

# HR in Modern Business

## White Paper

### Introduction

Arguably the most important asset of any business is its people, the core responsibility of the Human Resources (HR) department. HR has an extremely wide transactional brief including recruitment activities; training and development programme design and implementation; mentoring; counselling and personal reviews; payroll and individual promotions programmes. All of this adds up to a full-time agenda. Then there is the increasing strategic input required by businesses to be fitted in as well. Recent moves by government have also raised the profile of Human Capital reporting to the extent that corporate governance and financial reporting regulations are placing an added responsibility on organisations to make a formal annual statement to shareholders and the market as to practices and impacts of HR related activities.

Transactional activities are at the heart of the HR role today, but do they prevent the HR department from playing a (desired) more strategic and transformational role? Do the Board and Senior Operational Management require their HR department to be more involved strategically in the business? If so, then the Board and HR Department need to work together to remove, as cost effectively as possible, the clutter of the administrative activities so that the HR team can have a greater impact on the long term future of the business, both operationally and financially.

One solution, enabling a company to elevate its HR activities to a truly long-term and strategic level is to outsource some or all of the core functions. Businesses are very familiar with IT, logistics, finance and manufacturing outsourcing (to name but a few) and have been reaping the key benefits of reduced cost, improved service, improved skills and more satisfied customers for many years. Business Process Outsourcing (BPO) is the next, logical step on the outsourcing path and one that takes companies into real risk and reward decisions. For many companies, outsourcing a core process may seem “alien”, but if the process can be executed more reliably and more cost effectively by an expert organisation (in whole or in part), freeing up the time of key staff to provide more strategic input, and there is little or no competitive advantage to keep the function in-sourced, then there is a strong justification for taking this next logical step. And those that have, report excellent benefits.

HR additionally faces the challenge that in many businesses it is often seen as a cost centre so is under pressure to respond to changes organically, typically with stretched resources. The (lack of) investment in HR also ensures it remains the poor cousin to other business functions. But there is increasingly compelling evidence that focused people spend can have startling results on corporate performance. A recent example from Hewlett Packard demonstrates a 100% ROI within 6 months and cost savings to the tune of £28.2m as a result of its strategic e-HR initiative rolled out across 160 countries (Source: Personnel Today, May 2004).

To gain a greater understanding of the views of the major companies in the UK regarding their HR function, LogicaCMG sponsored a detailed study amongst the top 500 companies in the UK (excluding the Government sector) into the perceptions and desires of the HR function, from the viewpoint of both the Head of HR and also the Senior Directors.

### Executive Overview

The main findings from the survey include:

- HR Directors are keen to shift the emphasis of their role away from transactional towards transformational activities. But the clutter of the administrative tasks is preventing them making this key change.

- Poor systems and processes add to the administrative tasks, which prevent the move to a more strategic focus. Self service systems are infrequently used and existing HR systems are at best both a mixture of manual and technology based.
- There is a strong desire within the HR Directors to contribute more to business strategy and ultimately business success, a key development welcomed by CXOs.
- HR business process outsourcing offers a key solution to the challenges being faced by many HR Directors, but many fear the change that this can bring and some are wary about how it would affect their role. But going forward it is a key solution to remove the administrative tasks that are holding HR Directors back.
- HR Directors do not get enough time with their CXOs and thus there is a need for improved communication, which would be embraced by CXOs who themselves feel they need more time with the HR Department.
- Companies need to implement better HR Department monitoring systems, to measure the impact the department is having.
- HR Directors agree that going forward they need to uplift their strategic and creative thinking skills, a view shared by the CXOs.
- Improved communication rest at the heart of the change that is required, with the CXOs taking a proactive and sympathetic approach to implementing the changes needed.

### **The Strategic Role of HR**

Even with the “clutter” of significant day-to-day activity HR departments already believe they are providing a key strategic role within large organisations. Almost three quarters of HR Directors agreed that the “HR function makes a major strategic contribution to the organisation” and 46 per cent of Senior Managers (collectively known as CXOs) also agreed with the statement. But at the same time, 72 per cent of HR Directors and 62 per cent of CXOs also agreed that the “HR function already makes a significant strategic contribution to this organisation but is capable of playing a much greater strategic role”. This is firm foundation for key change.

