Several routes to an HR nirvana: but is it all a mirage?

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Much attention has been devoted to HR transformation, but it would seem that actual evidence of successful results is limited and varied. Why is this? Does the problem lie with the design or implementation of HR transformation, more than with the all too often failure to evaluate outcomes? In this paper we examine the main routes towards HR reform, pointing out potential pitfalls and how to avoid them.

Despite all the talk about HR transformation, when one looks at Pricewaterhouse Coopers data over the last four years, it shows very little change in terms of the numbers of HR professionals employed or the cost of delivery. Similarly, the figures on outsourcing from CIPD and DTI surveys suggest that the outsourcing market is largely static and limited.

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Where there has been reform, most of the change towards service centralisation and outsourcing appears to be driven by cost. However, whilst short-term savings may be obtained, especially from shared services, according to Deloitte and the Conference Board they do not always appear to last.

In the case of e-HR, the cost of transactions can fall dramatically if well managed, but how many organisations can claim that self-service systems have lived up to their promises?

And even if organisations have automated, consolidated, standardised or outsourced, there is the sobering research from Lawler and Mohrman (2003) that they have not made HR more strategic, nor has the freeing up of HR's time produced a switch of resources into higher valued-added work (Weatherley 2005a, CIPD 2003).

All this makes one wonder whether there has been much ado about nothing in terms of HR transformation: either it has not been done or it has not been done successfully. For those who have worked in our leading companies, this must seem like a comment from someone living on another planet.

The answer to this conundrum may be that many organisations have either not adopted an HR reform programme or it is not yet complete. Much of this is linked to the size and type of company: many SMEs may fall into the first category and public sector organisations into the second. Further, a number of those companies that have embarked on restructuring find that it takes five years or more to bed in the changes so that the model is working to HR and customer satisfaction.

When trying to break this problem down a little more, it can be helpful to examine the different routes towards HR transformation. These are:

- structural reform
- outsourcing
- process modernisation
- technological innovation.

Each of these routes has its own benefits and they are not mutually exclusive. Their impact, though, may be limited if implemented on their own. They are also not the same, despite some vendors giving the impression that shared services equals outsourcing, or that the implementation of a new Human Resource Information Systems (HRIS) will solve the function's problems in structure or service. In addition, a further route might need to be added before success is achieved, namely a skills-led approach to modernisation.

We will review these approaches one by one, looking at their strengths and weaknesses and at how to avoid implementation pitfalls.

Structural reform

Most attention has been given to the reorganisation of the HR function, often along the lines of the so-called Ulrich three-legged stool model – a shared service centre, business partners and centres of expertise, overseen by a corporate centre. Organisations are drawn to the advantages that a shared service centre brings in terms of economies of scale. They see the benefits of business partners being close to the management of their business units. Centres of expertise allow subject matter excellence to be developed. The reduction in transactional activity that should come from consolidation and standardisation of practice should release time for transformational work.

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The trouble is that the model has not been properly evaluated. Many organisations have obtained cost benefits, but we do not know whether they have incurred service penalties and of what significance. There is a strong suspicion that line customers have not been consulted. They have got what they have been given and told that it is for an organisational benefit. This is fair enough so long as the 'organisational benefit' can be demonstrated, but this is difficult if there is no base case that describes the original cost and service profile against which improvement made be judged. Task turnaround times may still be too slow but they may nevertheless be quicker than before.

Another important point is that the three-legged stool model does not suit simple or small organisations. You need large multi-location or multi-business organisations with a sufficiently big HR team to organise it into discrete organisational parts and derive the financial savings by so doing. It would seem that a number of organisations have followed the fashion to implement the model without a proper assessment of its suitability in their circumstances.

Bearing all this in mind, done well and in the right circumstances, Ulrich-style structural reform can deliver on its promises, but to achieve success, certain conditions need to be met:

- Save money through consolidation of services, but remember Ulrich's maxim – 'the user is the chooser'. In other words, adjust the service delivery to meet justifiable variations in customer need.

- Work especially hard on internal communications so that all the parts of the HR function keep each other well informed of activities and developments. Create an environment of knowledge sharing.

