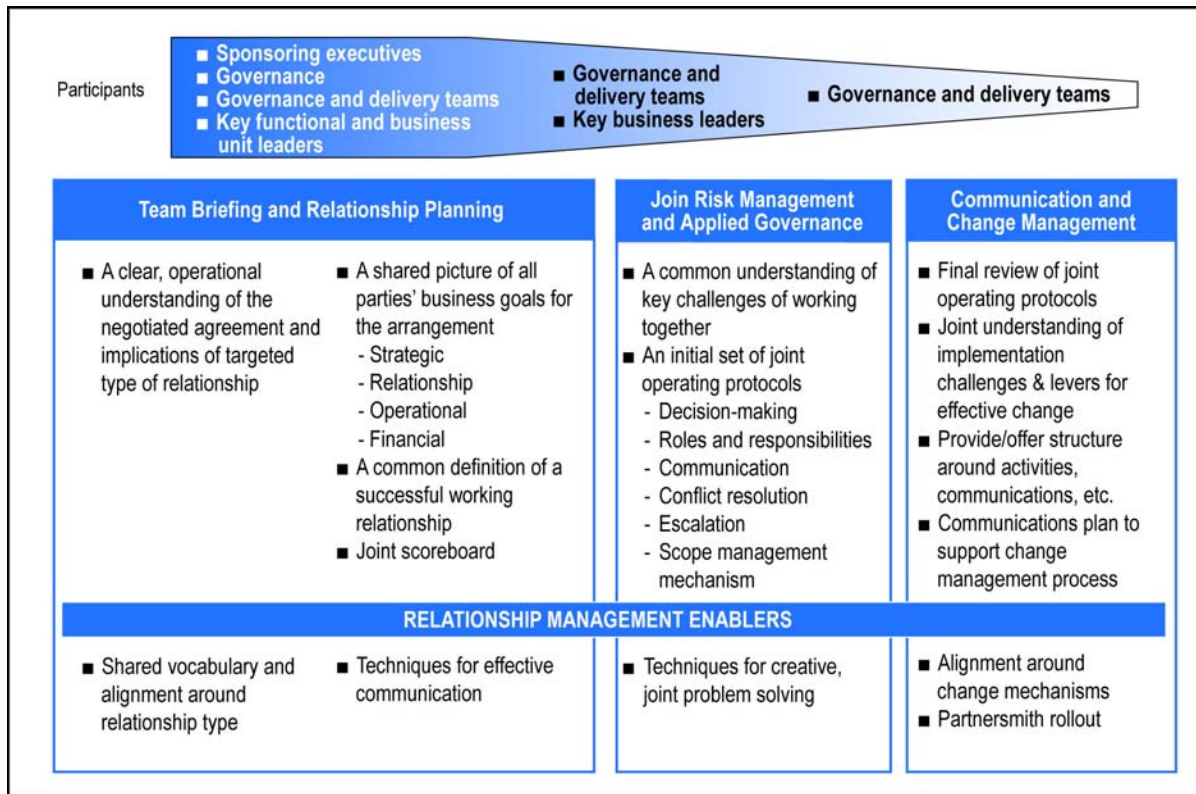


Figure 9: Launching the Program – A Formal Approach

Practice: Establish a joint governance structure

Results of a Towers Perrin study show a positive correlation between effective governance and results. The process demands substantial and sustained attention. It also requires an appropriate balance of power between customer and provider.⁸¹ Towers Perrin also reports that “effective governance involves more than organization structure, vendor / contract

⁸⁰ Enlow, Sara Parker, and Danny Ertel: Vantage Partners. “Enabling Outsourcing Success.” 2004.

⁸¹ Towers Perrin. “HR Services; HR Outsourcing: New Realities, New Expectations.” 2005.

management, and escalation processes. These aspects have actually become commonplace – the ‘needed to play’ requirements of an effective vendor relationship. The ‘needed to win’ characteristics require a substantially greater investment of time and resources and a solid focus on:

- “managing volume generated by employees”
- “building new value-added products and services”
- “addressing vendor concerns about the instability caused by changes in the arrangement”
- “managing vendor and company staff aggressively to achieve more ambitious goals”

Vantage Partners emphasize that a template for an effective governance structure cannot be useful: “one size does not fit all.” They recommend customers and providers spend some time at the table visualizing the partnership and devising a governance structure that will contribute to this vision. Common components of the structure include:

- *Joint Steering Committee* – sets business direction of the relationship
- *Management Committee* – develops plans to meet goals set by the Steering Committee
- *Operationally-focused Committees* – manage regular delivery of work and troubleshoot problems or issues

Although a multi-level structure is created for issue escalation (among other things), some enterprises provide rewards to individuals for resolving issues at their level and minimizing escalation.

Agreeing on the structure is just the first step. “It is just as important for provider and buyer to agree upon how the model will actually work on a day-to-day basis. If no one is made accountable for putting the governance structures and processes into place, then the model will consist of nothing more than empty words in the contract. Building and implementing the governance model should be assigned as an official role to one person or a group of individuals, and all involved should understand the purpose and importance of implementing the governance model and have specific incentives to do so.”⁸²

Practice: Deploy the relationship manager role

Many practitioners advocate the deployment of a role within the customer organization that is responsible for managing the relationship with the provider. The *relationship manager* works with his or her counterpart at the provider – the account manager – to make the partnership work at an operational, day-to-day level without losing sight of strategic goals and objectives. This executive-level individual possesses collaboration and relationship management skills and is measured on the effectiveness of the partnership. The relationship

⁸² Vantage Partners. “Negotiating and Managing Key Supplier Relationships.” 2006.

manager plays a key role within the governance structure and may chair the joint customer / provider steering committee.

Day-to-day interactions and operations can present continual challenges to even the strongest customer / provider relationship. Relationship managers manage these interactions and challenges in a proactive, coherent way. Relationship managers “coordinate communication to and from suppliers, spot potential conflicts, mediate disputes, act as internal advocates for suppliers, serve as resources and escalation points for suppliers, facilitate coordination among different internal groups who interact with suppliers, and track the health of working relationships over time.”⁸³ Relationship manager reward structures are frequently devised to link performance with relationship results.

Case Study: Lucent Technologies

Lucent Technologies has assigned ten responsibilities to their relationship manager role:

1. Serve as owner of supplier / Lucent relationship
2. Develop and manage relationship using performance improvement plan
3. Compile, evaluate, monitor metrics using supplier scorecard
4. Facilitate cross-company teams to drive results
5. Set strategic direction of technology with Lucent and supplier
6. Own business development with supplier
7. Write and manage alliance agreements with supplier
8. Monitor industry practices outside Lucent
9. Drive Lucent Supplier Relationship Program opportunity assessment
10. Responsible for supplier-specific initiatives such as inventory, delivery, shortages, cost, quality

The provider, on the other hand, assigns an *account manager* to the customer to ensure that activities are being performed as required, service levels are being met, and strategic objectives are kept in line of sight. Interestingly – and perhaps counter-intuitively – some providers make a practice of rotating out these account managers every couple of years. They do this because of the relationship attrition that can take place after “saying ‘no’ too many times.” This practice clearly has a down-side; it can disrupt a relationship just as likely as it can enhance it.

⁸³ Vantage Partners. “Negotiating and Managing Key Supplier Relationships.” 2006.

Practice: Encourage providers to share innovation

Vantage Partners propose a mechanism that allows for providers to be rewarded for suggesting process innovations to the buyer. Because of the significance of business process to their business, service providers may have a higher level of process maturity. They consequently may be in a position to see customer process issues and recommend improvements. “By systematically enabling and encouraging suppliers to add value, companies are often able to reap tremendous gains in efficiency, quality and innovation at relatively low cost.”⁸⁴

This mechanism can range from informal to formal. Some companies informally solicit supplier suggestions. Others include suppliers on joint design teams. Some institute formal programs to receive and capture provider suggestions, review and evaluate those suggestions, and make recommendations about how to reward the provider. Some even share benefits that are accrued as a result of the reward with the provider. Companies that have implemented this practice have achieved real increases in innovation and savings. And because this practice requires an increased level of information sharing, they build more reliable and resilient customer / provider relationships.⁸⁵

“By sharing information and being open to new ideas, we’ve produced numerous agreements that have increased innovation and achieved greater total cost savings.”

