Redesigning public sector HR functions

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A challenging context

There can be no doubt now that the public sector is going to have to find significant savings over the coming years; there remains uncertainty about the future but this is about how large the savings will need to be and over what timescale they will need to be delivered rather than whether there will be savings. HR will have to both play its part in facilitating that process but also find its own new ways of working. This may not be painless but, as many are recognising, a crisis can often also be an opportunity to go back to first principles and make more radical changes to ensure that the service is truly fit for purpose.

So, what might this mean? At a high level we believe that it can mean one of three things (or more likely some combination of these):

- **Stopping** carrying out non-essential activity (and define what is now non-essential)

- **Streamlining** other activity to improve its efficiency (including process re-engineering or re-design, automation and de-layering)

- **Sharing** the delivery of services with other organisations (including outsourced providers) to spread the cost of overheads and access scarce skills

In this paper we aim to explore these issues and ideas in more detail, to provide a starting place for organisations to think about their own way forward.

> 'We cannot solve our problems with the same thinking we used when we created them.'
>
> *Albert Einstein*

Possible solutions

It seems unlikely that, given the current demands on the sector, solutions which merely focus on reducing cost through efficiency improvements will be able to deliver the level of savings necessary.

At our recent HR Directors' retreat, one delegate highlighted the importance of 'double-loop learning', focusing on solving the real underlying problem not just fixing the symptoms; suggesting the need for deep re-examination of business models rather than just superficial reorganisation. Another HR Director built on this first point by emphasising the importance of focusing on what customers actually need, and creating change which delivers this.

This raises the perennial question of who HR's customers really are – it is clear that the function provides a service to staff but it also has a responsibility to the organisation to support its goals which may, at times, be at odds with staff's preferences. Indeed, in the public sector there is also the ultimate customer – the front-line service users or general public. Whilst a customer focus is important in this process, it should also be recognised that customers are unlikely to have the answers about how to fundamentally reconfigure the service that they receive. Drawing an analogy with the world of consumer marketing, the most innovative products (eg microwave ovens, iPhone, post-its) do not usually come from asking consumers what they want. They often do not know and it requires the supplier (in this case HR) to lead them to a different place.

So, a fundamental question that should be asked is **'What is the role of HR in this organisation in the future?'** Leading to other subsidiary questions including:

- What do customers and stakeholders really need (not what do they say they want)?

- What is the role of managers in the organisation in HR, people and change management?

- Is the service going to be transactional or transform-ational?

- Do you want to be best in class or fit for purpose?

- What would happen if we stopped doing X activity?

The focus on answering these questions should be on what HR is delivering – the outputs or results – rather than on what HR is doing, the activities or inputs. Focusing on **what** outputs need to be delivered can allow a radical rethink of **how** things can be delivered which a focus on activities does not.

Having become clear about what should be delivered in the future, the next step in thinking about reconfiguration is through the lens of effectiveness (doing what is right) and efficiency (doing it right). The first question should always be to identify what is right to do and then to consider how to do it efficiently. As a starting point for identifying where to focus attention, the value – cost matrix shown in the figure below provides a simple tool for considering where existing service delivery might be and what to do about it. On the value axis, essential activities might include things such as paying people, legally required policies etc whereas added value might be areas such as culture surveys, total reward programmes, talent management and so on.

	value		
	non-essential	essential	added value
cost — low	stop	continue/ review later	continue/ review later
cost — high	stop	streamline/ share	stop/ streamline/ share

It may well be that both axes are continuous and activities can be plotted along them rather than just in one box or another.

Stop, streamline or share

Stop

It may seem self-evident that non-essential activities should be stopped, but most organisations have developed some of these through the years and it is now just seen as 'the way it has always been done'. A first step then is to identify any of these, and just to stop doing them. In the current climate, now may be a time to be bold with some of these and push the boundary further than usual by stopping doing things that you might normally not, and seeing what the reaction is, if any. Alternatively, it may be that the output of the activity is still required but that a lot of the activity that goes on can be stopped and the remainder focused on those things that make a real difference, or new ways found to deliver the required output.

Looking at the value-cost matrix above, it may also be appropriate to stop any added value services that are expensive to deliver; some form of simple value-cost assessment should be able to map these onto their own value-cost matrix for prioritisation.

Staff within the HR function can often be engaged to find creative solutions when the problem is framed constructively for them. However, it should also be recognised that 'turkeys don't vote for Christmas' and that where people's own jobs are involved, someone also needs to provide an independent, objective perspective.

Streamline

Streamlining becomes an option when it is clear that the outputs and activity should, in some way, be carried out but it is thought that there is an opportunity to do these more efficiently. There are a number of approaches that can be used to reduce costs through improved efficiency.

Process redesign

Standard Business Process Re-engineering (BPR) or techniques from 'lean' manufacturing can be used to analyse and reconfigure processes to deliver higher consistency of output at reduced cost.

Automation

Processes can be automated using technology to reduce the people element of the cost. One example of this is the use of employee self-service for transactions such as annual leave, benefits selection or booking training. Another is the removal of manual processing of data through electronic document management.

Line managers

Ultimately, line managers are responsible for managing their people, but over time in many organisations they have come to rely on HR to carry out some of their activities for them (eg disciplinary action, attendance management etc.). With the focus on costs, now is an opportunity with the support of the very top management, for these activities to be really returned to the responsibility of line managers.

Delayering

With the standardisation and automation of processes, and empowerment of line managers, comes the opportunity to remove the layers of people from the HR function who were previously responsible for managing other's activity or making decisions about specific cases.

