

HR Service Delivery in the Federal Government: Are You Sourcing Ready?

September 12, 2007

Notable Quotes

- » “In many cases, we have no customer service, no proper metrics, no way of evaluating HR.”
- » “I told my director that we hadn’t even completed a business case for our outsourcing and asked, ‘why are we doing this now?’ to which he replied, ‘because we were told to.’”
- » “After sourcing our payroll [to a Federal SSC], our costs actually increased...”
- » “People have no idea how much they have to invest in transformation...”
- » “I can’t get data from my provider. What used to take hours now takes days. The service levels are all wrong.”
- » “...our focus is now on delivery and vendor management. We need expertise in the sourcing process as our key skill.”

Agenda

- » Background
 - Study Particulars
 - Cited Reasons for Sourcing
 - HR Sourcing in the Federal Government
- » What We Found: Study Findings
- » What OPM is Doing to Help
- » What You Can Do to Help Yourself

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Introduction – Study Particulars

- » Purpose
 - To understand – analytically and anecdotally – what the HR sourcing landscape looks like within the Federal government, particularly in the context of OPM’s Human Resources Line of Business (HR LOB) initiative
 - Use peer perceptions and experiences to develop strategies and actions for transformation, sourcing and HR service delivery going forward
- » Respondents
 - 25+ Some online. Others via in-person interviews
 - 62% are primary decision makers. 31% are advisors to the primary decision maker
 - 86% have >10,000 employees. 66% have >100 HR professionals (with 15% employing > 500)
 - Research did not emphasize particular sourcing option -- in-house, shared services center, commercial provider

Cited Reasons for Sourcing

- » Are being required to do so
- » Gain access to new technology (e.g., MSS/ESS, ERP, workflow etc.)
- » Avoid capital outlays
- » Reduce operating costs
- » Increase quality and consistency of HR services
- » Achieve greater control
- » Streamline processes
- » Improve response times
- » Improve focus on matters of greater value

HR Sourcing in the Federal Government Today

- » In-house
 - Distributed/dispersed organizations
 - Centralized organizations
 - In-house, enterprise-wide, shared services organizations
- » HR LOB
- » Outsourcing to commercial firms

HR LOB: Background

- » An e-Government, cross-agency initiative, established in 2004, to:
 - Address redundant HR systems and processes
 - Enable modern, cost effective, standardized and interoperable HRMS that support the strategic management of human capital.
- » Five organizations certified as Government-wide Shared Service Centers (SSCs) in 2005
 - Department of Health and Human Services (Capital HR)
 - Department of the Treasury (HR Connect)
 - Department of Defense, (DCPDS – Defense Civilian Personnel Data System)
 - Department of the Interior – National Business Center, (FPPS – Federal Payroll & Personnel System),
 - Department of Agriculture – National Finance Center, (EmpowHR)
- » Policy directive stating that agencies planning to purchase a new HRIT system or upgrade an existing HRIT system would have to “migrate” to an SSC.

HR LOB: Background

Department or Agency	HR	Payroll
Commodity Futures Trading Commission	NFC	NFC
Department of Agriculture	NFC	NFC
Department of Commerce	NFC	NFC
Department of Defense	DOD	DFAS
Department of Education	NBC	NBC
Department of Energy	Self	DFAS
Department of Health & Human Services	HHS	DFAS
Department of Homeland Security	Treasury/NFC	NFC
Department of Housing and Urban Development	Treasury	NFC
Department of the Interior	NBC	NBC
Department of Justice	NFC	NFC
Department of Labor	Self	NFC
Department of Transportation	NBC	NBC
Department of Treasury	Treasury	NFC
Equal Employment Opportunity Commission	NBC	NBC

HR LOB: Background

Department or Agency	HR	Payroll
Federal Communications Commission	NFC	NFC
Federal Retirement Thrift Investment Board	GSA	GSA
Federal Trade Commission	NBC	NBC
General Services Administration	GSA	GSA
National Aeronautics & Space Administration	NBC	NBC
National Science Foundation	NBC	NBC
Nuclear Regulatory Commission	NBC	NBC
Office of Personnel Management	GSA	GSA
Overseas Private Investment Corporation	NBC	NBC
Peace Corps	NFC	NFC
Securities & Exchange Commission	NBC	NBC
Small Business Administration	NFC	NFC
Social Security Administration	NBC	NBC
US Agency for International Development	NFC	NFC
US International Trade Commission	NBC	NBC