Practice: Conduct joint strategic planning

Vantage Partners recommends solidifying the relationship potential by conducting joint customer / provider strategic planning sessions. During these sessions, participants “share information about their respective strategies, find ways to help each other meet important goals, and better align long-term plans.”⁸⁶ Typically, information exchange between customers and providers is mainly day-to-day and operational in nature. Strategic planning sessions provide for open exchange about the *context* in which these operations occur. This better equips both parties to offer perspective and advice on how to work better together to achieve the goals of both parties. Because of the strategic dialog, execution can improve. Clearly, the sharing of sensitive strategic information may be a barrier for some. However, many companies decide the potential rewards outweigh the risks of disclosure.

“Companies that implement this practice do so out of enlightened self-interest – sharing sensitive strategic information is a means, rather than an end. With careful consideration of the risks and opportunities for benefit inherent in joint strategic information sharing ..., companies will

⁸⁴ Vantage Partners; Negotiating and Managing Key Supplier Relationships; 2006

⁸⁵ Vantage Partners; Negotiating and Managing Key Supplier Relationships; 2006

⁸⁶ Vantage Partners; Negotiating and Managing Key Supplier Relationships; 2006

decide that in some cases, the potential rewards outweigh the risks associated with such disclosure.”⁸⁷

Practice: If the partnership breaks, re-launch it

Vantage partners proposes that when partnerships begin to sour, a “re-launch” can be held to turn things around.⁸⁸ Rather than expend inordinate time and resources analyzing problems to assess blame and apply penalties, parties should come together to address the issues that have led to the problems. A relationship re-launch consists of a series of activities which:

- Enable both parties to identify and discuss perceived symptoms of problems
- Explore the root causes of underperformance
- Provide opportunities to revisit original relationship objectives and make any necessary adjustments
- Develop strategies for overcoming current and future challenges
- Establish milestones for meeting objectives and metrics for assessing performance

Re-launches are frequently conducted as team building sessions and held at offsite locations.

4.3 Benchmarking During the Select Phase

During the Select phase, benchmarking can be used to supplement the evaluation process. Benchmark data can be requested of vendors and that data can be compared across vendors and to industry data. These benchmarks can answer questions such as: “What operational capability do I demand of a service provider?” and “How do I leverage benchmarking to influence my service provider selection?”

For example, a selection scorecard can be created to assess and compare potential providers, as seen below:

| | SSC A | SSC B | SSC C | SSC D | SSC E |
|------------------------|-------|-------|-------|-------|-------|
| Financial Review | - | - | - | - | - |
| Questionnaire Response | - | - | - | - | - |
| Non-Profit | - | - | - | - | - |
| Security Review | - | - | - | - | - |
| References | - | - | - | - | - |

⁸⁷ Vantage Partners; Managing Outsourcing Relationships; 2006

⁸⁸ Vantage Partners; Managing Outsourcing Relationships; 2006

| | | | | | |
|---------------|---|---|---|---|---|
| Delivery Team | - | - | - | - | - |
|---------------|---|---|---|---|---|

In addition, some potential customers like to gauge key human capital metrics such as the turnover of the staff of potential providers to aid in the selection process. The Saratoga Median formula for *Average tenure* is: total tenure divided by regular headcount. The median is the desired goal.⁸⁹

| | 10 th | 25 th | Median | 75 th | 90 th |
|---------------|------------------|------------------|--------|------------------|------------------|
| All | 4.56 | 6.53 | 8.97 | 11.61 | 14.92 |
| Public Sector | 8.08 | 9.42 | 11.94 | 13.70 | 14.44 |
| Non-Profit | 6.52 | 7.72 | 9.08 | 11.43 | 13.74 |

Call center time to fill measures the calendar days from the date a job requisition is approved to the date an offer is accepted by a Call Center hire.⁹⁰ This metric is a potential indicator of the effectiveness and efficiency of the recruitment function. It is influenced by the labor market, industry and location.

The formula for call center time to fill is: total call center days to fill divided by total call center hires. The median is the desired goal.⁸⁸

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 7.2 | 18.1 | 30.4 | 36.4 | 42.0 |

The formula for *Call Center Voluntary Separation Rate* is: Total Call Center Voluntary Separations / Call Center headcount. The 25th percentile is the desired goal that you would like to strive to achieve.⁸⁸

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 4.6% | 9.0% | 22.6% | 44.2% | 48.7% |

⁸⁹ Saratoga. "U.S. Human Capital Effectiveness Report." December 2005.

⁹⁰ Saratoga. "U.S. Human Capital Effectiveness Report." December 2005.

5 Migrate – Moving Toward the Future HR Service Delivery Model

The overall objective of the Migrate phase is to move toward the future HR service delivery model, transferring selected operations from the agency to the Shared Service Center with minimal disruption of service to customers while simultaneously managing the impact of the change upon the agency and its managers and employees.

“Success today is not simply about leading anymore. It’s about the discipline of creating, energizing and sustaining an integrated business system. It must be about implementing, not just announcing, strategies.”⁹¹

Over the course of the Migrate phase, the following key questions are addressed:

- What are the most appropriate options to migrate to end state?
- What sequence of transitions should be adopted?
- What is the achievable timeline for delivering the migration outcome?
- What resources are needed to complete the migration?

This phase begins with a migration strategy and plan that proposes an overall approach to migration and details the resources and timeframes needed to move to the end state defined during the previous phases. Process designs are finalized and corresponding procedures and job descriptions are developed. A training strategy and training plan provide for equipping people to perform in this future state. A detailed IT project plan and data conversion specifications are developed, tested, and executed. After the migration, migration costs and lessons learned are gathered and analyzed.

Major Migrate phase activities, along with entity(s) responsible for results, are outlined below.

- Perform a detailed fit-gap analysis (responsible: customer agency and provider).
- Devise and validate migration strategy; develop and execute detailed migration plan (responsible: customer agency and provider).
- Develop and execute detailed project plan (responsible: customer agency and provider).
- Develop detailed data conversion specifications (responsible: customer agency).
- Identify and execute system modifications and business process changes (responsible: customer agency and provider).

⁹¹ “Memo to a New CEO: veteran Larry Bossidy explains what it takes to succeed in today’s changing climate.” Chief Executive Publishing, 2003.

- Normalize provider and customer agency processes; document new procedures; revise existing procedures (responsible: customer agency and provider).
- Revise job descriptions as necessary (responsible: customer agency).
- Implement new job roles and responsibilities (responsible: customer agency and provider).
- Devise and Execute training strategy; document individual training and development plans (responsible: customer agency).
- Convert data (responsible: customer agency and provider).
- Perform migration cost analysis (responsible: customer agency and provider).
- Identify and record lessons learned (responsible: customer agency and provider).

The practices described in this section that support these Migrate phase activities fall into three overall categories:

1. Migration initiation
2. Migration management
3. Migration exit

5.1 Context

Once the human resources transformation approach has been defined and a service provider selected, the next step is to implement the planned approach and migrate to the new service delivery model. The migration must be planned and orchestrated in a deliberate way, leveraging lessons learned from transformation programs of comparable organizations. Jeanne Ross and George Westerman from the MIT Sloan School of Management describe a framework for understanding the risks inherent in entering outsourcing relationships:

Strategic Risks:

- By outsourcing a particular HR process, the organization may be losing knowledge and capabilities that may gain additional importance in the future
- Changes in the strategic direction of the organization must now be coordinated with one or several outside firms that may or may not be able to react with the same level of responsiveness
- Outsourcing can limit the opportunities to attract and develop future human resource leaders in the organization

Relationship Risks:

- Vendor and client are making long-term arrangements based on events that cannot be definitely predicted in the future, such as vendor viability, market conditions, and legal or regulatory changes

Transition Risks:

- Disruption in service levels are possible due to a failure to adhere to, or adopt new processes, tools, and other work arrangements
- Potential attrition or planned job loss can impact morale and organizational effectiveness, particularly with key staff

Operational/Technical Risks:

- New technologies, the introduction of third-party subcontractors and the financial health of a vendor can all have a real impact the ability to deliver a particular service
- Outsourcing can also increase the perception that sensitive employee information might be misused or misappropriated

The practices outlined below offer some approaches that can be taken to mitigate these risks and successfully realize program benefits.

