

New Era for HR Shared Services

Centralizing benefits, payroll and other human resources functions not only saves money and improves customer service, it also frees HR professionals to provide more strategic support.



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Executive Summary

- Most companies report 21 percent to 80 percent savings by switching their HR delivery mechanism to shared services.
- Enabling HR professionals to focus on strategic support of the organization instead of being bogged down with routine administrative requests provides even more benefits.
- Most companies use a combination of outsourced and in-house shared services, depending on their industry, size and other characteristics.
- More advanced organizations have established centers of excellence to sustain a consistent set of HR practices across an enterprise.
- HR shared services delivers the most benefit if the organization relies on a single technology platform.

Methodology

BusinessWeek Research Services (BWRS) launched a research program in spring 2007 to determine the views of senior human resources (HR) and information technology (IT) executives, and their CEOs, on how a shared-services approach to human capital management (HCM) can reduce costs and optimize the value and impact of employees.

For the purposes of this white paper, shared services is defined as a service delivery model that enables organizations to apply the economic principles of supply and demand and economies of scale to internal processes.

This paper includes in-depth telephone interviews with senior executives at large and midsize companies known to be implementing a shared-services approach to HCM. Among the organizations that participated in the interviews are:

- BASF Group AG
- Bayer AG
- Florida Power & Light Co.
- Henkel of America Inc.
- Monsanto Co.
- The Standard Bank of South Africa Ltd.
- Swisscom Group

In addition, leading consulting and research firms and prior BWRS reports were consulted to provide context and background.

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For more information about this project, please contact the Director of Primary Research at *BusinessWeek* at chris_rogers@businessweek.com.

Introduction

More than a decade after large U.S. companies began to adopt shared services in human resources (HR), this delivery model has proven its worth by cutting administrative costs, reducing transaction errors and generating greater employee satisfaction with basic HR processes. Now, as companies devise human capital management (HCM) strategies to give them a competitive edge in hiring, training and deploying employees to meet business goals, HR shared services has entered an era of increased relevance and value.

HCM software and the technology infrastructure have never been more conducive to supporting this model, and the need to contain HR administrative costs has never been greater. This fortuitous convergence comes at a time when many companies are transforming HR into a strategic function. Without shared services, the transformation is difficult, if not impossible. It is no wonder, then, that shared services is now widely viewed as an HR best practice.

“Shared services is not a tactical solution but part of an overall services delivery model built on an HR strategy linked to a business strategy,” says Stephen Joyce, HR practice leader at Atlanta-based strategic advisory firm The Hackett Group.

For decades, administrative matters related to compensation, benefits and personnel policies have consumed HR’s time. Now, most, if not all of these processes can be standardized, centralized and automated through a shared-services model, which may include outsourcing. This frees HR to apply its energy to talent management, organizational development and other strategic endeavors that contribute directly to meeting business goals. In time, adopters will reap the double-barreled benefit of cutting costs and boosting HR’s strategic impact.

Cut Costs, Unleash Value

In a recent benchmark survey by The Hackett Group, companies that had adopted an HR shared-services model reported reducing process costs by as much as 80 percent, with 60 percent of these companies reporting process savings of 21 percent to 80 percent. “The greatest improvement came from the organizations that were the most decentralized to begin with,” Joyce says.

The savings most often come from reduced staffing in HR. In the Hackett study, “world-class” HR organizations—defined as the top quartile of 125 companies benchmarked—spent on average 13 percent less on HR per employee (see chart 1, “Total HR Cost Per Employee,” above) and they had 15 percent fewer full-time HR staff per 1,000 employees (see chart 2, “HR Full-time Employees Per 1,000 Employees,” next page) than the others in the study.

“World-class HR organizations rely on shared services 65 percent more often than typical companies,” Joyce says. “For many of them, it’s a key part of their strategy to improve efficiency and effectiveness.”