HR LOB: Its Evolution

- » Original sourcing options
 - Federal Shared Services Centers
 - Payroll
 - Other HR functions
- » Expanded sourcing options
 - Commercial providers via RFP
 - Commercial providers via GWAC

HR LOB-Related Sourcing

The majority has sourced service delivery or plans to do so shortly

- Most source to SSCs and a much smaller percentage go to commercial providers
- Processes most likely sourced are those easily centralized and automated (payroll, benefits), whereas relationship-based functions tend to stay in-house (labor relations, strategic planning)

- 54% believe they may acquire HR services for less money and the same or better service through a government SSC or external third party

HR processes most likely to be outsourced

	Internal	SSC	Commercial Third Party
Today			
Personnel Processing	64%	36%	0%
Payroll	9%	82%	9%
Benefits	64%	27%	9%
Future			
Personnel Processing	22%	78%	0%
Payroll	0%	80%	20%
Benefits	0%	78%	22%

Other Recent HR Sourcing Actions

Organization	Provider	Deal Signed	Deal Term	Type	Deal Size	Nature
Federal Occupational Health	Ceridian	2006	5	HR	\$150M	Provide HR services, including payroll, benefits administration, tax compliance, HRIS, and employee advisory programs
OPM	Hewitt	2006	10	HR	\$290M	Provide a defined benefits technology solution for a paperless benefits service delivery model
US Department of the Interior	Atonomic Resources	2006	5	Multiple	\$100M	Provide administration, logistics and facilities and HR support services
US National Geospatial Intel Agency	Accenture	2006	5	HR	\$69M	Provide workplace support services, including workforce planning, and human resources transaction processing

Other Notable HR Sourcing Initiatives

- » In operation (and being re-bid)
 - Transportation Security Administration

- » Others in process:
 - US Air Force
 - US Department of Labor
 - US Department of Homeland Security

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Study Findings – Observations on Sourcing

- » Federal HR executives say:
 - They are committed to sourcing
 - Options are limited
 - There is lack of comparative data on cost and performance
 - They may be out of step with the HR LOB
 - Their departments are stove-piped and so is their sourcing process
 - That, given the chance, many HR executives would manage sourcing differently
 - Their impressions about sourcing are based primarily on experiences with Federal SSCs
 - Underneath issues of sourcing is larger issue of service culture
 - Critical new skills are required

Study Findings – Observations on Sourcing

- » Low satisfaction rates that may be attributed to:
 - Non-integrated and non-flexible personnel systems and processes
 - A focus on substitution, not improvement
 - Insufficient expertise ... leading to poor quality
 - Little to no savings
 - No standard methodology
 - Loss of control over activities

Study Findings – Sourcing Preparedness

- » Business Case Preparation
 - 83 percent of respondents indicate that, given the chance, they would go back and build better business case
 - Asked to identify their number-one need to improve their sourcing process, 80 percent of executives replied they would like to have “more and/or better information on our own cost and performance.”
- » Assessment of Service Delivery Model/Sourcing Options
 - Almost all respondents undertook a formal assessment. Yet some admit to “going through the motions” since the final choice was “mandated from above.”
- » Provider Assessment
 - 60 percent indicated they would like “more and/or better information on service providers,” whether SSCs or commercial providers
 - 67 percent indicated they are “unlikely to do site provider visits” from among various sourcing activities

Study Findings – Sourcing Preparedness

- » Provider Assessment
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- » Transition/Change Management
 - 35 percent of Federal HR executives indicate they have little to no change management program or processes in place and such activities occur more or less on an ad-hoc basis
 - 65 percent say that given the chance to repeat the process, they would focus (more) on transition and change management
 - 14 percent said their transition was “on time, on budget and high quality”
 - 86 percent said, “there were issues with quality – work performance” in the transition process

Study Findings –Sourcing Preparedness

- » Contract and Performance Management
 - 66 percent indicate that they expend significant resources on managing services in partnership with the provider
 - 33 percent rank their output and satisfaction levels as “poor”
- » Relationship Management
 - 50 percent of respondents indicate they have little to no relationship management practices in place

Study Findings: Others' Experience

- » Transportation Security Administration (TSA)
 - Created and uses step method to identify service requirements and metrics, for not only present-state, but future needs like self-service capability for employees and managers needing access to HR information
 - When engaging third parties TSA designates single point of contact as general integrator, independent of other internal and external workers
 - Key reason for current success in outsourcing is focusing on basics – getting a budget in place, developing and sticking to change management plan, and ensuring there is a governance model for ongoing service delivery.