**Table 1 Agreement with Key Statements (% Agreeing)**

**Base = All Respondents**

<b>Statement</b>	<b>Total</b>	<b>HR</b>	<b>CXO</b>
Our HR function makes a major strategic contribution to this organisation	59	72	46
Our HR function already makes a significant strategic contribution to this organisation but is capable of playing a much greater strategic role	67	72	62
HR departments should provide important HR functions and processes and leave strategy and strategic development to other areas in the company.	25	20	30
HR has always been an internal facing function and it is likely to stay that way for the foreseeable future	11	10	12

There is clear evidence that such a move will also meet the needs of the HR teams as only 25 per cent of HR Directors agreed that “HR departments should provide important HR functions and processes and leave strategy and strategic development to other areas in the company”. CXOs are also looking for greater strategic input as only 30 per cent of them agreed with this statement.

But it is also clear that the day-to-day activities of the HR Director are felt to be stifling the department's strategic focus and development. Two thirds of HR Directors agreed that they would like their own role and that of their department to be more strategic but "there are only enough hours to provide the basic HR functions". This is a key trigger for the CXOs and HR Director to work together to carry out a team based strategic review of the function and look to unburden the department of the key basic functions as cost effectively as possible. Outsourcing offers an excellent solution to the problem, as it can provide a cost effective solution, removing all of the day-to-day activities, allowing them to be undertaken by a domain expert at significantly reduced cost. HR Directors can free up their time for more strategic activities, working alongside their CXOs, who are looking for key input as well.

The picture that is emerging is one in which both the CXOs and HR professionals want the department to become more strategic but the administrative activities coupled with poor systems and processes (see later) are holding back the required change.

The basis for a change in the role of HR has already been established as when questioned 92 per cent of companies feel that the HR department is at least partially aligned with the commercial and general business needs and objectives of the organisation (Figure 1). But there is a clear difference in perception between the HR department itself and the CXOs as twice as many HR Directors feel that the department is greatly aligned as do CXOs. This in itself may indicate a lack of understanding and focus on the HR department by the senior management teams within large companies. When questioned 38 per cent of CXOs agreed that "the company will miss key opportunities if it does not change its attitude about its HR function and position within the organisation". This is tacit acceptance that the Board does not focus enough on the HR department. Couple this with the fact that nearly half of CXOs also agreed that "they need to take more responsibility for people development and need to invest more in HR" and it becomes clear that HR Directors have failed to secure the support and time from their senior management. As the function becomes more strategic this is a key change that will have to take place as the HR and CXOs look to communicate more often and focus on the long term needs of the business.

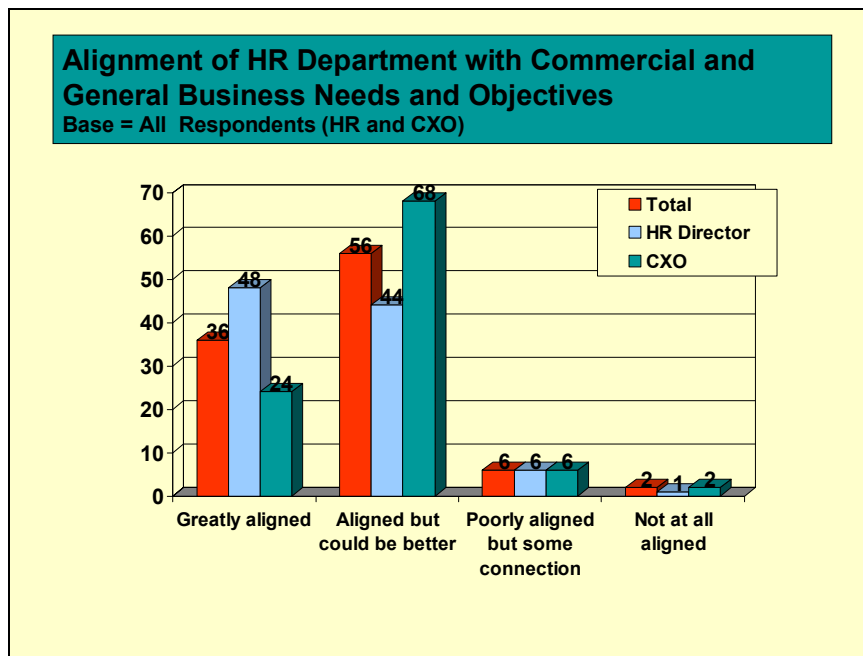


Figure 1

The HR department itself is also willing to embrace the change that is required as 60 per cent of HR Directors agreed that key opportunities will be missed if the function does not change its attitude about its overall position within the business.