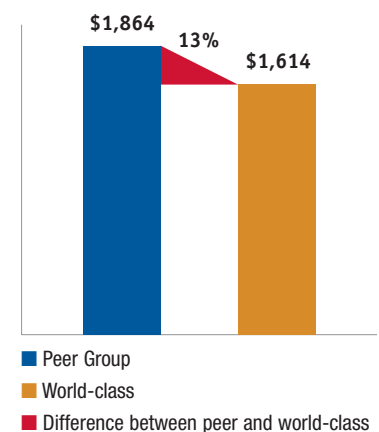
And yet, Joyce and others argue, if savings like these are the sole reason a company adopts the model, it will miss the greater benefit of enabling HR specialists to contribute to the success of the business units they serve. Though difficult to quantify, the bigger benefit comes from unchaining HR professionals from their administrative tasks.

Unleashed from tactical services, like trouble-shooting payroll problems and entering and tracking paid time off, HR professionals have more time for strategic issues like recruiting, talent management and organizational development.

Chart 1

Total HR Cost Per Employee, 2006

World-class organizations spent 13 percent less on human resources costs per employee than the peer group in 2006.



Source: The Hackett Group

“When administrative processes are centralized, HR is freed to become a business partner, to add business value. The shared-services model has gotten us closer to that,” says Ricardo Rosa, corporate HR director for organizational performance at Johannesburg-based The Standard Bank of South Africa Ltd., where it has a shared-services center that processes payroll and other administrative matters for 29,358 of the 42,265 employees who are in South Africa (about 70 percent of the bank’s global total).

Many Variations on the Model

HR shared services varies based on company-specific circumstances. However, certain common elements are usually present:

- Companywide consistent policies and processes, from which standardized, automated transaction processing can be achieved
- A central knowledgebase
- Some use—often extensive—of employee and manager self-service applications from a Web portal
- Most often, but not always, a single HCM software platform
- A call center, internal or outsourced, for fielding queries and handling other tasks by phone, e-mail and chat
- The use of outsourcing where it makes sense

The last point is worth repeating: Consultants often encounter the misconception that shared services and outsourcing are mutually exclusive, the former misunderstood as doing everything internally. In fact, the two usually go together (see chart 3, “Outsourcing vs. In-house in a Shared-services Model,” next page).

Some companies start with a few elements and build on them. Florida Power & Light Co., the main subsidiary of FPL Group Inc., in Juno Beach, Fla., began shared services in 1993. At the time, the regional utility had a one-stop call center for payroll and administration of HR processes. Today, shared services also includes extensive self-service applications for its 11,500 employees, three-fourths of whom are in Florida.

“We have constantly revisited what functions could be done from shared services,” says Gary McBean, manager of employee services at FP&L. Disability management and leave administration have been outsourced for more than a decade, but McBean is now studying whether to bring those functions in-house. At one time, the HR department managed the HCM platform, but later the staff managing it was placed under IT.

More examples serve to illustrate the commonalities and differences in HR shared services. Each of the following companies previously had a highly decentralized model in which HR in each business unit handled most administrative processes. Policies and procedures were not consistent before these companies adopted shared services.

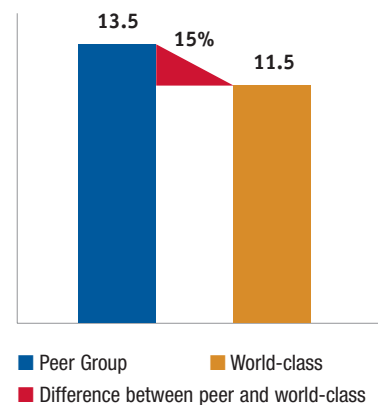
Bayer AG, a pharmaceutical company based in Leverkusen, near Cologne in Germany, launched shared services in October 2006 for about 20,000 of its German employees. Bayer’s main shared-services center is in Leverkusen—not known for low labor costs—because the company migrated existing HR staff or other workers to jobs in the center.