“The optimal in-house state for a government HR organization is to have all services outsourced and to simply and effectively manage the delivery from the contractors.”

Assistant Administrator Dick Whitford

Study Findings: Others' Experience

- » Environmental Protection Agency (EPA)
 - Working to establish delivery standards that define success for specific HR processes
 - Conducting a sourcing analysis to determine best option for the provision of modern, integrated HRIT services, starting with a baseline assessment of its HRIT-related costs, including an estimate of the costs required to expand and upgrade its current PeopleSoft platform.
 - Actively evaluating all of the SSCs to assess their capabilities and costs, as well as conducting a market scan to determine which commercial organizations are able and available to support Federal agencies' HRIT requirements

“Before an agency proceeds with outsourcing, it must ask and answer several questions: What do the services cost to do internally? What is the service delivery cost per employee? What is our current performance and how do we measure it?”

Deputy Chief Human Capital Officer Ken Venuto

Study Findings: Others' Experience

- » Federal Bureau of Investigation (FBI)
 - Initial challenge was the lack of metrics to track and manage HR services delivery, costs and service delivery
 - To create a baseline for this information the FBI is creating its own “business-style” knowledge center to develop and maintain a way to evaluate and improve HR – e.g., ongoing cost-benefit analysis, a single point of contact for service requests, executive dashboards for key performance indicators, etc.

“What problem are you trying to solve? We must start by asking and answering this question, before anything else.”

Executive Assistant Director and Chief Human Resources Officer Don Packham,

Agenda

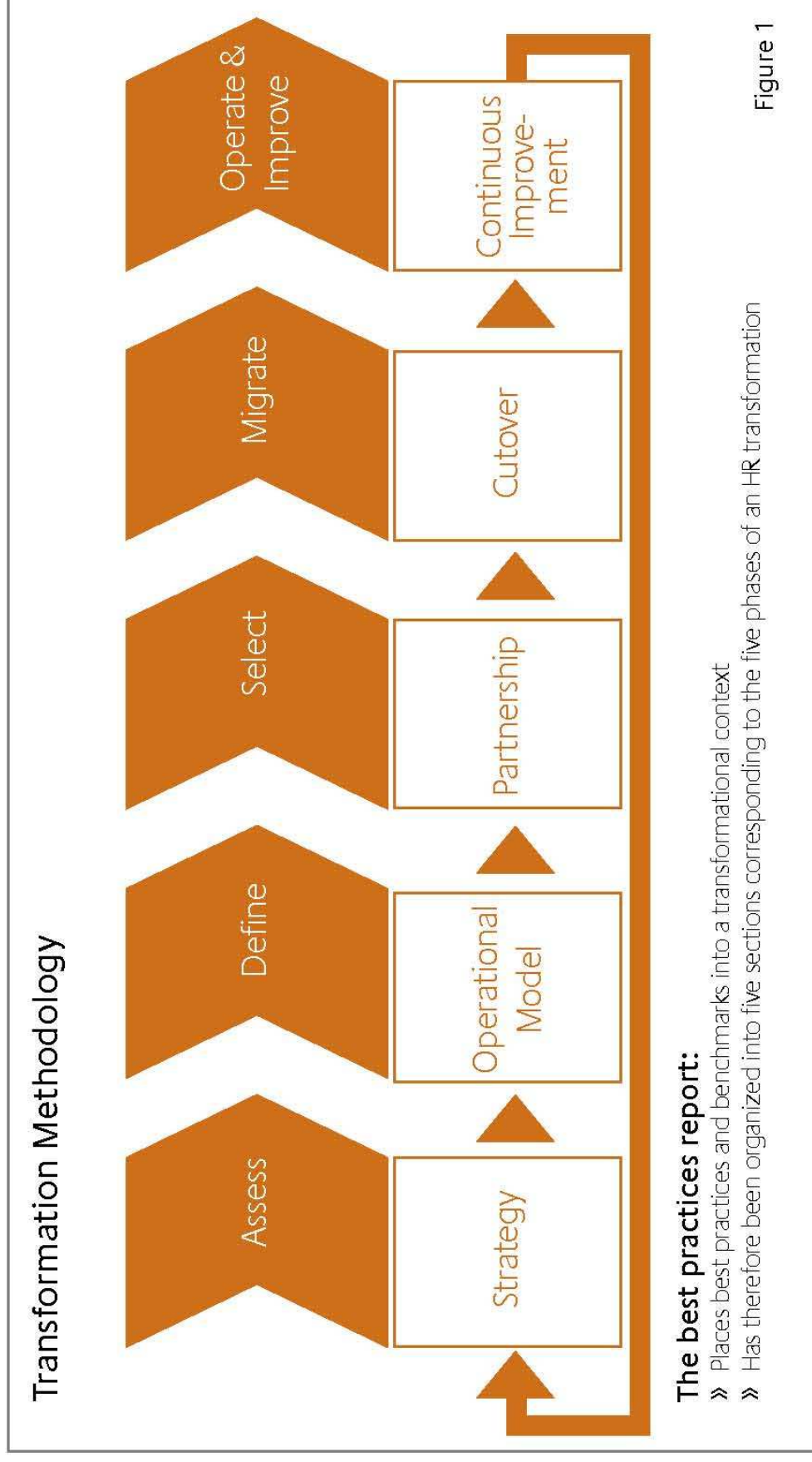
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What OPM is doing to help