Looking at the main functions performed by the HR department (Figure 2), we see the core of the problem, as most of the activities fail to focus on strategic issues but reinforce the view that HR carries out daily administrative functions. Training and development was the most often cited function of the HR department (71 per cent) followed closely by employee relations (62 per cent) and staffing and selection (58 per cent). Only 30 per cent of companies report a key HR function as being policy development and 40 per cent performance management, which could be argued, albeit loosely to be somewhat strategic in definition. Furthermore, one quarter of HR Directors feel they spent too much time on operational issues at the direct expense of strategic activities.

So overall we see a desire for change in both CXOs and HR Directors and a need for improved communication, with the CXOs taking the lead to alleviate the core transactional activities undertaken, so that the HR department can contribute more operational and strategically to the growth of the business.

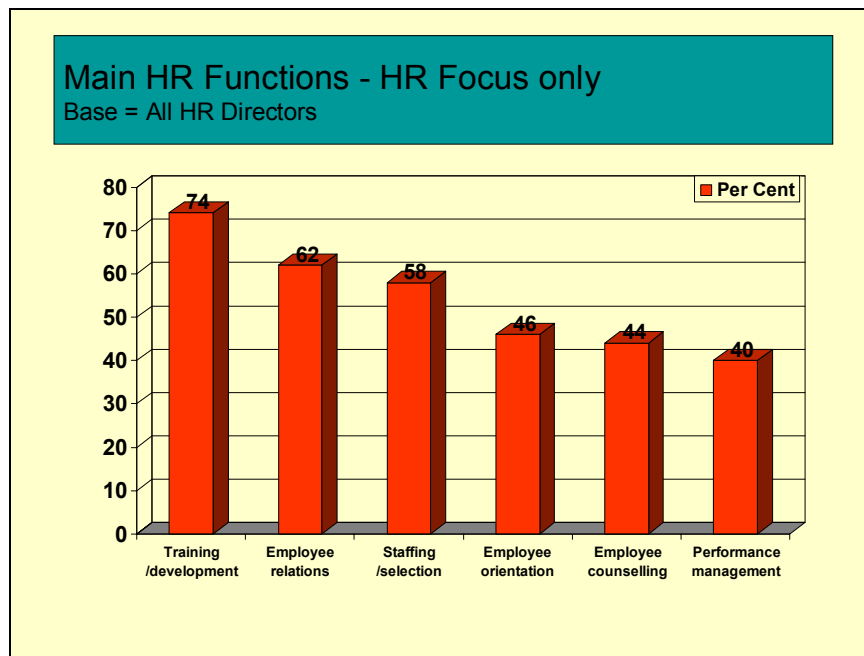


Figure 2

### Measuring the HR Department's Effectiveness

So, if the HR department is focused too much on transactional activities, how is it being monitored and measured? The most common method used is through staff satisfaction surveys (happy sheets as they are often called. This is a surprisingly important and common measure used when other key measures like staff turnover, staff productivity increases and training/development performance are rated much lower, with only 28 per cent of companies using staff turnover as a key measure of the HR department's effectiveness. Surprisingly, around 10 per cent of all firms report that they have no formal methods in place to measure the effectiveness of the HR department.

All of the key measures mentioned spontaneously by respondents reinforce the view that HR is too tactical, as the majority of the monitoring mechanisms focus on the tactical activities undertaken by the department. Key performance measures like skills and resource planning and skills development were poorly rated. A key change is required here in terms of how the HR department is managed and monitored by the CXOs.