A few months later, the company opened a shared-services center in Pittsburgh for 16,000 employees in North America. Bayer plans to extend shared services to all German operations and the rest of Europe by the end of 2008. Nearly half of its global workforce of 110,000 also will be supported by HR shared services by the end of next year. In addition, Bayer is studying whether to implement HR shared services in Asia, where it anticipates having a third shared-services center.

Chart 2

HR Full-time Employees Per 1,000 Employees, 2006

World-class organizations had 15 percent fewer full-time human resources personnel per 1,000 employees than the peer group in 2006.



Source: The Hackett Group

Bayer only outsources international relocation, but it is open to considering other functions, including domestic relocation. The company keeps payroll in-house because it has been centralized for years—and it makes money. About one-third of its payroll operation services other companies. Bayer has one HCM platform, which it maintains internally.

The company also has begun to move processes to employee self-service. “One of the big challenges is to harmonize the processes before we roll out self-service,” says Elke Bartl, head of HR direct, Bayer’s shared-services organization. “At Bayer, each group had their own processes for everything other than payroll and recruiting. We are in the middle of centralizing processes, and it will take the rest of the year.”

Monsanto Co., which develops technologies and products for agriculture, has had shared services since 1996, and the company presently serves the administrative and payroll needs of 8,000 U.S. employees, with seasonal highs of 10,000 or more. Its shared-services center maintains all data related to nearly every phase of an employee’s tenure at the company. Located in its corporate headquarters in St. Louis, the operation has a call center, which now fields more e-mails than phone calls, according to Steve Savis, global HR service delivery lead.

The global workforce of 18,000 has access to employee self-service through the company portal, which handles many administrative matters. But payroll outside the United States is primarily outsourced. The centralized operation in St. Louis includes HR IT staffers who maintain the one global HCM platform the company uses. The team also includes one HR IT staffer each to maintain regional HR datacenters in Antwerp, Belgium, Singapore and São Paulo, Brazil. A fourth HR IT person in Antwerp serves as overall international lead.

Global teams for benefits, compensation and rewards, and staffing all operate on a shared-services model. Administration of many benefits, including pensions (401k), stock options and health insurance, is outsourced, but employees access these services through the company portal. Monsanto is currently looking at how to expand shared services more effectively outside the United States, especially in Brazil where it has 1,800 workers, Savis says.

Henkel of America Inc., in Gulph Mills, Penn., has been using shared services for about five years. With 7,500 workers, the company is the North American operation of Henkel KGaA in Düsseldorf, Germany, which manufactures products for home care, personal grooming, and consumer and industrial adhesives and sealants.

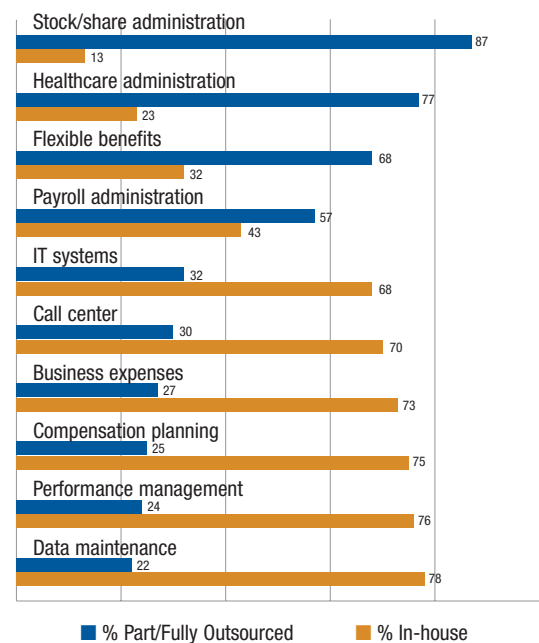
Today, Henkel of America’s HR shared services cover payroll, data management, compensation, staffing, relocation, training and other areas. The company outsources the call center function to a firm in Pennsylvania. Other functions are operated virtually by shared-services employees in several locations on a common HCM platform—the same used globally by the entire company.