- » Human Resources Line of Business: A Collection of Best Practices for Human Resources Shared Services and Service Delivery
- » Migration Planning Guidance
- » Other documents under development
 - Common rules of behavior
 - Developing service level and interconnection security agreements
 - Conducting risk analyses
 - Creating communications strategies and plans
 - Craft change management plans
 - Conduct workforce planning activities
 - Designing effective training programs.

OPM Supporting Sourcing Processes

OPM is developing a sourcing process model and best practices...



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Recommendations

- » “You can never plan too much”
- » “Establish a single point of contact to maintain control”
- » “Train on the tools”
- » “Focus on vendor management”
- » “Establish standards, eliminate one-offs”
- » “Allow for time to change”
- » “Write flexible contracts”

Recommendations – Get Educated!

IPMA-HR – HROA
Special Interest Group for
Public Sector HR Transformation



Contact:

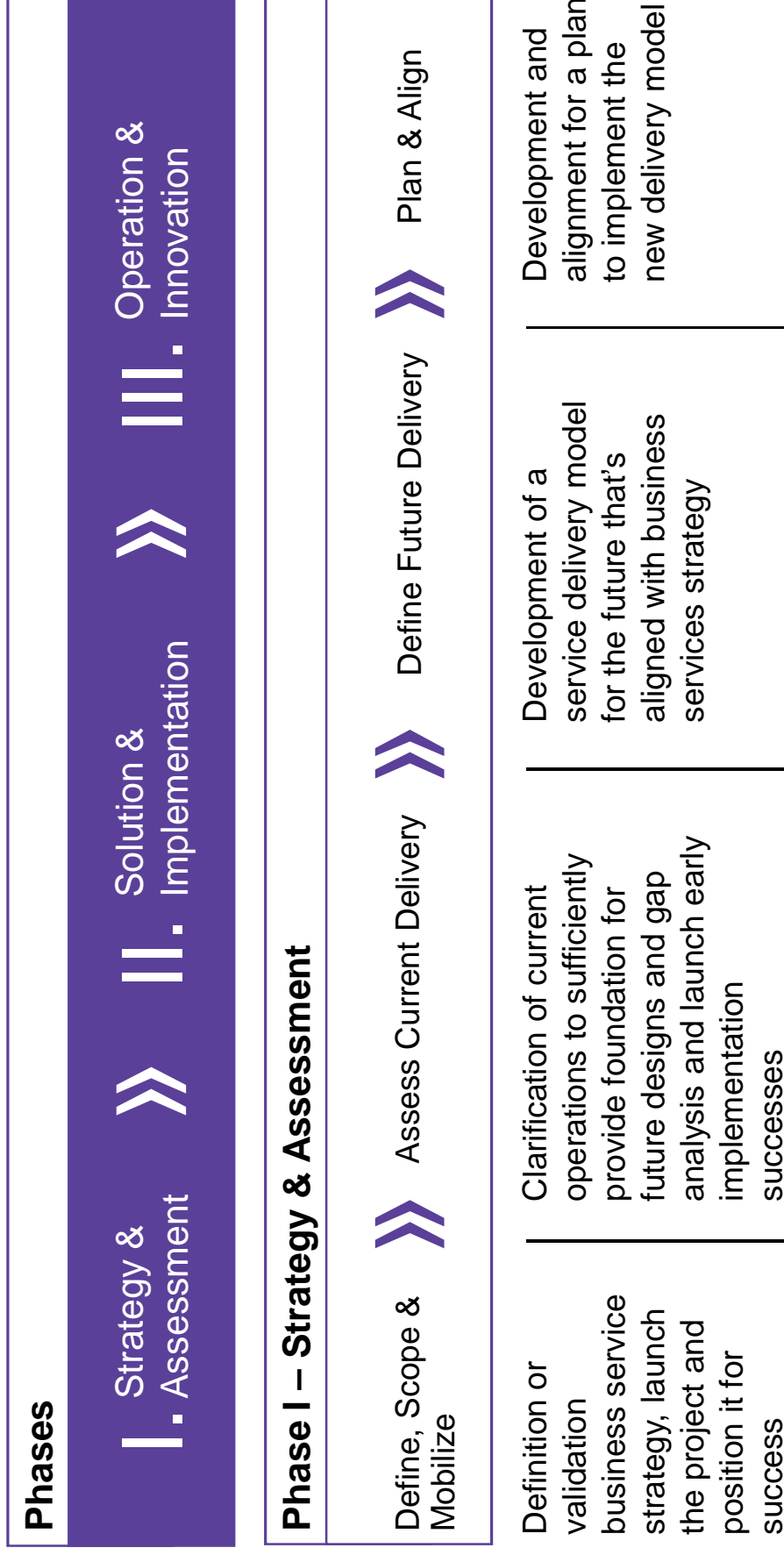
Glenn Davidson
202 904 2311

glenn.davidson@equaterra.com

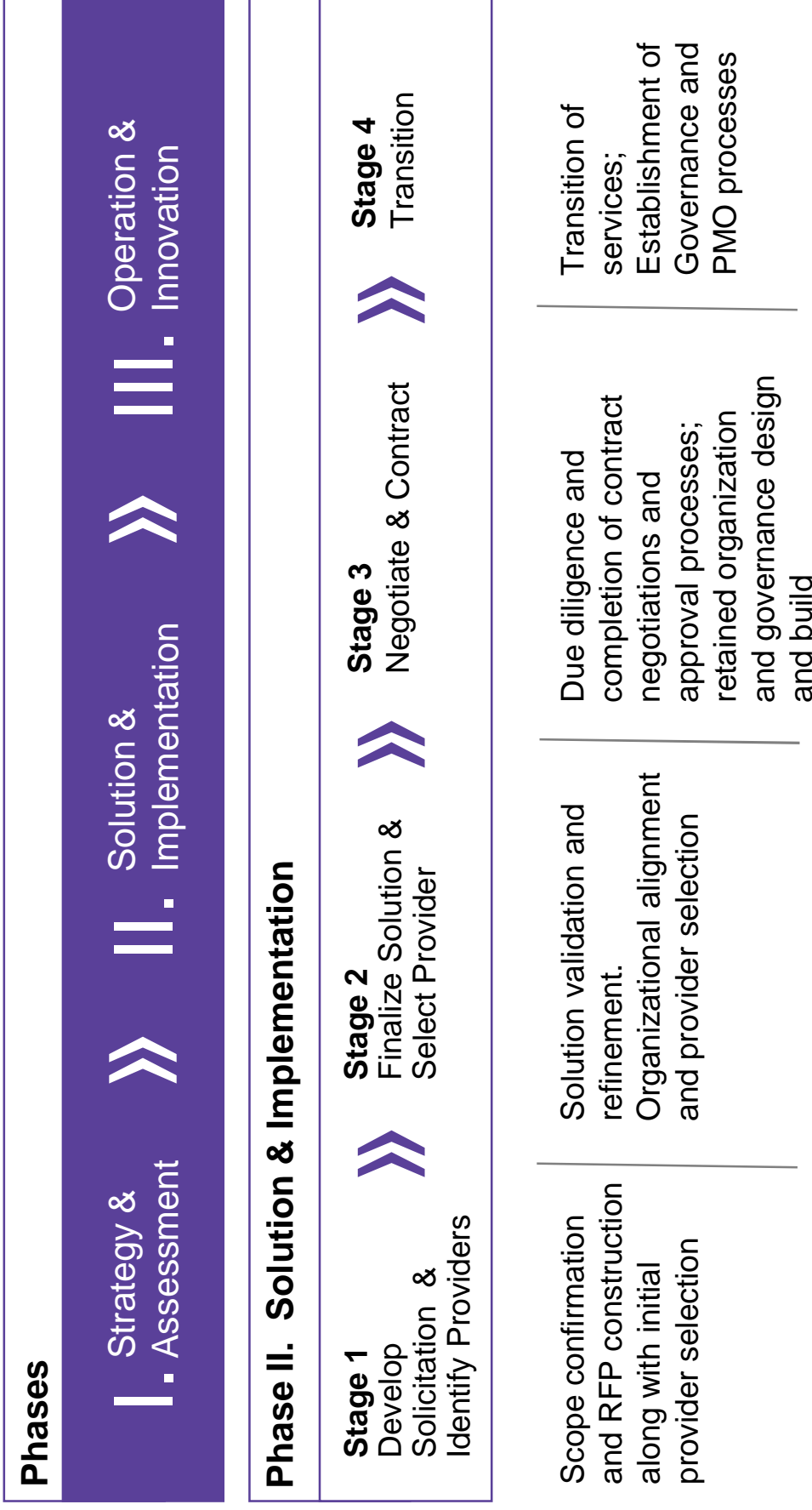
Recommendations: Adopt Some Basic Principals