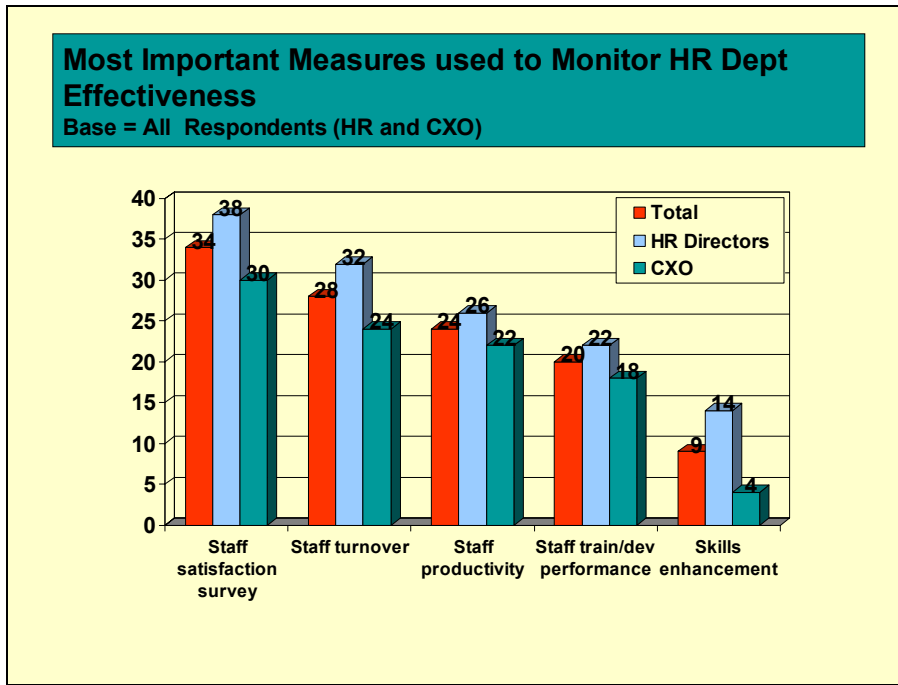


Figure 3

### The Move to Self-Service Systems

One method of reducing the amount of day-to-day activity undertaken by the HR department is to move to a self-service system, where employees can, for example, access the HR system to record key payment details, annual leave requirements and sick leave notification. But to date only one quarter of the UK's largest organisations use a dedicated self-service system, and amongst these, in one third of cases less than half of the employees can access the solution. So not only are HR Directors bogged down by administration, they have poor systems to help them as well.

Three quarters of self-service systems have been in operation for more than one year and users report some major benefits which include more efficient processing of key data, improved functionality of the overall HR systems, and more employee empowerment (leading to more motivated staff). But even given these benefits, the majority of companies who have yet to make the move to self service systems will still continue to carry out the basic functions within the department itself, forgoing the key benefits that the systems can bring and also generating more time for the key strategic activities that they crave. 70 per cent of companies with no system as yet have no plans at all to implement a solution in the short to medium term.

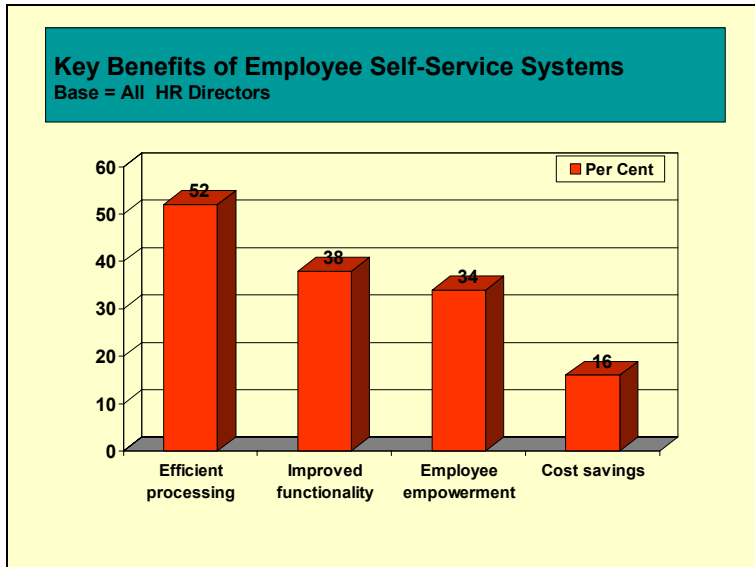


Figure 4

### Current HR Systems

A further way in which to reduce the administrative and tactical burden on the HR department is to invest in technology that assists in reducing the manual nature of many of the tasks. When questioned, almost one in 10 companies still use predominantly manual systems for their HR activities, highlighting why so many HR Directors are under such pressure from day to day activities. One quarter of organisations report that they have moved entirely to electronic systems, with the rest having a hybrid of the two, perhaps reflecting a view that HR is yet to be seen as truly strategic and can not command the investment needed to transfer all of the systems to non-manual operations. This level of manual activity in a day and age when technology is pervasive in all other areas is staggering. But it may be explained by the fact that the HR department fails to have its own IT budget in two thirds of all companies and is fighting for scarce financial resources at all times.