Henkel of America considers the platform and data management mission critical, so it retains them in-house. “We knew shared services would only work if we managed the data correctly, on time and accurately,” says Bill Read, senior vice president of HR at Henkel of America.

Chart 3

Outsourcing vs. In-house in a Shared Services Model

Transaction-oriented tasks are more likely to be outsourced, while internal staff often handles more strategic HR functions.



Source: HR Shared Services Index 2006 for 30 companies in the United Kingdom and Europe, PricewaterhouseCoopers Saratoga

When it began shared services, Henkel of America had few self-service applications, but the company now uses employee and manager self-service extensively. The parent company also is studying the North American shared-services approach as a model for more than 52,000 employees worldwide.

Three HR Building Blocks

These HR executives see shared services as one of three building blocks for transforming their function (see chart 4, “HR Transformation—Three Building Blocks,” below). The other two are centers of expertise and business partnering. “A lot of people talk about shared services only as an administrative center, but if you don’t consider all three building blocks you’re missing the point,” says Bartl, who worked on shared services at IBM for several years before joining Bayer last year.

Standard Bank’s model generally follows this trend. Besides the shared-services center in Johannesburg, it has a shared-services center with a human capital consulting team who has expertise in recruiting, organizational design and other consulting disciplines. HR generalists are involved at each site in a still-evolving role. “We are refining this role further,” Rosa says. “Now that shared services is stable, we can look at the competencies we need in the generalist.”

Business partnering is especially key at BASF Group AG, the German chemical manufacturer. The business partner role can vary from site to site, depending on the need. The HR business partners in a manufacturing unit might focus on dealing with work councils and trade unions; HR staff in a fast-growth unit might focus on talent management; and HR professionals in a unit undergoing a restructuring might focus on change management.

“These are things that can only be done locally. There is a range of issues, all of which are relevant,” says Steve Hatton, BASF’s director of human resources policies and systems. “What we describe as a business partner is a credible HR generalist who can be accepted by a business team and show the teams how HR tools like appraisal, performance management or whatever can add value to the business.”

BASF has a shared-services center at its corporate headquarters in Ludwigshafen for the 33,000 workers (about one-third of the total) at that site. It also has regional shared-service centers in Berlin to cover the rest of Europe, in Kuala Lumpur for Asia and in the United States through an outsourcer.

No Pain, No Gain

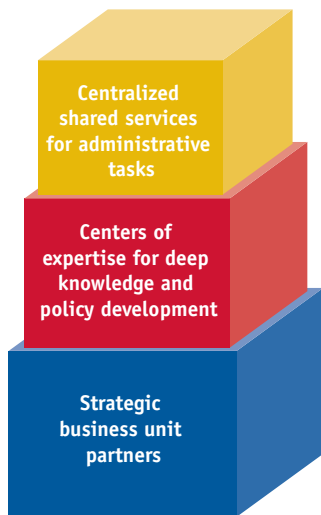
None of the above is accomplished without some pain. Centralizing processes is the first step toward creating self-service and the knowledgebase for a call center, whether internal or outsourced. In highly decentralized companies, this can take several months. Some adopters choose to begin with only certain aspects and do the rest over time.

For example, Monsanto adopted a shared-services model in 1996 but did not install an employee portal and self-service until 2005, after it had changed its HCM platform in 2003. Standard Bank continuously evaluates its services, based on metrics, and decides what to add and improve.

Another challenge: A company can launch HR shared services with more than one HCM platform, but it isn’t easy. It is far better to standardize on a single platform for payroll and personnel databases. A company needs to budget time and money if the move to shared services will require a new implementation of standard software.

Chart 4

HR Transformation— Three Building Blocks



Source: BusinessWeek Research Services

When HR is transformed, each area—administrative, centers of expertise and business partners—needs access to data. “All three must be able to access and use relevant data, so the ideal is one platform,” says Eric Lesser, an associate partner at IBM Global Business Services, who has led research into various aspects of HR shared services and strategic HR.