5.2 The Practices

For any migration effort to be successful, *execution* is key. Effective planning, monitoring, and control are important during all three sub-phases – Migration Initiation, Migration Management, and Migration Exit. Achievements of project objectives are predicated on a successful migration initiation, management of the migration strategy and plan, a successful migration conclusion, and the initiation of service offerings.

The overarching objective of the migration effort is to minimize the disruption of services to customers. To meet this objective, the following results must be achieved:

- Develop a comprehensive understanding of process complexities, handoffs, and exception procedures
- Understand customer expectations and requirements
- Implement an effective organization that will meet customer's current and future needs
- Transfer knowledge
- Transform operations
- Migrate on time and within budget parameters
- Compile and document lessons learned

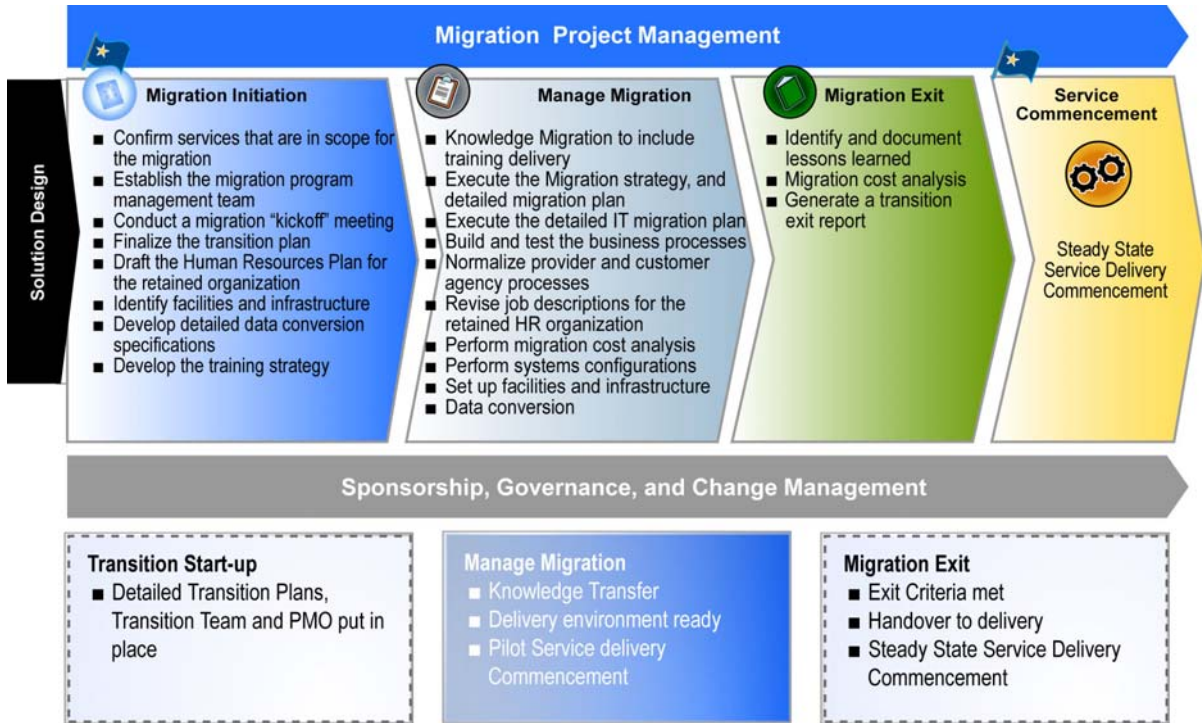


Figure 10: Migrating to Shared Services – A Phased Approach

This section provides practices and insight into how to realize these results. This section also provides insight into how benchmarks can be used to support the practices.

5.2.1 Migration Initiation

During the Migration Initiation, the migrating agency will work with its Shared Service Center to complete the preparation and planning necessary for a successful migration to the SSC and new service delivery model.

Practice: One project, one team

Once on board, the agency team will collaborate with the service provider migration team, resulting in one cohesive program team. The earlier in the program the two organizations partner in both strategic and operations planning, the smoother the migration will be.

“It is critical to involve future operational leaders as early as possible. There are practical and conceptual reasons for this: an inclusive solution is always more readily accepted for those responsible for ongoing service

delivery; the solution will be more comprehensive when challenged by those experienced in day-day operations.”⁹²

Once integrated, the team will participate in a program team kickoff meeting to develop consensus on the vision of the transformational migration, the implementation roadmap and timeline to achieve the vision, and the roles of each program initiative and team member. Following the kickoff meeting, the program team will revise and extend the implementation roadmap, developed previously in the Define phase, producing a comprehensive project plan detailing the migration strategy, including task assignments, due dates, responsibilities, ownership, and milestones.

Practice: Build value over time

Migration to shared services is frequently accomplished in phases. One source recommends thinking of shared services as an end state and migration as a movement toward that end state. Constituent parts can be planned as phases to deliver quick wins early on. Early realization of benefits encourages acceptance and support for the shared services initiative and can increase the overall savings available.⁹³ When identifying these near-service delivery improvements, it is imperative that these quick wins be aligned with the overarching vision for the program. Additionally, customer service must not be not compromised while service levels for *all* processes maintained at acceptable levels.

Practice: Identify and manage migration risks

Transition periods can be disruptive and organizations can forget the basics, neglecting fundamentals such as business controls. Risk management is one control that should receive a lot of attention during the migration period. The agency must work with the provider to document a plan to identify and mitigate risks.

⁹² AT Kearney. “Shared Services in Government: Turning private sector lessons into public sector best practices.”

⁹³ IBM. “Shared Services: Driving UK Public Sector Transformation.” 2006.

| Sample Risks and Corresponding Mitigation Strategies | |
|--|---|
| SAMPLE Risk | Potential Mitigation Strategy |
| ⚠ Timelines are too aggressive and not achievable | ✔ Detailed transition plan with base-lined methodologies and techniques |
| ⚠ SLAs are not realistic | ✔ SLA inputs thoroughly vetted to include benchmarking with comparable organizations and multiple inputs |
| ⚠ Incorrect technical solution has been prescribed | ✔ Detailed technical migration strategy to include testing with systems experts |
| ⚠ Lack of clear governance | ✔ Documented governance plan prior to migration initiations |
| ⚠ Stakeholder expectations/resistance are not managed, and program benefits not communicated | ✔ Dedicated team focused solely on the execution of an all inclusive change management strategy at agency location(s) |
| ⚠ Inaccurate FTE calculations | ✔ Accurate reporting data and SME input into the work migration strategy and plan |
| ⚠ Attrition of key program staff | ✔ Formal program succession plan for key positions |
| ⚠ Lack of SME presence and participation | ✔ Robust knowledge gathering and harvesting strategy at migration onset |
| ⚠ Too many changes to IT solutions | ✔ Complete and vetted technical solution |
| ⚠ Insufficient up front investment | ✔ Development of a formal business case and investment secured prior to contract signing |

Table 2: Sample Risk and Mitigation Strategy Matrix

To mitigate the impact of risks such as those outlined above, issue resolution procedures must be documented and formalized within the framework of the existing organizational and program governance structures. These procedures will be used to define how the agency and service provider escalate problems and issues across the two organizations. The procedures may also trigger the change request and approval process.

Issues and disputes should be resolved as close to the source as possible. Some enterprises, in fact, provide rewards to employees for resolving issues at their level and avoiding the escalation process. A sound escalation process does need to be in place, however, to ensure

that issues are openly communicated and managed to achieve successful resolution, many successful migrations have the benefit of a *migration committee*. The migration committee is comprised of representatives from both the provider and customer organizations with the responsibility for reviewing the achievement of key milestones, achievement of projected benefits, and the timely resolution of those risks escalated from the migration team.