The paradox is that the majority of those with a manually based solution admit that they could be more efficient and provide a better level of service if they had the right solution in place. And 72 per cent of those HR departments that have already made some IT investment agree that further investment would have at least a moderate impact on the performance of the department (Figure 5).

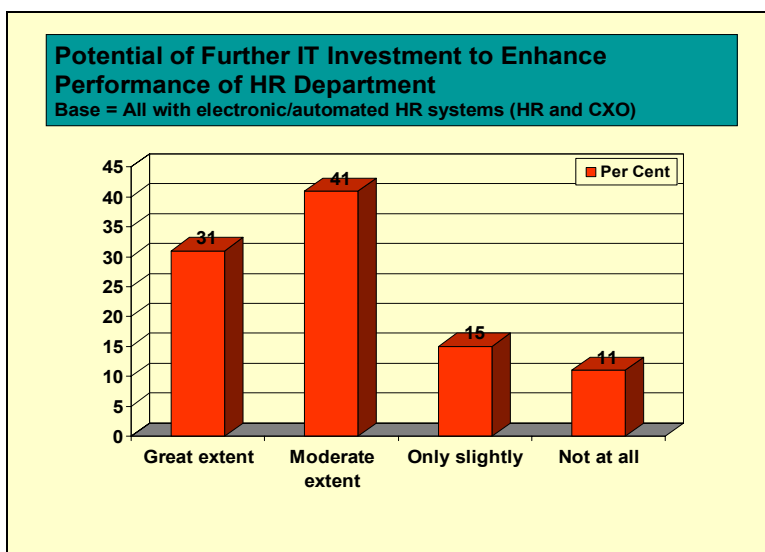


Figure 5

## The Move to HR Outsourcing

All of what we have seen so far would appear to be a strong argument within the larger companies for a move to HR outsourced services, as a key indicator for any move to outsourcing is the fact that a function is feeling constrained by its day-to-day activities and can not carry out its more strategic and commercially focused operations. Using external, third party expertise to take on the transactional activities provides the time to focus on the transformational issues which CXOs have been seen to desire from their HR department and HR Directors also want. But how much outsourcing activity is ongoing at present?

Around half of all companies currently outsource at least one HR function to a third party expert, with the most popular being payroll (the figure here is understated as for many companies payroll is a finance department activity), followed by training/ development (18 per cent) and staffing selection (12 per cent). What is clear is that the move to outsourcing key activities has been slow and few have outsourced more than one major area. It can be concluded that HR outsourcing is in its infancy with much room for development, which will assist in allowing the HR Directors more time to enrich and develop their own roles while also communicating more with their CXOs.

