

The Issue: An HR Market Update – Assessing Human Resource’s Role as a Strategic Corporate Asset

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Making the human resource (HR) function more strategic is a perennial goal in most organizations. A key aspect of these efforts involves defining and gaining consensus on what tasks and activities HR groups should prioritize to become more strategic. The challenge then becomes determining how HR groups can evolve or “transform” from their current state into one in which the time, resources, skills and support exist to perform these more strategic activities. As with any support function, the bulk of the daily work HR groups perform is administrative and transactional. How can HR groups shift more of their focus, attention and time spent to more strategic activities, and what should those activities encompass?

The details

This three-part Perspectives series presents and analyzes the findings from a recently completed EquaTerra and Human Resource Executive® magazine market research study (see Figure 1). This study assessed the current state of human resources (HR) organizations and their progress and success in performing as a strategic corporate asset. The study assessed the realities of HR transformation as a means to make HR groups more strategic, how organizations are pursuing HR transformation, and the role alternative service delivery models – like shared services or information technology and business process outsourcing (ITO/BPO) – are playing in enabling transformation. The study was a follow-up to a similar research effort conducted in 2005.

EquaTerra conducted this market study in December 2007 and January 2008, and surveyed approximately 450 HR decision makers. Twenty-nine percent of respondents were VPs of HR (including SVPs and public sector equivalents), and 53 percent were HR directors or managers. The balance of respondents had either other executive or HR operational roles.

All major industry groups were represented, with public sector (30 percent), healthcare and manufacturing (each with 13 percent) comprising the largest represented industries. Sixty-two percent of respondents were from organizations with less than 5,000 employees, and the balance were from organizations with more than 5,000 staff.

Ninety-seven percent of respondent organizations had operations in North America, while 17 percent operated in Europe, 16 percent in Asia Pacific and 11 percent in Central and South America.

Figure 1: Study Demographics

Part One of this 2008 study assesses HR’s role as a strategic corporate asset and identifies the activities HR groups should prioritize to become more strategic. Part Two reviews the role of alternative service delivery models like shared services and outsourcing in making HR more strategic. Part Three reviews the state of recruitment process outsourcing (RPO) in today’s market.

Results from this market study illustrate that the quest to make organizations’ HR operations more strategic remains a paramount initiative. Progress toward this goal, however, continues to remain elusive. The challenge is to both define what will make HR more strategic as well as how to execute on achieving this goal.

Assessing HR Performance

The market study assessed respondents' opinions on the performance of their HR operations from the perspectives of HR people and processes, as well as HR IT applications and systems. Respondents were consistently more satisfied with HR people and processes than with HR IT (see Figure 2). The mean score for people and processes was 3.19 on a one-to-five scale, where one represented not at all satisfied and five represented extremely satisfied. On that same one-to-five scale, HR IT had an overall score of just 2.59.

These results are positive but hardly a strong endorsement of the quality of HR operations. It is also important to note this was largely a self-assessment, given that 88 percent of respondents were from the HR organization. Respondents who were not members of the HR organization scored HR people and processes even lower at 3.02, but scored HR IT higher at 2.85. Respondents from very large organizations (those with 20,000 or more employees) ranked both people and processes at 2.97, and HR IT at 2.62. There is clearly room for improvement in both dimensions of HR operations.

These response levels also represent a decline from the 2005 study, wherein people and processes scored a 3.41 and HR IT scored a 2.83 on the same one-to-five scale. While some of the variation between the two studies is attributable to different sample characteristics, the decline also highlights that, in many organizations, little progress has been made in improving HR performance over the past three years.

Study respondents were also asked how their organizations' executives viewed HR. HR groups generally fared well (see Figure 3) with the majority of respondents indicating that HR is viewed as a strategic asset. Among non-HR respondents, however, just 47 percent indicated that executive management viewed HR as a strategic asset, while 27 percent indicated HR was viewed as a cost center. There was little variance in responses levels between respondents from larger and smaller organizations.