Practice: Assess and address organizational readiness

The assessment of organizational readiness prior to the migration entails a formal review of the organization's ability to move through the transition state and then operate successfully post transition. An organization's change readiness is contingent on two factors: its ability to absorb change and the degree or extent of change expected. To assess readiness, the people who will be affected by the change – the change targets – are surveyed about the change. These surveys may be done electronically, in one-on-one or group interviews, or in focus group sessions. Major change readiness issues are identified and strategies are proposed to address the issues. A change management plan is created to address the organizational change and cultural issues identified via the readiness assessment.

“Outsourcing represents a major culture change for everyone in an organization, not just the HR function. So it's not surprising that companies' toughest implementation challenges involve the impact on people in the organization, particularly employees and managers.”⁹⁴

It is useful to conduct the readiness assessment more than once. Just prior to initiating the migration of HR practices, successful programs often conduct a final organizational readiness assessment, looking for the following readiness indicators, to ensure a smooth migration:

- All customer roles in the new service delivery model have been defined, communicated, and understood
- Clear roles and responsibilities have been defined and communicated to retained HR team members
- Sponsorship and “buy-in” is tangible
- Confidence exists regarding the organization's ability to absorb the change
- A strong program team and program management office is high performing
- Anticipated program benefits have been communicated and understood across the organization
- The appropriate level of funding has been agreed upon between the agency and provider, and adequately appropriated
- Clear decision making and issue resolution mechanisms are in place

The new service delivery model will undoubtedly entail a changing role for business customers and the program change management strategy must account for addressing this

⁹⁴ Towers Perrin. “HR Services; HR Outsourcing: New Realities, New Expectations.” 2005.

change. Customers (both managers and employees) must embrace a new sense of ownership in the HR process and be willing to fully leverage technology, rather than a paper-based, face-to-face process, to process administrative and transactional work.

“...the challenge lies in reshaping employee and manager behaviors so they accept their newfound responsibility to ‘serve themselves’ and depend less on HR generalists for questions or support in enrolling in or managing their programs.”⁹⁵

Practice: Anticipate infrastructure needs

The facilities and infrastructure plan describes how and when various types of facilities and infrastructure requirements will be made available. This includes the physical office space, office equipment, and IT resources including hardware, software, and communications. The facilities and infrastructure plan must dovetail with the Human Resource (staffing) plan to make facilities and equipment available to the staff – both service center staff and agency retained HR staff – at the right time and at the right location.

5.2.2 Migration Management

Practice: Build a coherent migration strategy

Experience has shown smaller migrations are more successful than large, wholesale migrations. “Instead of outsourcing business functions all at once, ramp up gradually. Learn to manage this activity on a small scale when there is little at risk so you can gain experience and work out the kinks. Afterward you can branch out into broader corporate restructuring.”⁹⁶ “You want to test the waters,” says Lisa Ross, CEO of FAQ research. “Start with the easiest pieces, the high-volume, easily repeated functions where there’s not much that can go wrong.”

“The big bang approach to outsourcing is dead.”⁹³

There are a number of ways to approach migration. One is to phase it in by process: for example, do a complete migration to Personnel Action processing, then Benefits Management, and finally Compensation Management. Another approach is to migrate services by organization unit, beginning with the largest unit and then migrating in descending order of size. Some enterprises that are widely distributed migrate services by region or geographic location. When thinking through a migrating approach, organizations typically weigh return on investment versus the probability of service disruption.

⁹⁵ Towers Perrin. “HR Services; HR Outsourcing: New Realities, New Expectations.” 2005.

⁹⁶ “Fortune in partnership with International Association of Outsourcing Professionals.” The Global Outsourcing 100 2006.

Practice: Migrate knowledge

Knowledge migration is the process of transferring for reuse all applicable knowledge that has been acquired, valued, structured, and published. The knowledge migration plan should provide a schedule and framework for the transfer of knowledge from the employees currently performing various activities to the employees who will be performing them. Ongoing capture and recording of knowledge developed or gained during the transition is also a part of the knowledge migration plan.

Knowledge migration typically entails three key initiatives: process documentation, work shadowing, and stakeholder sign-off and approval. Process documentation includes process maps containing interfaces in the “to be” service delivery model and desktop procedures containing detailed task descriptions, systems touchpoints, exception handling, and escalation procedures. Work shadowing involves select members of the program team observing a process subject matter expert (SME) perform his or her day-to-day activities. The team members will then perform variations of the process multiple times under observation of the subject matter expert to gain familiarity with the process in a controlled environment. Finally, the maps and desktop procedures will be revised based on the gaps observed, documented, and passed to key stakeholders for sign off.

Practice: Provide ample training

A number of considerations are factored into training rollout including:

- Development needs of the agency’s retained HR organization on the new processes and service delivery model
- Development needs of service provider personnel on their new customer’s policies and procedures
- Staffing solutions and recruitment timelines

The average duration for shared services related training ranges from four to six weeks, while leading organizations devote an average of eight weeks to training (see Figure 11)⁹⁷. Best practices research has shown that organizations that invest more time in development at the onset of employment realize better service, efficiencies, and return on investment in both the near- and long-term. Most organizations pursue a blended training approach, as the use of multiple training vehicles have proven effective in training delivery including classroom training, one-on-one development sessions, self-study, on-the-job training, and Web-based training.

⁹⁷ Corporate Leadership Council. “Selection and Training of Call Center Employees at Insurance Companies.” January 2004.



Figure 11: Training Duration for Leading Organizations

After training has taken place, best practices propose that organizations evaluate training to determine what improvements can be made to the training curriculum, content, and delivery. Training evaluation frequently occurs just after it takes place. However, evaluations may also be appropriately done after a period of time – to ascertain the longer term business value and / or operational results. According to the Corporate Leadership Council, “The most popular evaluation method by far is reaction (level one evaluation). Companies continue to have difficulties in relating the impact of training to business results (level four evaluation) – just three percent of courses use level four evaluation.” According to a recent examination of the issue in *Training & Development* magazine, the principal obstacle to effective evaluation is the perception that tying training to results requires a complex, dedicated measurement system. In fact, whether the company uses the Kirkpatrick model (a four-level model commonly used for training evaluation), the balanced scorecard or 360-degree reviews, the principal objective is that training generates a noticeable improvement in performance, regardless of how it is measured.”⁹⁸

Practice: Execute the migration strategy

Technology is a key enabler of shared services, “The move to shared services is often the cause for, or the result of, a reevaluation of systems and technical architecture within an organization. A shared services organization requires a strong technical infrastructure to support its customers effectively. In addition, technology provides the means to improve data integrity, thus facilitating the use of data as information throughout the organization.”⁹⁹ A key element of successful migration is technology migration. The program team will ensure systems and infrastructure are developed to support the operational capabilities as identified in the detailed IT project plan to meet service level objectives.

Components are tested individually, then combined for string tests of specific process flows. System tests are defined and executed to emulate end-to-end flow in the new environment and to fully test the integration of the individual sub-systems. User acceptance testing is conducted to familiarize key users with the system and identify issues in the simulated

⁹⁸ Corporate Leadership Council; Call Center Turnover, Retention and Staff Training; February, 2002.

⁹⁹ “Reshaping the Corporation: Consortium Benchmarking Study Best Practices Report.” [APQC International Clearinghouse](#).

production environment. The testing continues until all components and sub-systems have successfully passed all tests for the migrating HR processes.

As documented in previous sections of this document, one end-state objective to the migration of shared services is to reengineer and standardize processes where it makes business sense. Following all migration milestones on the critical path, lag time should be captured into planning efforts to normalize the delivery of centralized processes and capture metrics for incorporation into continuous process improvement projects.