- » Involve other functions – including procurement, finance, information technology, human resources, communications, legal and operations
- » Establish a baseline for HR costs and performance
- » Create a vision for a "future-state" HR service delivery model
- » Consider what processes to outsource, if any
- » Identify qualified service providers
- » Evaluate their capabilities and assess their ability to serve you
- » Develop achievable service levels, either internally or with the provider
- » Manage ongoing contracts and relationships

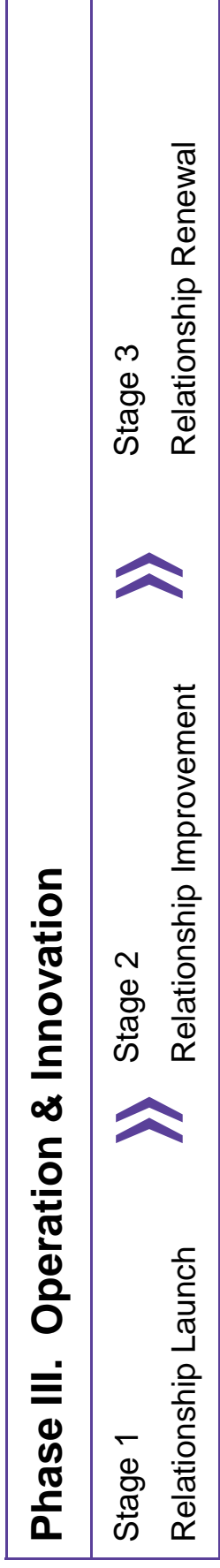
Recommendations: Employ a Comprehensive Sourcing Methodology



Recommendations: Employ a Comprehensive Sourcing Methodology



Recommendations: Employ a Comprehensive Sourcing Methodology



<p>Initiatives to successfully launch and operate new outsourcing relationships</p>	<p>Initiatives to improve the results of existing outsourcing relationships</p>	<p>Initiatives to gracefully manage the end of an existing outsourcing relationship and the transformation to a new relationship or service delivery model</p>
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Recommendations – Consider a Sourcing Advisor

- » A trusted source and sounding board for the comprehensive design, development and management of an effective sourcing process
- » An independent and experienced advisor with no ties to the service provider, no interest in the downstream work, and no attachment to a particular sourcing outcome
- » Aggregate benchmarks and best practices from multiple sourcing engagements, ensuring that each subsequent sourcing event benefits from the one before
- » Opportunities for other forms of peer networking, as well as the chance to test drive various decisions and sourcing options in order to choose the path best suited to your organization