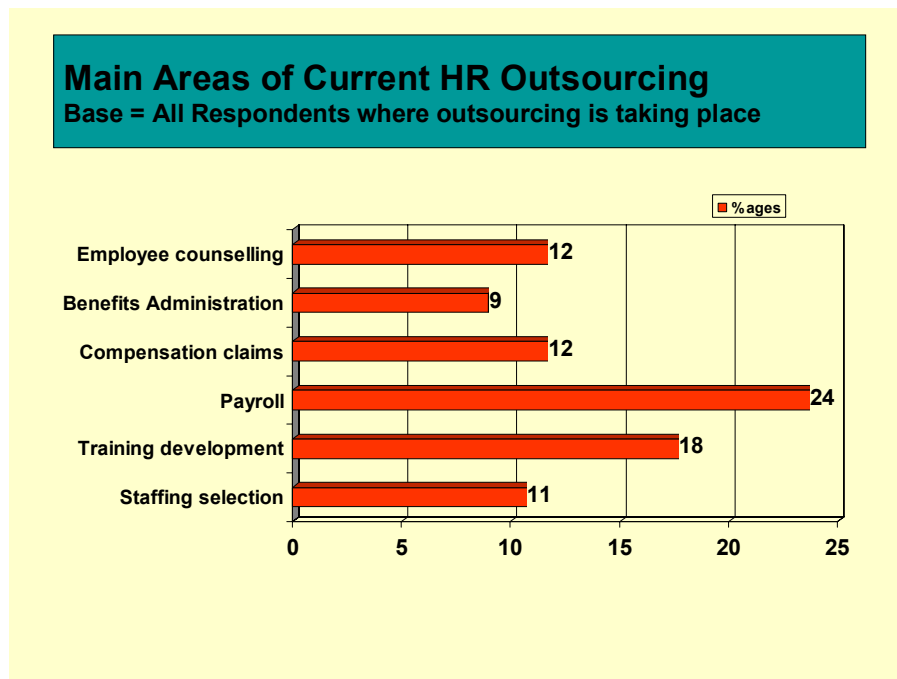


Figure 6

But a key challenge to overcome for any business (the issue rests with the Senior Board) is the reticence of the HR department itself to embrace outsourcing as a business process that will allow it to do a more effective job. It is only natural for the department to fear any change especially as it may mean that some functions will move outside of the organisation. So the CXOs must take the lead and drive the required change that will benefit the Board, the HR Directors themselves and therefore the business overall. There needs to be common acceptance that the purely functional operations of the department will always exist and cost effective solutions to their management need to be agreed. This will undoubtedly involve a discussion on whether to outsource or not. The decision to buy in the services will free up the time for the HR team to be more effective and proactive in the business going forward, with a significant impact overall.

**Table 2 – HR Directors Views on Outsourcing**

Statement	% Agreeing
I do not think outsourcing is right for the HR department	60
I would be very unhappy if we outsourced particular processes and functions within the HR arena	52
A move to outsourced HR would provide me with great career opportunities and professional development	50
Moving to an outsourced approach for HR would cause me personal concern for my own job security	48
Outsourcing some processes would free up my own and my department’s time to focus more on people and employee relations issues.	38

The key challenges that the CXOs face include:

- HR Directors fear a move to outsourcing, both for themselves and also the department.
- HR Directors are failing to see that outsourcing will remove the daily clutter of the job and allow them to have a greater impact on the business.
- Convincing HR Directors that outsourcing will provide the time for greater job enrichment and development for HR Directors and their staff.
- Using a third party provider will provide an uplift in the service provision, even though it may currently be very good. There is the view amongst HR Directors that the HR department will provide a better service (64 per cent), the HR department will lose control of the function (62 per cent) and jobs will be lost in the department.

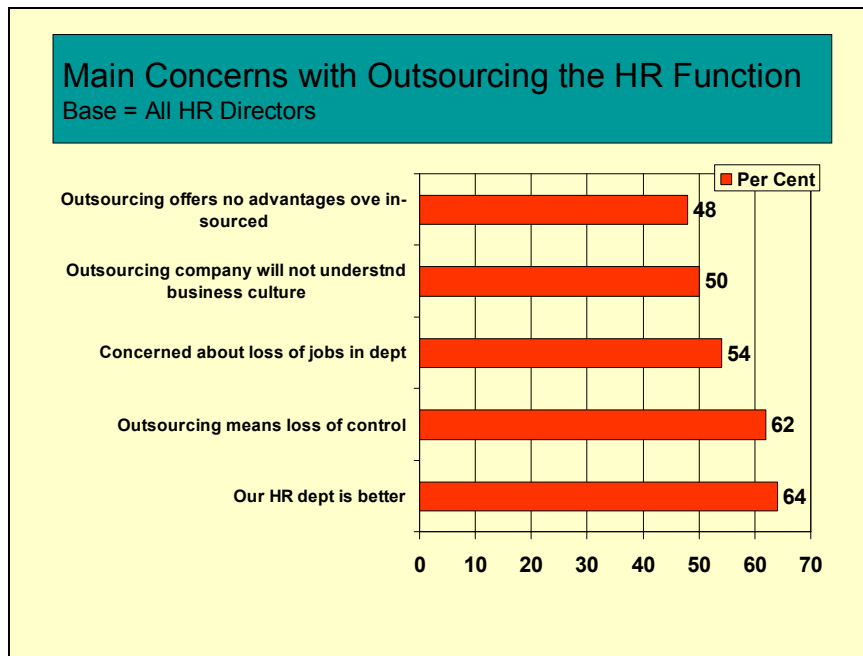


Figure 7

In order to reduce the amount of time spent on tactical activities and uplift the overall quality of service, companies should take a much more open-minded view of outsourcing, as it offers such major, quantifiable business and personal benefits. But as HR has not been the focus of outsourcing activity in the past, education on the benefits seem to be a key requirement and this education has to focus on the natural concerns that any HR Director would have regarding a move to an outsourced function. The impact outsourcing can have includes:

- clearer and more strategic objectives

- better communication channels with the CXOs
- an improved understanding of the business and how it operates
- a more secure and business expansion focused role.
- an ability to be more proactive in the role and manage the Human Capital so that the right resources are available to meet the goals of the organisation.
- the ability to meet changing regulations

### The Development of HR Function in the Short Term

So what skills do HR professionals need to have now and also developed in the short term to meet the changing needs of businesses going forward? According to the HR Directors themselves, the HR Department has good communications skills, good counselling skills and is good at recruitment and interviewing, all highly tactical in nature but important nonetheless. Going forward, there seems to be a need to improve communication skills, but the biggest area of skills development is in strategic thinking, rising from 16 per cent now to 34 per cent in the future.

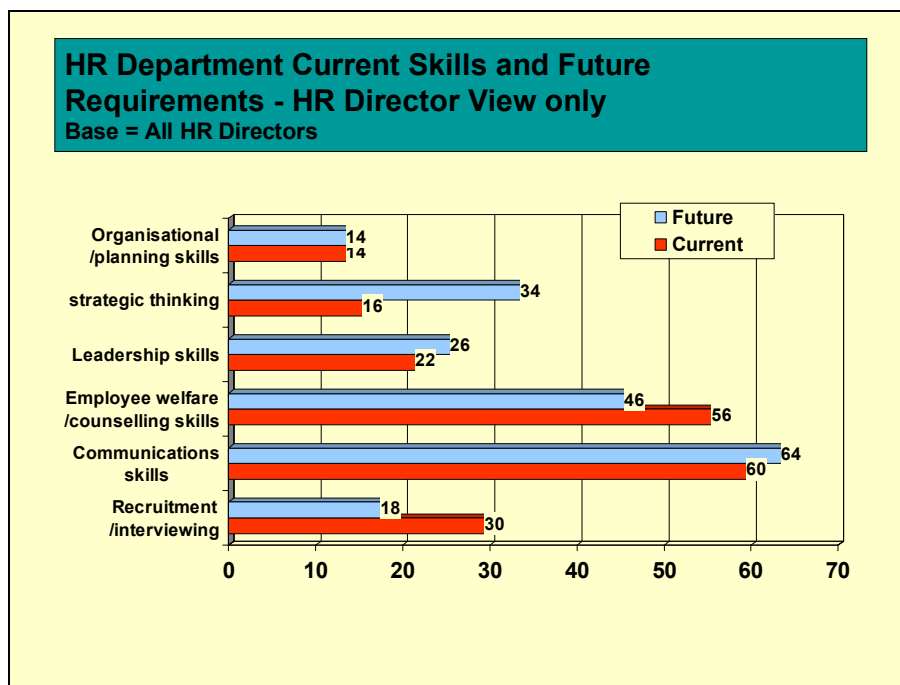


Figure 8

But what do CXOs think? Currently, they see the main skills in the department as being recruitment and interviewing, communication skills and employee welfare, mirroring to a large extent the skills as perceived by the HR Directors themselves. But going forward, 62 per cent of CXOs will require more strategic thinking skills in the HR department and more organisational and planning skills, while at the same time seeing a reduction in the reliance on other core tactical skills such as communication and recruitment. CXOs are increasingly looking for more a focus on organisational development, rewards approaches, skills modelling and mapping and Human Capital skills development to meet the growing needs of a changing business.