- Don't ignore the 'polo problem' where operational support disappears down the hole in the middle between HR units. Business partners don't tackle operational problems because they concentrate on strategy. Centres of expertise are often too remote from the problem and shared service centres likewise, with the added dilemma that neither may be resourced or attuned to these issues.

- Design jobs that people can do, and that deliver organisational benefits. The particular problem for business partners is that they are constantly urged to be strategic without much explanation of what that means. The emphasis is on adding business value, which is highly desirable, but there is no route map given as to how to achieve that. The HR experts almost have the opposite difficulty. They risk being all too comfortable in demonstrating their expertise; the question is whether they solve real business problems or rather deliver their perception of HR best practice. HR administrators risk being seen as the poor cousins and locked into narrowly constructed jobs with little future.

Outsourcing

The extent and nature of outsourcing is much debated, as is the benefit to organisations that externalise activities. At one level, this is a non-debate: HR has always and will continue to outsource specific activities where it has neither the expertise nor the frequency of need to retain activities in-house. Outsourcing counselling or recruitment advertising should not be controversial. At the other end of the value spectrum, however, it is rare for organisations to go so far as to externalise strategic thinking, policy making or business partnering. The real debate is therefore between those who see advantages in outsourcing transactional, operational

and, less commonly, HR expertise and those who oppose any significant contracting out.

The primary driver for outsourcing remains cost saving. Supporters say that vendors can deliver cheaper services because they are more efficient and commercially minded, can create their own economies of scale and utilise access to high quality technology. Those that support internal service delivery believe the cost argument to be a myth. Their argument is that if you run a home grown service centre efficiently, where will the savings come from if you outsource it, especially as the vendor has to make a profit. This position also rejects the conflation of outsourcing and shared services as a marketing device. However, it is true to say that arguments in favour of internal service delivery are more valid in large organisations where economies of scale can be self-generated.

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An alternative reason for outsourcing is to obtain expertise and, on occasion, kit. The former can be in process management, technology or people management best practice. For example, organisations may get others to create and manage a service or call centre, a payroll or an internal consultancy. For smaller companies, this might make perfect sense. For larger ones, the difficulty in obtaining funds for investment is also a legitimate, if disappointing, reason. Significant difficulties occur when HR outsources a problem in the hope that the service supplier will offer a solution. The contractor will do this, but at a very expensive price. As IT outsourcing found over ten years ago, organisations would be wise to sort out problems internally, before considering whether a third party can do a better job.

Process modernisation

Process reform is a necessary element in HR modernisation. The drivers for improving processes have centred on cost saving and improved service. Financial savings can be obtained by being clearer on service provision and standards. This can reduce the amount of re-work that is done, the adage being that 'get it right first time' is a money saver. Customers can get a better service if HR is faster, more consistent and accurate in what it does, and more aware of good practice internally and externally. This means:

- improving connections between activities so that processes work better for users

- removing unnecessary tasks, especially those that duplicate activity or involve HR as a 'post box'

- reducing the number of process handoffs

- simplifying tasks

- measuring performance to check that standards are being met.

Technology has facilitated much of this change through automation, or manager self-service, or employee self-service. Organisations have also sought a change in attitude from HR so that it becomes more consumer than producer driven. Creating SLAs and monitoring against performance metrics has reinforced this mindset shift.

All of this change is laudable so long as HR realises that it is only one part of delivering value to customers. Sending out recruitment offer letters quickly and to an accuracy standard is important. However, the failing in some organisations is that this is *all* that is measured, meaning that HR's performance is judged solely on the efficiency of its processes. This is partly because measuring strategic contribution, quality of expert advice, or change management inputs is much harder to do.

As practitioners know, the requirement to get the basics right precedes any ambitions to be more strategic, but it is not sufficient on its own to transform HR. It can remove noise in the system, get customers on-side, hopefully release time and resources, and legitimise HR's desire for influence and impact, but further steps are needed. These involve defining where HR's extra added value will come and how it will be delivered. And this contribution requires its own set of metrics.