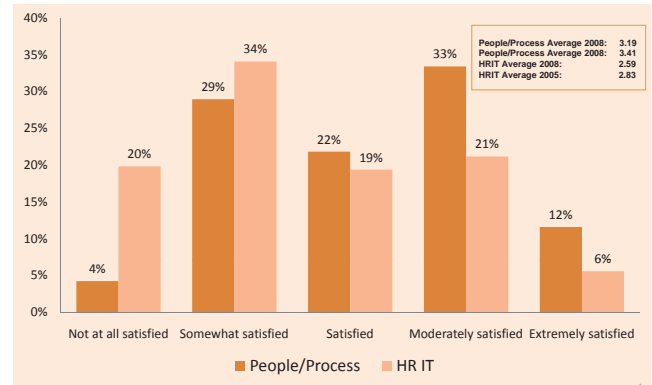


Figure 2: HR Satisfaction

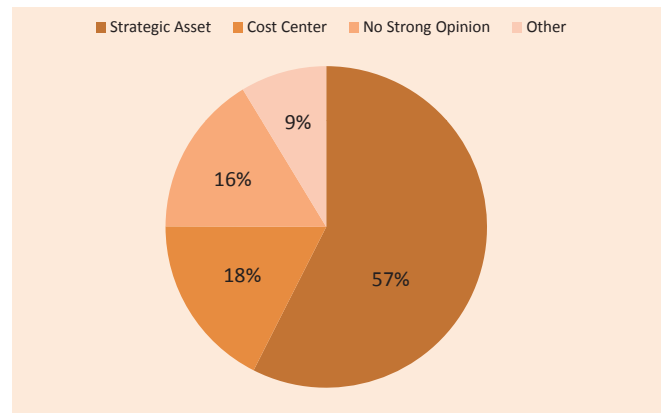


Figure 3: Executive View on HR

These response levels were not much different from the 2005 study, again showing a lack of appreciable progress in HR becoming more strategic. Additional feedback gleaned from this year's study illustrates, however, that HR is making some progress in becoming more strategic. Many respondents commented that their organization's HR group was "emerging," "evolving" or "progressing" as a strategic asset, but was not fully there yet. Several respondents also observed that while "human resources" was strategic, their HR organization was not. This implies a situation in which the HR organization has been relegated to the transaction processing side of HR, while more strategic work is either not being done or is occurring elsewhere in the organization.

Defining “Strategic” HR

HR groups must clearly define what strategic means in the context of their own organizations and situations. The study’s findings do point toward a growing consensus on what is “strategic HR,” though there are still some differences of opinion between HR and non-HR executives. When questioned on what would make HR more strategic to their organization, over 70 percent of respondents (see Figure 4) cited becoming a leader in “total talent management” (including recruiting, performance, learning and succession planning). Respondents from larger organizations (more than 5,000 employees) placed even more emphasis on talent management than smaller organizations (less than 5,000 employees). Tactical proficiency and effectiveness in managing core HR processes – where the bulk of daily HR activity is typically spent – ranked fourth. Non-HR respondents ranked tactical proficiency even lower at 22 percent.

Respondents were also queried on which core HR processes and activities contributed most to making HR strategic. Talent management again came out on top, cited by over 70 percent of respondents, as was organizational effectiveness (including workforce and performance management). Among the respondents from the largest firms (20,000 or more employees) 85 percent cited talent management and 92 percent cited organizational effectiveness.

Playing an HR advisory role for executives also scored well, though more so among HR respondents. Seventy-two percent of HR respondents selected the HR advisory role response compared to just 31 percent of non-HR respondents. So while HR may have ambitions to play such an advisory role, many business executives are looking to HR for this type of support.

Drilling further into the total talent management theme, respondents were asked to rank how important addressing the issues and challenges related to talent are to making HR more strategic and improving overall organizational competitiveness. On a one-to-five scale, with one being not at all important and five being very important, talent scored 4.39 overall. There was a consensus on this finding among all classes of respondents.