Practice: Execute the HR plan

The HR plan provides a detailed description of the number of employees, by skill and competency, that will be required for the new delivery model. In addition, the HR plan includes considerations for the transfer of some staff from the agency to the new service center and the transfer of some management responsibilities. According to SHRM, achievement of maximum value from outsourcing requires:

- Putting in place an overall HR service delivery model that integrates outsourced and retained HR
- Redesigning processes and roles, while upgrading retained staff's knowledge, skills, and capabilities
- Increasing line manager and employee readiness to capitalize on HR's new role and capabilities¹⁰⁰

Practice: Understand what it all costs

Tracking and monitoring the actual costs incurred during migration against the costs forecast in the business case is a key component to defining program success. Migration costs are typically comprised of consulting and program costs, technology costs, and one-time migration costs to be paid to the service provider. According to AT Kearney, “Successfully implementing shared services depends on first understanding and managing technology expenses. This is a key lesson from private sector, where poor management of technology causes many organizations to underestimate overall project costs and the level of necessary effort. In some cases, technology costs have doubled in the course of implementation. With benefit projections often erring on the optimistic side, this puts the overall business case under severe pressure.”¹⁰¹

¹⁰⁰ Miller, Stephen. “Designing Retained HR to Complement Outsourcing.” June 2006.

¹⁰¹ AT Kearney. “Shared Services in Government: Turning private sector lessons into public sector best practices.”

5.3.3 Migration Exit

During Migration Exit, the migration team verifies that tasks are satisfactorily complete and documents experiences so they can be leveraged in future initiatives.

Practice: Verify the job is done

The transition exit report will be produced to confirm that all exit criteria have been met, key worksteps have been completed, and work products have been developed.

Practice: Learn from experience

The generation of a lessons learned report will document identified problem areas and recommendations for the initial migration so they can be leveraged in subsequent migrations.

5.3 Benchmarking During the Migrate Phase

During the Migrate phase, benchmarking can be used to track whether the migration is achieving program objectives and targets. Benchmarks leveraged in the Migrate phase should utilize metrics to determine if the service delivery model is being achieved as documented in the business case. Measures that address these issues answer questions such as “What service delivery channels are being used to deliver HR?”; “What percentage of total processes, as identified in the migration plan, has been successfully migrated to the service provider on schedule?”; and “What stakeholder penetration has our communications plan achieved?”

For example, if long-term service delivery model objectives are achievement of 80% employee and manager self-service, 15% call center, and less than 5% face to face, it is important to measure progress. This exercise will include the benchmarking of comparable organizations’ use of self-service and the establishment of a baseline for the migrating organization. In addition, it may prove beneficial to measure the speed and quality of your migration to transformation programs of comparable organizations.

6 Operate and Improve – Establishing a Culture of Continuous Improvement

The overall objective of the Operate and Improve Phase is to ensure service providers are meeting service expectations and to leverage performance experience to identify performance improvement initiatives.

Over the course of the Operate and Improve phase, the following key questions are addressed:

- How are we doing against performance expectations?
- What are the areas for performance improvement?
- Are we meeting business case objectives?
- What are the next steps to achieving the HR vision?

During this phase, the customer agency and Shared Service Center work together to capture, report, and analyze performance data. The results of this performance analysis are used to identify opportunities for further improvement. The HR Transformation Roadmap is updated to include these newly-identified initiatives.

When services are migrated, it is important to have a formal approach to monitor the new service delivery model through the tracking and measuring of operational performance.

Major Operate and Improve phase activities, along with entity(s) responsible for results, are outlined below.

- Gather and report performance results (responsible: customer agency and provider)
- Review financial performance against business case objectives (responsible: customer agency and provider)
- Analyze performance results against expectations to identify improvement projects (responsible: customer agency and provider)
- Review and revise agency HR transformation roadmap (responsible: customer agency)

The practices described in this section that support these Operate and Improve phase activities fall into three overall categories:

1. Plan and design the performance management process
2. Review performance
3. Manage the process

6.1 Context

Performance management should be a fundamental philosophy and process in any organization: it helps to ensure that both near-term and long-term strategies are achieved. In a shared services arrangement, the customer and service provider work together to plan, review, execute, and reward objectives that meet needs of the business and its stakeholders.

According to Deloitte, one of the key issues facing the government today is the measurement of performance, “Governments need to continue to focus on gauging performance by what is achieved. Leaders should strive to understand the real results that are being delivered, and how much real progress is being made.”¹⁰²

A successful performance management program addresses both the objectives (*what* should be achieved) and the required competencies (*how* the objectives can be achieved).

6.2 The Practices

6.2.1 Plan and Design the Performance Management Process

According to SHRM, “Reviewing operational performance is a continuous process which measures, tracks, and provides a mechanism to operational management to improve their performance.”¹⁰³ Such a process includes five distinct stages (see Figure 12).



¹⁰² Deloitte. “Serving the 21st Century Citizen: Global Perspectives.” 2005.

¹⁰³ Society for Human Resource Management. “Outsourcing and Offshoring HR Series Part I: Outsourcing.” 2004.

Figure 12: Benefits Realization – A Continuous Process

A program performance management process will:

- Provide a framework to measure and realize program objectives and goals
- Be consistent with the program vision
- Be leveraged to drive project scope and design, engage executives, and secure support
- Define benefits that are owned, measured, and tracked

A successful performance management system requires clear communication of objectives; mutual discussion and agreement on objectives; a process for reviewing performance; a link between performance and remuneration; and a built-in capacity for dealing with ambiguity and change. When all of these issues are addressed, it encourages a motivated workforce to work towards the achievement of the overall objectives.

Practice: Celebrate balanced results

The balanced scorecard first came to fruition in 1992, developed by Robert Kaplan and David Norton. Traditional operational measurement methodologies primarily focused on tracking financial performance and did not offer a holistic “snapshot” of organizational performance. The scorecard enables leadership to measure and track the performance of their respective organization through the tracking of “metrics that matter”. The scorecard is meant to provide insight into performance trends and drive thoughtful decisions based on quantitative data.

Kaplan and Norton’s balanced scorecard typically contains four main measurement categories, or quadrants. The quadrants can be adjusted to meet the unique needs of an organization:

| Category | Key Concepts & Basic Measures |
|-----------------------------------|--|
| Financial Goals | <i>How do we look to stakeholders?</i> A range of measures from traditional accounting measures to sophisticated value-added measures linking managerial goals to stakeholder interests. |
| Customer Perspective | <i>How do customers see us?</i> Responsiveness, quality, value added to customers through services or products, number of repeat customers, fewer errors, etc. See that surveys and questionnaires have an acceptable rate of return and validity. |
| Internal Processes | <i>What must we excel at?</i> Performance in operations or production. |
| Learning and Growth or Innovation | <i>Can we continue to improve and create value?</i> How the organization develops and improves employee skills, knowledge, technology, and information systems. |

Table 3: Balanced Scorecard Key Quadrants ¹⁰⁴**Practice: Identify objectives, measures, and targets**

Objectives and measures used to communicate and drive performance will be representative of total HR service delivery and will incorporate the service level agreement with the service provider. As the demand for shared services disclosure and accountability increases, it will be critical for organizations to have standardized SSC performance metrics and key performance indicators available for benchmarking purposes.

All objectives will be measurable, realistic, and meaningful; relevant to the agency's goals and vision; and supported by both outcome (lag) metrics, and driver (lead) metrics. These metrics will all be associated with a specific performance objective. When consolidated, the metrics will accurately report current performance against each objective. Quantifiable and achievable targets will be assigned to each metric and be depictive of historical performance, the program strategy, and business case.

According to research conducted by Accenture, "Other indications that governments may not yet be capitalizing on the potential of their shared services occur in the areas of performance management and creating a culture of continuous improvement. A culture of continuous improvement is a key feature of high-performance shared services organizations. Yet, fully

¹⁰⁴ Kaplan, Robert S., and David P. Norton. "The Balanced Scorecard: Translation Strategy into Action. Harvard Business School Press 1996.

25 percent of survey respondents reported having no performance targets related to their shared services organizations.”

Practice: Construct a strategy map

When an enterprise constructs its strategy map, it begins by formalizing its value chain through identification and documentation of its services and differentiators. Each step in the value chain should be understood in terms of its desired end result; these results are, in turn, mapped back to the performance dimensions identified in the enterprise’s balanced scorecard. In *The HR Scorecard*¹⁰⁵, Brian Becker and Mark Huselid recommend asking the following key questions to assess how the HR organization adds value to an enterprise:

- Which strategic goals / objectives / outcomes are critical, rather than nice to have?
- What are the performance drivers for each goal?
- How will we measure progress toward these goals?
- What are the barriers for achievement of each goal?
- How would employees need to behave to ensure that the company achieves these goals?
- Is the HR function providing the company with the employee competencies and behaviors necessary to achieve these objectives?
- If not, what needs to change?