Job design and flexible working

The current pressures also provide an opportunity to reconfigure the jobs of people, giving more responsibility, and perhaps extending working hours at no extra cost. We have also seen in the downturn that people and organisations are open to a wider range of flexible working models to match resource available to workload.

Share

The idea behind shared services is that activities performed locally by business units are re-engineered, streamlined and then combined so that the business units 'share' the service delivery solution. This can happen within one organisation or between a number of organisations. Sharing a service can allow costs to be reduced through the sharing of overheads such as premises, management and technology. It can also allow standardised processes to be used and developed, again leading to a reduction in costs through shared development costs. If done with an outsourced provider, it can be a way to change fixed costs into variable ones based on numbers of transactions or staff. It can also have the advantage that a stable back office allows a focus on core services during times of change. There are three main questions to consider when implementing shared services.

Working alone or in partnership?

Larger, more complex organisations with multiple sites delivering variations on a particular service may be able to achieve the scale and savings necessary to make shared services worthwhile by bringing together their delivery into one centralised service within their own organisation, thereby creating economies of scale and greater consistency in service. Smaller organisations may not have the scale necessary, and so will need to work with other organisations to create the economies of scale. This does not mean, of course, that larger organisations may not also gain further benefits by working in partnership with other organisations as, in theory at least, the greatest potential for efficiency savings are in models that bring together the most existing administration centres.

In-house or outsourced delivery?

A shared service operation can either be established and retained in-house or outsourced to a third party, or parts of it can be outsourced. The choice here revolves around the relative capability of in-house and outsourced providers to offer the required level of service, and the cost at which they can offer this. Outsourced providers can rapidly offer access to new technologies (such as self-service) that cannot be financed internally, and may allow savings to be realised faster. An important element to consider is also how any provider will respond to, and indeed drive changes in, the service offered as this is unlikely to stay fixed over the lifetime of any arrangement and the capability to adapt is essential. In some cases, the technology provider becomes a partner in the relationship rather than just an outsourced provider. An alternative approach to this question is where one (or more) organisation develops a capability and then makes it available on a commercial basis to other organisations.

Single or multi-function?

Some organisations have started with single functions (*eg* HR, Finance, IT, Procurement) setting up their own shared service operations, but after a while the question gets asked as to whether it would be better to have all administrative activity in one place, irrespective of these functional differences. However, some partnerships decide at the outset that they want to share multiple functions, particularly when they plan to involve an outsourced provider. Having multiple shared services can reduce technology and property costs as well as allowing a single management team. The argument against having multiple functions is whether there is in practice much real overlap or multitasking possible, and hence savings to be generated. As a result, some organisations do have shared services for multiple functions but they have established them separately with different partners.

Implementation

Our recent work with organisations has suggested a number of key messages about the critical factors for ensuring success. First, it is clear that there is not just one answer, but that the solution depends on the particular circumstances and objectives. It is therefore essential that organisations make a **decision specific to their context** and do not just follow what other organisations are

doing, or what they feel pressured to do. A critical factor in this decision is how fast any cost savings need to be made and hence, perhaps, whether there is time to develop in-house solutions or if off-the-shelf approaches need to be used through an outsourced organisation.

It is important **have the right people** in place, both to manage the initial project or implementation and then to run the operation on an ongoing basis. It is a complex process to make these changes and it is highly advantageous to have people who have done it before involved in leading the project to ensure that organisations do not try to reinvent the wheel. Continuing to improve the efficiency and quality of service after the new operation has been established is important also, and so having people in the organisation that can lead process improvement in this way is a key priority.

It is important to aim for the **highest degree of standardisation and automation** possible to drive out the greatest level of savings. It is recommended that processes and policies are streamlined and standardised as much as possible before the creation of any shared service but this can continue afterwards also. Automation and devolvement of responsibility to managers leads to large savings in the costs of processing transactions.

Whilst the focus of most reconfigurations is initially on **saving costs**, it is also an opportunity to **improve service quality and consistency**, and both should be part of the planning process. The service provided to managers and staff may be different from what they received in the past (for example they may not have an individual HR advisor that they can contact) but the service is now what the organisation has defined as fitting its business needs to deliver cost savings.

In all cases, it is likely that the service will change for staff in the client organisations, and a **well-managed change programme** is essential to ensure the success of the implementation. This includes communicating what people can expect from the service, what is required of them, and managing their expectations about the change process. It is also likely that staff will need to be trained in any new systems that are provided. Experience also suggests that an incremental approach to making change is preferable though this may not always be practical.

Consistent and strong leadership from the top of the client organisations is critical; to ensure that the new service is embraced and managers do not fall back on their old ways of operating (for example by recruiting staff to do the work on the new system for them). This also can require a perspective on the longer term as the return on investment can take time to be achieved and the process may not go smoothly, and it is important to stick with it through the challenging times.

Since changes may involve collaborations between different organisations, the important of **building strong, trusting relationships** is important, and these need to be supported by putting in place the correct governance arrangements that allow all parties to have the appropriate influence, and ability to monitor performance. In addition, it may be appropriate in some circumstances to have strong contract and supplier management skills.

Having a strong suite of **performance indicators** tied to the objectives of the service and its clients is important for the overall governance, but also for the ability of the management team to continue to improve its efficiency and service. These should cover measures of both efficiency (cost), quality of service and customer satisfaction and be compared against a benchmark set of measures established prior to the change in operation.

Conclusions

In the challenging times ahead there is clearly a need for both HR to respond but also to lead in how organisations can be reconfigured; and it must start with itself. A focus that starts with what is there now and looks to find efficiencies may not lead to a solution that is both effective and efficient for the future. A more radical look needs to be taken at what can be delivered and how.

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