Technological innovation

Technology has helped HR in a variety of ways. At one level it has made HR better at data management or manipulation through HR information, work flow systems and document management systems. At another level, HR has been able to transfer tasks to managers and employees through self-service mechanisms, making individuals more self-reliant. E-HR has also enabled the function to communicate better with staff via intranets and call centres. Improved management information has given HR the chance to guide and challenge, based on robust evidence rather than 'dodgy data'. To varying degrees of success, modular IT systems have been employed that offer e-enablement of a variety of business processes such as online learning or online recruitment, e-reward or e-performance management.

There are some technological innovations that put e-HR in the vanguard of HR transformation. However, more

often, it has been an enabler, albeit a very important one. Many of the cost savings, service improvements and cuts to the function's numbers have come about because technology has facilitated distributed networks or remote service delivery channels.

As we have observed, technological improvement has accompanied process and structural reform. The important point to remember here, though, is that on its own, it cannot be the motor of reform. Indeed, those organisations that have pushed the e-revolution ahead of other changes to culture, policy or practice have come a cropper. Take BP as an example. In the early days of its outsourcing deal, BP was concerned that Exult had gone too far and too fast in automating HR activities. Employees seemed reluctant to use the new technology. Managers thought that the standardisation of some policies to meet the needs of the system was not desirable. Costs rose because of the duplication of service means, as staff and managers bypassed the electronic medium and persisted with personal contact. Other organisations have found the same: that it is not always efficient to automate if customers think it too difficult or inappropriate to use electronic mechanisms.

A skills-led approach

All of the above-reported elements of change to structures, delivery mechanisms, processes and technology can contribute to HR's successful repositioning and improve performance. However, what holds HR back from achieving its full potential is that it has invested insufficiently in the HR community. HR could be said to be suffering from the cobblers' children syndrome: it has preached the virtues of upskilling to other functions, but devoted insufficient attention to itself.

So, to quote Lenin on how to effect revolutionary change: 'what is to be done'? There are two prime approaches and both should be considered: one relates to improving the flow of talent into the function and the other to improving the existing capability. But first the HR director should commence a thorough examination of who is likely to succeed in meeting these new challenges and then make sure that they are in the right jobs and given the right support. Such an approach will reveal the extent to which new blood is needed.

The recruitment process that follows will require a search for those with the skills and disposition to achieve results in a more complex environment. This may mean looking at different skills sets to traditional ones. Those in call centres may need interpersonal and call-handling skills rather than HR knowledge. Business partners

might be drawn from line management or commercial functions or, if not as radical, a premium should perhaps be given to those with business awareness and analytical skills. Experts may need deep subject knowledge, but also good communication skills and the ability to network across the organisation. Quality staff may not easily be found, but it may better to suffer having a vacancy than recruiting the wrong person.

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Having got the talent, the function needs to develop it. Particular attention should be given to career development. The new(ish) HR operating model puts up a number of barriers to career growth through the segmentation of HR activities. To work round these boundaries, HR needs to be proactive through testing staff out in new areas when covering for absent colleagues, going on sabbaticals to other organisations, joining inter- or intra-functional project teams, and even creating development posts.

CPD should not be neglected either. This means holding 'lunch and learn' sessions, encouraging attendance at external events or taking qualifications, offering behavioural skills training or helping grow knowledge in people management subject areas.

Attention needed in all areas

Thoughtful implementation of all of these change mechanisms can reap great rewards. Structural reform can save money, but also be an effective transformational tool, provided that it is implemented in a way that delivers service improvement and cuts costs. Outsourcing can also be beneficial where it is applied in a well-considered manner that takes account of non-financial issues, as well as financial, and is assessed over the longer term, not just short term. Process modernisation simplifies and speeds-up services, although it is important to remember that reengineering needs to recognise cultural constraints, not assume that we live in a wholly rational world. Technological innovation can improve efficiency, but cannot be the unaided motor of reform. Lastly, a consistent strategy for recruiting and developing the talent necessary to take HR forward is vital.

The message is that for HR to succeed in meeting its aspirations to be a valued business contributor, it needs to make progress in all areas. This suggests a systematic approach to reform, carried out over a significant period and with regular evaluation of what progress is being made. Following fads or chasing a quick fix will not lead the function to its intended destination.