As strategists think through the strategy map, they should build a user-friendly, graphic depiction of it, clearly presenting the enterprise’s *strategic value creation* (see Figure 13), an example from the retailer Sears.

¹⁰⁵ Becker, Brian E., Mark A. Huselid, and Dave Ulrich. “The HR Scorecard: Linking People, Strategy, and Performance.”

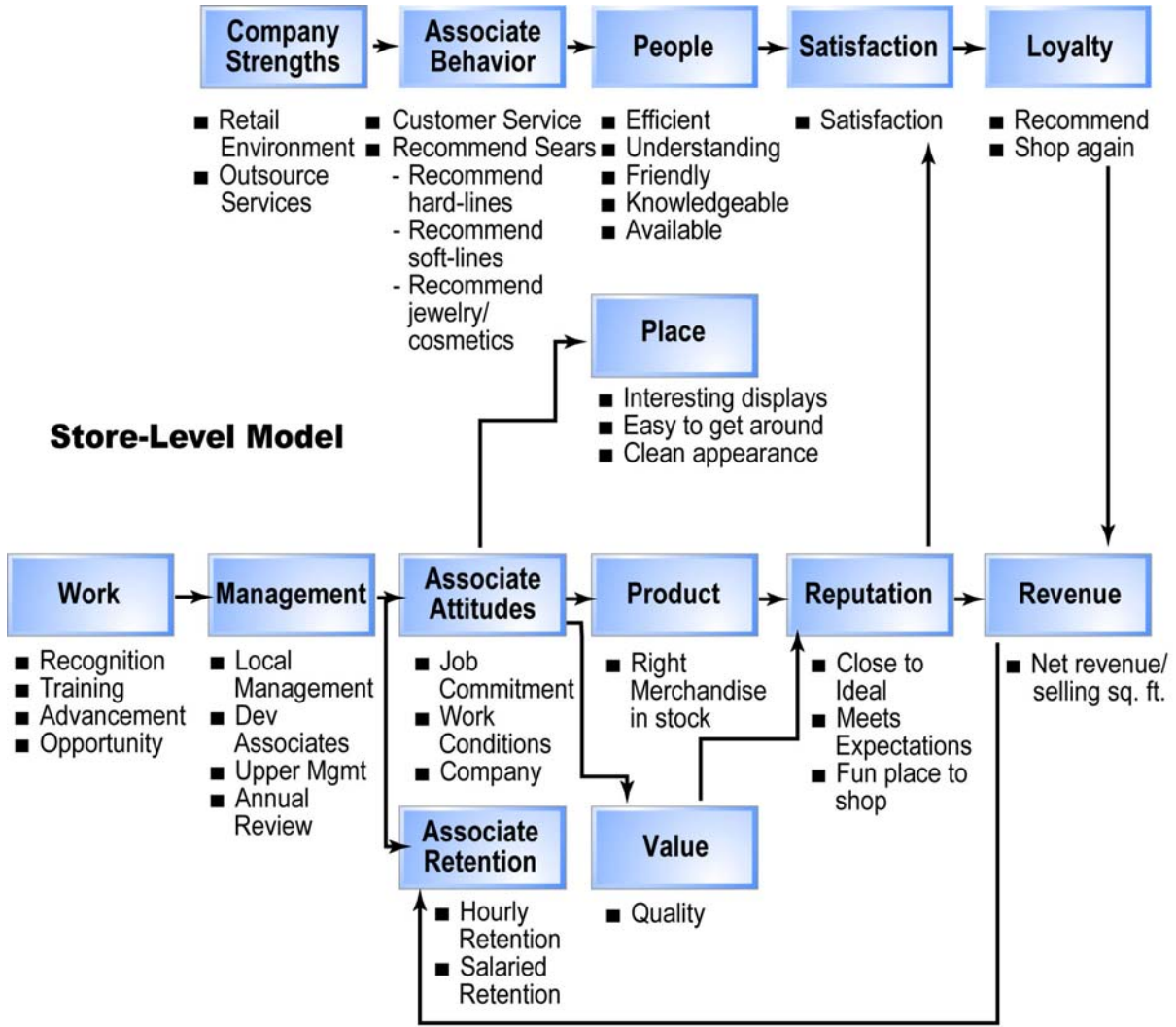


Figure 13: Sears “Total Performance Indicator” Model for Full-line Retail Stores ¹⁰⁶

Practice: Ensure benefits outlined in the business case are realized
 Business cases developed at the inception of transformation initiatives are quite frequently never revisited. Benefits realization programs track benefits fulfillment based on achievement of implementation milestones and a maturing service delivery model. Key points to consider when pursuing organizational transformation:

¹⁰⁶ Harmer, Martin J., and Donniel S. Shulman. “Shared Services: Adding Value to the Business Units.”

- *Benefits do not just happen.* They don't just automatically appear when a new technology is delivered. A benefits stream flows and evolves over time as people learn to use it.
- *Benefits rarely happen according to plan.* A forecast of benefits to support the business case for an investment is just an early estimate. It is unlikely to turn out as expected, much like corporate earnings forecasts. You have to keep checking, just as you would with a financial investment that fluctuates in value on the securities market.
- *Benefits realization is a continuous process* of envisioning results, implementing, checking intermediate results and dynamically adjusting the path leading from investments to business results. Benefits realization is a process that can and must be managed, just like any other business process.¹⁰⁷

Practice: **Aspire to six sigma**

SHRM research reports a recent discovery at DuPont that some employees applying for long-term disability had a long wait for an answer – up to six months. In response to this clearly unacceptable service level, the human resources team turned to a familiar process: Six Sigma. Similarly, HR professionals at Motorola, Dow Chemical, General Electric, Ford, and other companies apply Six Sigma to fix, improve, and sustain HR processes. “It’s the way we do work,” says Steve Constantin, Global HR Director for Dow.¹⁰⁸

Furthermore, SHRM publications indicate, “Six Sigma is a quality improvement process starting with the voice of the customer and using data and statistics to solve customer problems,” says Lori S. Miller, HR generalist at DuPont headquarters in Wilmington, Delaware. Six Sigma is organized around individual projects with finite timelines. Each project begins by forming a team to identify the customer and the customer’s needs. The team measures how those needs are being met, analyzes the variables that affect customer satisfaction, improves the process, and finally locks in improvements to control the process. DuPont’s approach is altogether consistent with the Six Sigma methodology to define, measure, analyze, improve, and control (DMAIC) (see Figure 14).¹⁰⁷

¹⁰⁷ Thorp, John, and FUJITSU Consulting’s Center for Strategic Leadership. “The Information Paradox: Realizing the Business Benefits of Information Technology.” McGraw-Hill Ryerson: 2003.

¹⁰⁸ Heuring, Linda: Society for Human Resource Management. “Six Sigma in Sight.” 2004.