This tells us that improving total talent management capabilities is a top opportunity to make HR more strategic. The question then becomes: how to do so?

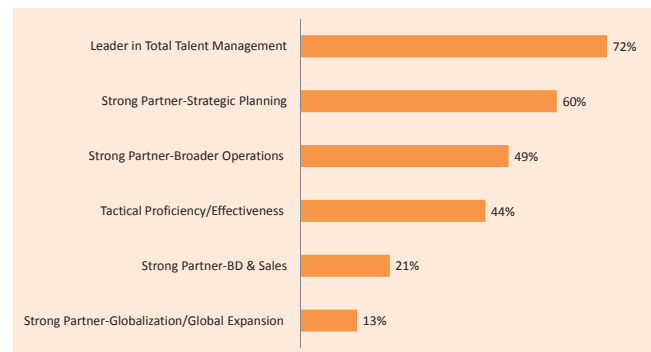


Figure 4: HR Strategic

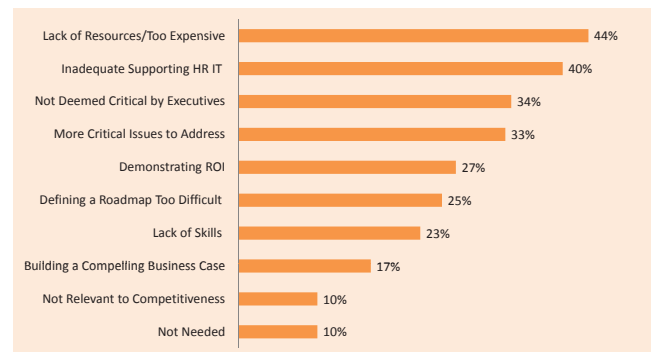


Figure 5: Barriers

How are HR Organizations Responding?

Given the recognition and consensus that total talent management, along with workforce effectiveness, are two key areas to focus on in order to make HR more strategic, what is keeping HR groups from advancing their cause in these areas? The market study asked about the leading barriers organizations face in transforming HR to make it more strategic. These barriers could also negatively impact more tactical HR efforts, like improving basic HR services delivery. If HR groups cannot overcome tactical challenges they will rarely overcome more complex strategic challenges.

The leading cited barrier to HR transformation was lack of resources or high expense of HR transformation (see Figure 5). Non-HR respondents were less likely (32 percent) to cite resources or costs as a barrier. Lack of resources and costs were also cited as the key barriers in the 2005 edition of the study. Interestingly, levels fell 22 percent from the 2005 study, implying that while lack of resources and high perceived costs remain barriers, their pervasiveness is declining. All other cited barriers came in at similar levels in both the 2005 and 2008 editions of the study.

HR IT again came into play, ranked as the second most frequently cited barrier to HR transformation. The third most frequently cited barrier was that executives didn't deem HR transformation as critical, and this was identified by an equal number of HR and non-HR respondents. Lack of executive attention could be a positive or negative indicator, depending on whether the executive already views HR as a strategic asset or doesn't care enough about HR to support a transformation effort. Finally, while lack of skills to undertake an HR transformation effort was cited by only 22 percent of respondents overall, it was selected by 42 percent of non-HR respondents. This tells us these respondents feel their HR group has problems, but does not possess the skills to fix those problems.

So if these challenges are recurring and formidable, how can HR groups overcome them? Some of these barriers are easier to address than others. Getting executives and other key decision makers onboard to actively support an HR transformation effort can prove challenging, especially if HR and its leadership is not viewed as strategic. Funding HR transformation efforts and accessing the skills required for transformation can also prove difficult.