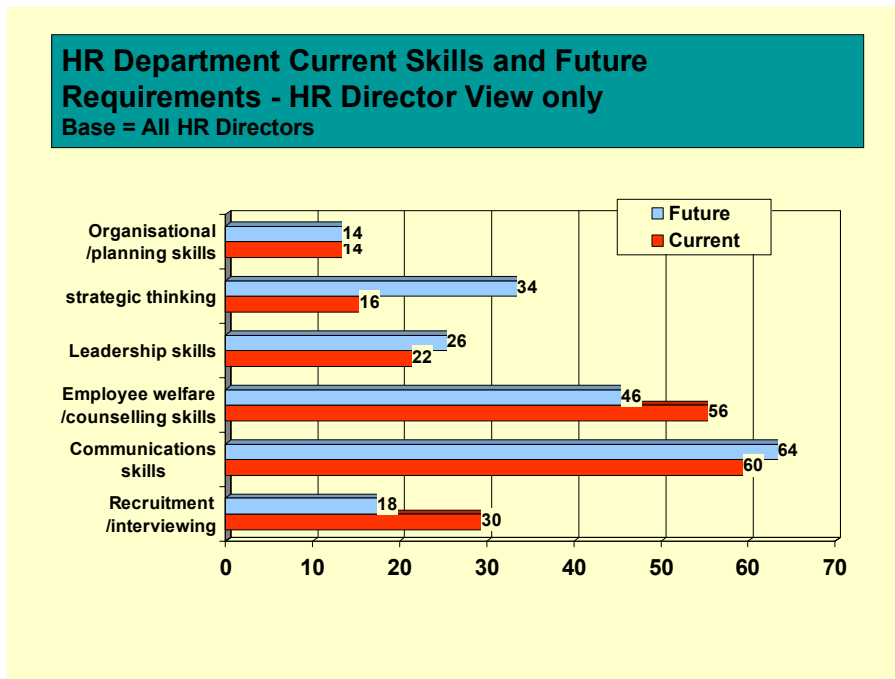


Figure 9

## Conclusion

The HR department would appear to be the last bastion of in-house delivery of tactical services. At present too much time, from both the CXO and HR Director's point of view is given to simple administrative tasks that improved technology and alternative service provision could reduce. Senior Managers are demanding more especially in terms of strategy development. Human resources development is a key issue at present and will become a major competitive differentiator in the future and those companies that continue to be bogged down by administrative issues will lose out commercially and will fail to retain their key human capital assets.

To provide the level and quality of service demanded by the Board in the future a sea change in attitude is required within the HR function, and there are clear signs that this change is likely to take place. HR needs to:

- embrace the possibilities and benefits offered by outsourcing. This will free up so much time and resource to allow it to move to a pivotal and strategic position within a business.
- overcome its concerns about losing control as it moves to an outsourced service. Other departments report great benefits in taking this approach, beyond simple cost reduction.
- overcome the natural fears about job security and re-deployment.
- communicate more with the CXOs going forward, which will improve the position of the Department within the organisation, elevating it to truly strategic.
- proactively change alongside the changes taking place throughout the business and embrace the new ways of working.
- Instil new measures and monitoring devices to track the impact the Department is having while changing its attitude overall.

HR has lagged behind other departments, mainly because it has been seen to be inward facing. But that will change as new legislation means that companies have to report on how they are developing their human capital resources. It is not too late to change, but minds need to be opened and new working practices put in place. Outsourcing some parts of the HR function seems inevitable to allow the time and freedom for creative thought. Those that stagnate will lose out competitively in more demanding and complex markets, so now is the time to move forward at pace and really uplift the standing and position of HR in businesses today.

### **How the survey was conducted**

The primary objectives of the LogicaCMG survey undertaken by the independent research firm Coleman Parkes Research in August and September 2004 were to:

- Analyse the current role of the HR department and determine if it is mainly transactional or transformational focused
- Determine if the HR department would like to see its role move to being more strategic (and hence transformational in influence)
- Establish how well aligned the HR department is to the core of the business
- Determine if there is a disconnect between what the Senior Directors and the HR department want and can deliver from the HR department
- Determine the measures used to monitor the effectiveness of the HR department
- Review any current and planned HR outsourcing activity
- Determine the amount of time spent by the Head of HR on functional versus strategic activities and how often the Head of HR communicates with the Board of the company.

In August 2004, 50 Heads of HR and 50 Senior Managers (Chief Financial Officers, Chief Operations Officers, Head of IT and Chief Technology Officers, collectively CXOs) took part in a comprehensive survey using two detailed and integrated questionnaires. The survey was designed and managed by the independent research firm, Coleman Parkes Research Limited.

***Ends***