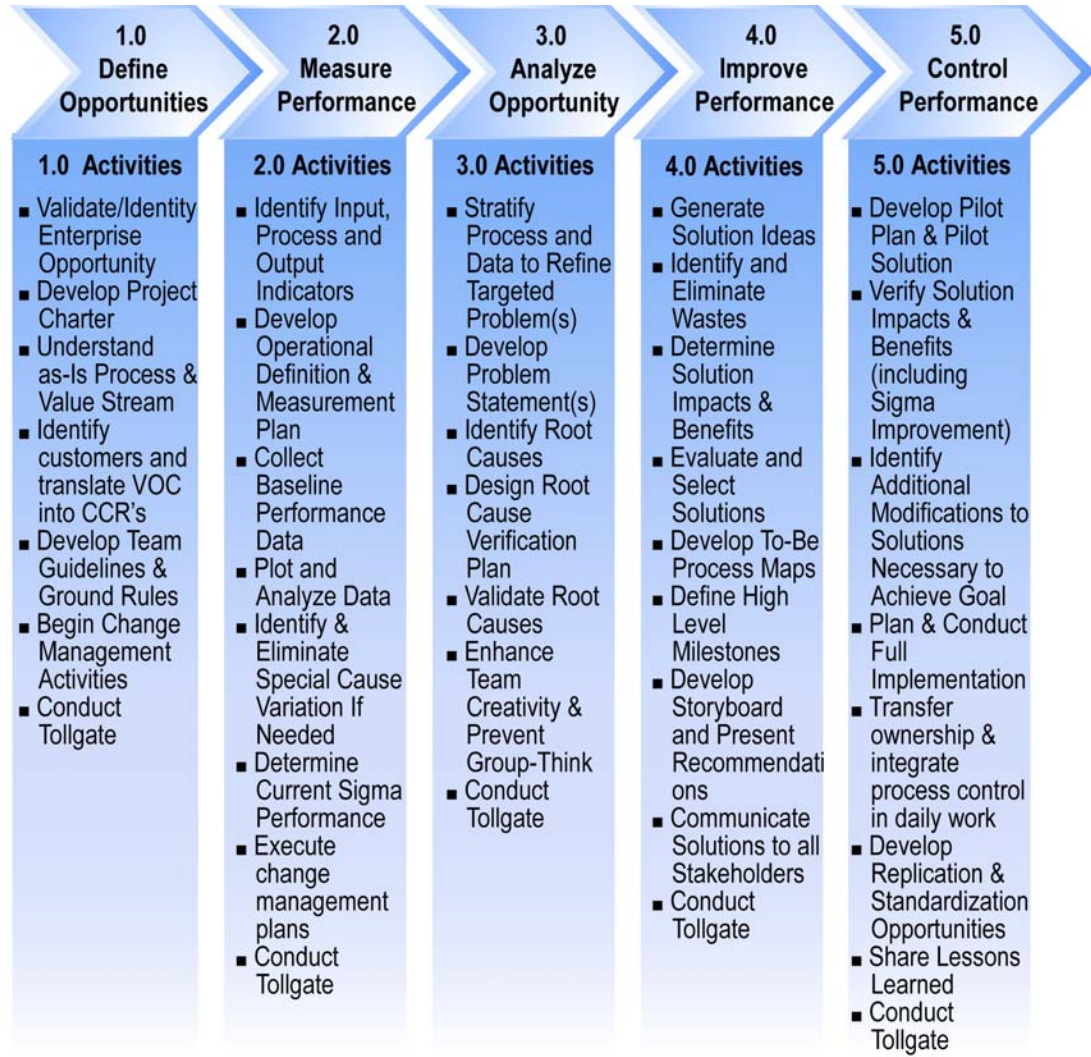


Figure 14: Six Sigma Methodology

“Applying Six Sigma to HR is really no different than applying it anywhere else in the organization,” says Jackie Nelson, HR master black belt for GE Consumer Finance, Americas. “The key is, ‘What are the gaps?’ Once you understand what the problem is, it’s like a mathematical problem you apply the right formula to solve.”¹⁰⁹

According to Rick Schleusener, master consultant with Six Sigma Academy, it is not that Six Sigma doesn’t value experience; rather, it is that the data speaks for itself. “A lot of Six Sigma is just being disciplined about collecting the data, and when you do that, all of a sudden some pretty obvious answers just jump out at you.” In one such instance, a Colorado

¹⁰⁹ Heuring, Linda: Society for Human Resource Management. “Six Sigma in Sight.” 2004.

manufacturer was having trouble recruiting for a 24/7 operation where local unemployment was 2 percent, Schleusener says. As a result, the company was paying excessive overtime to experienced workers. Human resources proposed what experience had taught them would work – raise the entry-level salary to be more competitive.¹¹⁰

“To understand what is being proposed we must define the problem, measure all relevant attributes, analyze data to understand the issues, and develop solutions. We then have to identify and implement improvements, verify that we have fixed the entire problem, and validate that the improvement is real. Finally, we must execute the plan.”¹¹¹

“A defect is anything that deviates from what the customer wants,” explains David Hermens, a Six Sigma black belt and trainer with the consulting firm Breakthrough Management Group. And anything in any industry that affects a customer’s experience with the company can be addressed using Six Sigma. He noted that the methodology, which took hold in the late 1980s among U.S. manufacturers, is being adopted more today in service industries where “99 percent [success] is no longer good enough.”¹¹²

As Hermens said, “Organizations and customers basically want the same things; the terms to describe these are just different. Organizational goals are to reduce defects, cycle times, and costs. Addressing these factors effectively means a company is addressing key customer expectations, which are quality, delivery and price or value”¹⁰⁶

6.2.2 Review Performance

The 'Review' stage involves continuous review and feedback of performance throughout the process. This would also include customer satisfaction feedback, obtained directly from agency employees and managers throughout the process, and which forms part of the evidence for the next stage of performance management.

Balanced scorecards are often difficult to implement. As a result, KPMG designed "The Ten Commandments of Scorecard Implementation."¹¹³ The commandments are summarized below:

¹¹⁰ Heuring, Linda: SHRM. “Six Sigma in Sight, With Six Sigma techniques, managers improve processes and quality based on Hard data.”

¹¹¹ Conic, Ellory: VP Six Sigma and Operations Analysis, Motif, INC Confluence. “The newsletter for global services.” January 2007.

¹¹² Minton-Eversole, Theresa: SHRM. “Companies Get Better, Faster Using Six Sigma Quality Process.”

¹¹³ Pike, Valerie E.: Society for Human Resources Management. “Balanced Scorecard Basics on Implementation.” 2002.

| Do | Don't |
|---|--|
| ✓ Know what you hope to achieve | ✗ Use the scorecard for top-down control |
| ✓ Use the scorecard for implementation of strategic goals | ✗ Standardize the project with ready-made scorecards |
| ✓ Ensure goals are in place before the scorecard is implemented | ✗ Ignore training and communication |
| ✓ Ensure that at least one top-level non-financial sponsor and line managers back the project | ✗ Overcomplicate the process or strive for perfection |
| ✓ Implement a pilot before introduction | ✗ Underestimate the extra administrative workload and cost |
| ✓ Carry out a pilot for each business unit before implementation or customization | ✗ Leave the process to accountants or without top-down support |

Table 4: Ten Commandments of Scorecard Implementation

The following key points illustrate the advantages and disadvantages to scorecard implementation in the public sector¹¹⁴:

¹¹⁴ Pike, Valerie E.: Society for Human Resources Management. “Balanced Scorecard Basics on Implementation.” 2002.

| Advantages | Disadvantages |
|---|--|
| Measures can be designed to compare to other organizations for benchmarking. | Offsetting the cost of implementation may be difficult over the short term. |
| A scorecard provides stability and adaptability for an organization to sustain political and leadership transitions. | Scorecard development, continuous identification of drivers and establishing connections between financial and non-financial measures is time-consuming and creates an additional workload. |
| Linking financial and non-financial measures together aligns strategies to common goals. | The scorecard process is complex. It may take two or three training sessions to fully understand it. Materials must be understandable to employees at all levels. |
| Builds and strengthens culture where staff, unions and management need to work toward common goals. | Scorecards initiate organizational change; thus there is resistance. This necessitates communication and involvement of all staff. A communication plan is recommended. |
| Strategies and measures are clear and communicated to staff at all levels. | How the scorecard is put together and how it is utilized is unique to each individual organization. Learning and growth or innovation is a desired quadrant. Flexibility when selecting measures is imperative. |
| Managers and staff are able to identify issues and form solutions before matters are out of control or too large to tackle. | Exposes organizational weaknesses and communicates them for all to see. |
| Scorecard process continually examines the external environment adapting organization/unit to external changes rapidly. | Top management must be supportive of the process, the costs, the time and the workload involved. Managers must maintain communication with staff. |
| Strategic learning/knowledge networks are built within the organization. Those closest to the customer have been found to achieve breakthroughs in customer service and process improvements. | Private industry scorecard models are based upon profits. Public organizations must base them on a mission, e.g., customer service. |
| Computerized scorecards or dashboards can reach all employees quickly. | Computer capability for all employees to view scorecards at least quarterly is recommended as a "best scorecard practice." Employees should have ability to access updated data quickly and regularly to avoid discouragement. |
| Benchmarking with other states/public departments in similarly situated or best-performing states allows comparative analysis for setting targets. | Benchmarking comparisons must be made upon reliable data with standard data definitions. Government organizations such as the International Personnel Management Association now keep benchmarking information on states and some standard data definitions. Consultants are recommended to help compare "apples to apples" when benchmarking. |

Table 5: Advantages & Disadvantages to Scorecard Implementation in the Public Sector

Practice: Baseline performance of the new operational model

Following the implementation of the new service delivery model, the agency must establish a baseline and monitor performance levels through a balanced approach. Establishing a baseline of performance will include the collection of performance data identified in the service level agreements from operating systems, customer satisfaction data extracted through surveys, focus groups, shared service feedback mechanisms, and data from financial systems from both the agency and service provider.