One key approach HR organizations are increasingly adopting is evaluating options to fundamentally change the means by which core HR services are delivered. Organizations are exploring new HR service delivery models, and looking externally for the funding and skills to transform the HR organization. Ideally, these different models can improve process efficiency and effectiveness, and also free up HR resources to focus on more strategic topics like talent management. Forthcoming Perspective papers on the findings from market study will address the role and importance of alternative service delivery models in transforming HR operations to make them more strategic. The papers will review the drivers, adoption rates and benefits achieved from HR shared services, HR ITO and HRO in general, as well as RPO in particular.

How are Outsourcing Service Providers Responding?

Outsourcing service providers for the most part play a nominal or indirect role in helping HR organizations become more strategic. They are most suited to help HR groups offload administrative and transactional work to allow them to focus on more strategic activities. They can also help with these efforts by supporting the implementation and expansion of HR self-service offerings and related forms of HR services automation. However, given the challenges and growing pains associated with more comprehensive, transformation-focused HRO efforts, HRO service providers are emphasizing extensive innovation and transformation less than in the past. HRO service providers have become more focused on process and IT solution standardization. In doing so, they are laying the groundwork to longer-term deploy more innovative, as well as efficient and effective, HRO HR solutions.

The Advisor Perspective – Critical Points to Consider

The role and importance of talent management clearly resonates in today's market. Finding, attracting and keeping good people has always been of paramount importance to organizations across all industries. It is more important today than ever, given several trends impacting organizations in Western markets. These trends include the ongoing growth of the services industry, which is more people-centric; aging populations and workforces; challenges in educational systems to turn out students prepared for the workforce; increased global competition for talent and the globalization of many markets; and the increased education and skills levels required for most jobs beyond entry-level positions.

Improving total talent management will be key for organizations and their HR groups during the next five years. Competitive differentiation and success typically hinges upon organizations' talent capabilities. HR groups that excel at talent management will invariably be viewed as more strategic. The key to becoming strategic, however, is for HR executives to define and execute a clear plan of action, and not overly fixate on contemplating the philosophical nature of strategic HR.

HR executives must overcome a range of barriers to transform HR to make it more strategic. These include the often cited high costs associated with major change efforts and the lack of management support to undertake them. These barriers are not new - another reorganization or more investment in HR IT, commonly tried change agents in the past, will likely not eliminate these barriers or improve overall talent management capabilities. Many HR organizations need to define new and improved mechanisms to overcome barriers to change.

HR organizations must balance long-term needs around issues like talent management with the practical need to show short-term progress in addressing these challenges. Most organizations will face talent management challenges for the foreseeable future. HR organizations should seek out nearer term wins, however, both to show credibility in addressing the challenge as well as to build the momentum, executive support and resources to address the challenge longer-term. Quantifying the talent “gap,” working with management to devise plans to better utilize, leverage and redeploy (as needed) existing talent pools, and creating mechanisms to better estimate future talent needs – in terms of both quantity and skills – are activities all HR groups should focus on today.

HR groups need to free up the resources and executive attention to focus on these types of talent related activities. This is where greater automation of HR service delivery, along with the adoption or greater use of alternative HR service delivery models, can play a role. Through these models, HR groups can offload transactional work and then focus on more strategic HR activities, ideally cutting costs in the process. HR organizations can also leverage third-party expertise to improve the overall efficiency and effectiveness of their operations.

Conclusion

Transforming the human resources organization to be more strategic remains a perennial goal for most HR executives. Improving total talent management and organizational effectiveness capabilities have emerged as top priorities by which HR groups can play a more strategic role in their organizations. While it is relatively clear which activities HR groups should prioritize to become more strategic, there are many barriers to putting greater effort into them. A lack of resources and time to take on new, more strategic, tasks while still performing existing work is a commonly cited challenge. HR groups need to determine how to eliminate, automate or outsource more administrative and transactional work to free up time for strategic activities. Equally or more challenging is determining how to excel at this more strategic work. Fighting and winning the “war for talent”, for example, is a laudable goal, yet one for which no common or simple blueprint exists. But until HR groups can exert more energy and focus on strategic imperatives like talent management, they and their organizations cannot make progress toward defining these blueprints.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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