Practice: Secure senior executive support for measurement initiatives

In the *Balanced Scorecard*, Kaplan and Norton state, “We are aware of two instances where an excellent scorecard was built by a very senior staff executive without actively engaging the senior management team in the process. In one company, the scorecard was developed by the chief financial officer and in the other by the senior vice president of business development. In both companies, the executive was a member of the most senior executive team – an active, contributing participant in all senior executive strategy-setting and management meetings. Because of their high level involvement with corporate strategy, both individuals produced scorecards that accurately captured the strategy, customer focus, and critical internal processes of their companies. Their scorecards were accepted as accurate representations of the organizations’ critical objectives and measures. But in both instances, the scorecard ultimately did not drive change or become an integral part of the companies’ management processes. We believe this disappointing outcome occurred because of the lack of senior executive involvement in the process and a lack of consensus about the role for the Balanced Scorecard. The scorecard project was likely viewed, in both organizations, as a staff-lead initiative to improve a measurement system, not to make fundamental changes in the way the organization viewed or managed itself”.¹¹⁵

6.2.3 Manage the Process

The 'Evaluation' stage involves evaluation of feedback gathered during phone-based surveys, planned agency customer satisfaction surveys, and performance monitoring statistics based on service level agreements. This quantitative data provides catalyst for identifying improvement opportunities.

The purposes of performance evaluation include:

- Facilitates productivity and process improvement

¹¹⁵ Kaplan, Robert S., and David P. Norton. “The Balanced Scorecard: Translation Strategy into Action. Harvard Business School Press 1996.

- Encourages communication between agency and shared services
- Documents performance strengths and weaknesses
- Supports future discussions around pricing increases
- Identifies the basis for future service level negotiations
- Supports monitoring improvement in performance

Practice: Manage the program

Organizations that successfully manage performance assign resource(s) to manage the performance management program. These individuals evaluate performance and develop improvement plans to address performance gaps through the constant monitoring of the key performance indicators. Frequent meetings with senior leadership identify performance gaps and drive strategic decisions. “Measures do not manage, and simply tracking results was not the only intended use of the HR Scorecard. The real value lies in using the information provided in the scorecard and taking action to influence and improve business performance.”

Practice: Leverage the technology of your service provider

SSC-provided technology will enable measurement and reporting capability. Ideally, the service provider will complement the service delivery model with a *service enablement technology architecture* including a data warehouse, automated workflow, and analytical reporting tools. Following implementation of the scorecard at GTE, Randall Macdonald states “The underlying technology supporting the ‘virtual briefing book’ provides links to ERP systems (SAP and PeopleSoft) and a data warehouse – using a data-mining tool – to drill down below the HR scorecard results to model and analyze cause and effects.

Predictive modeling to evaluate workforce decision making is one benefit of this investment in technology.”¹¹⁶

Practice: Tie performance metrics to compensation

The final link in the performance management chain involves focusing organizations on their service objectives via an appropriate reward system. This can be done in a number of ways including individual incentive payments or alternate organizational performance-related payment schemes. Incentive plans are designed to motivate employees to successfully achieve personal or organizational goals and can be personalized for individuals based on their respective roles, responsibilities, and unique target goals. Organizational performance-related payment schemes typically cascade throughout the entire Human Resources function and reward all eligible HR employees based on organizational performance.

GTE (now Verizon) tied the HR scorecard to compensation – throughout the HR organization. “The scorecard was also immediately tied to incentive compensation at all levels of the organization. This was somewhat controversial at the time, but certainly kept

¹¹⁶ MacDonald, Randall J., and Garrett Walker. “Designing and Implementing an HR Scorecard.”

the organization’s eye on the ball. In hindsight, this action eliminated much of the resistance to the scorecard.”¹¹⁶

One pitfall that many organizations stumble upon is attempting to measure too many variables and then tying too many metrics to compensation, “If compensation is tied to specific metrics, it must be tied to a limited number of metrics, and those metrics must be simple and clear.”¹¹⁷

Case Study: Kimberly Clark

In early 2003, the HR team at Kimberly Clark “... brought forward the need to create a strategy that would drive business planning and a process for aligning the long-term strategic plan with objectives, measures goals, and tactics,” says Lizanne “Liz” C. Gottung, the firm’s Chief Human Resource Officer, based in Roswell, Georgia. “We launched an all-out effort to rapidly change the culture of K-C,” she explains. “This is about delivering better business results,” Gottung stresses. “It’s not about delivering a world-class performance management process. We’re all about establishing metrics to access where we are with respect to driving business results and progress against our global business plan.”

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6.3 Benchmarking During the Operate and Improve Phase

During the Operate and Improve phase, benchmarking can be used to measure the operational performance of the new service delivery model and track benefits realized. Metrics are the core of the Operate and Improve phase, and benchmarking can be used to determine performance pertaining to financial goals, customer targets, internal processes, and learning and growth. During the Operate and Improve phase, delivery gaps and successes are identified, demanding appropriate responses to both. The Operate and Improve phase is quite metric-intensive; however, this section will provide only a small sample of metrics.

Research done by Saratoga Institute produced the following benchmark data for *cases resolved within 24 hours, 3 days, and 5 days*. The formula used to calculate cases resolved within 24 hrs, 3 days, and 5 days is: percent of relations and administration cases that were resolved within 24 hours by HR Service center employees. This metric provides insight into the response time of the HR Service Center.

¹¹⁷ Dunleavy, John, and Donniel Schulman. “Shared Services.”

¹¹⁸ Miller, Stephen: SHRM. “Strategic HR Leadership.”

24 hours

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 26% | 28.5% | 80% | 88% | 90% |

3 Days

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 8% | 9% | 67% | 93% | 95% |

5 Days

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 2% | 2% | 31% | 97% | 99% |

Many organizations measure *First-touch resolution rate*. For example, benefits first-touch resolution rate is the number of benefits-related calls received by the HR Service Center that are resolved without escalation during the survey period. This metric provides insight into HR Service Center employees' ability to resolve inquiries and process transactions without relying on functional experts. The formula used to calculate benefits first-touch resolution is: total first-touch resolution benefits calls divided by total benefits calls.

Benefits First-Touch Resolution Rate

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 75% | 88% | 91% | 92% | 97% |

Similarly, payroll first-touch resolution rate provides insight into HR Service Center employees' ability to resolve payroll and compensation inquiries and process payroll and compensation transactions without relying on functional experts. The formula used to calculate the percent of payroll first-touch resolution rate is: total first-touch resolution payroll calls divided by total payroll calls.

Payroll First-Touch Resolution Rate

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 75% | 79% | 85% | 93% | 100% |

And, finally, HR administration first-touch resolution rate provides insight into HR Service Center employees' ability to resolve HR administration inquiries and process administrative transactions without relying on functional experts. The formula used to calculate the HR administration first-touch resolution rate is: total first-touch resolution HR administration calls divided by total HR administration calls.¹¹⁹

¹¹⁹ Saratoga. "U.S. Human Capital Effectiveness Report." December 2005.

HR Administration First-Touch Resolution Rate

| | 10 th | 25 th | Median | 75 th | 90 th |
|-----|------------------|------------------|--------|------------------|------------------|
| All | 64% | 75% | 86% | 96% | 97% |

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UNITED STATES -
OFFICE OF PERSONNEL MANAGEMENT -
1900 E Street, NW
Washington, DC 20415