The biggest challenge is change management. Employees must learn to use self-service and the call center, not “good ole Marge” in personnel, to solve problems. Business unit managers must be convinced their dedicated HR specialists will provide more valuable service once they offload administration. HR staff must adapt and retrain for new roles.

At Henkel of America, business leaders initially resisted because they wanted their HR people to work on their problems. “I said, ‘they will, but just in a different fashion,’” Read says. The company wanted HR people in place at the business units to focus on human capital issues not on administrative tasks. “I got pushback from HR people, too,” he adds. “Some thought their major job was running interference with Blue Cross.” Read had to replace two HR vice presidents who weren’t able to make the transition.

Bayer had to retrain some HR workers to staff call centers, and the company launched a major effort to retrain HR specialists for their new roles in business units, Bartl says.

As a rule of thumb, Standard Bank’s Rosa and others say, one-third of HR employees easily transition to new roles, one-third can do so with proper training and one-third might never work out.

Short-term and Long-term Benefits

To sum up, it is hard to argue against the savings. Most companies report cost savings of 21 percent to 80 percent, depending on how decentralized their processes were to begin with. Before adopting the shared-services model, Standard Bank had an HR staff to employee ratio of 1 to 50. The company is well on its way to achieving its goal—through shared services—of the industry norm of 1 to 110, Rosa says.

But measurable ROI can take three years or longer to accomplish, depending on how decentralized HR processes are when the company starts, whether a single software platform must be installed and other such matters.

Oliver Britnell, manager in the London office of PricewaterhouseCoopers LLP’s Saratoga HR unit, warns that benefits may not be observable for four or five years. “There are a lot of upfront costs that impact return,” he says. Still, his own surveys of U.K. and European companies show eventual savings that are considerable (see chart 5, “Administration Costs Per Employee Per Year,” above).

It is harder to calculate the strategic benefits of HR shared services. Although there is anecdotal evidence about how HR professionals were able to make important contributions in talent management and other strategic functions once they were freed from administrative personnel tasks, no hard data appears to be available. As this model continues to blossom and grow, the profession needs to find ways to measure its longer term benefits.

Until then, it may be best to view the administrative savings as money deposited directly in the bank within a reasonable period, while the strategic value of HR shared services is a perpetual annuity whose true worth might not be understood for years.

Chart 5

Administration Costs Per Employee Per Year

Administration costs per employee	Low median range	High median range
Learning/development	£21.19	£96.98
Call center	£24.98	£61.07
Flexible benefits	£24.84	£51.60
Health plan	£23.84	£91.62
Stock/share plan	£23.84	£91.62
Car/fleet	£53.85	£163.62
Payroll	£29.86	£73.35
Other	£42.67	£176.37
Total per employee	£235	£747

Source: HR Shared Services Index 2006 for 30 companies in the United Kingdom and Europe, PricewaterhouseCoopers Saratoga

The Right Path to Shared-Services Success

With an objective of understanding more about where organizations are today on their shared-services journey and to support its own findings and experience, SAP partnered with BusinessWeek Research Services to explore 'Shared Services' as a strategic option for companies to transform certain business operations. The findings show that a shared-services approach to human capital management (now widely viewed as an HR best practice) not only reduces costs but also provides better overall service to the organization, which ultimately leads to the optimized value and impact of the human capital.

The study also aligns with the results of the ongoing ASUG/SAP Benchmarking and Best Practices study* that confirms the undeniable value of the shared-services approach: 15 percent net cost savings and 14 percent improvement in effectiveness for an average shared-services organization. Top performers leveraging shared services even achieved 23 percent net cost savings and 32 percent effectiveness improvement within three years of setting up their shared-services operation. Additionally, the average cost per employee for decentralized operations is far higher than for operations using shared services or centers of excellence, producing a 15 percent to 40 percent difference for transactional activities and a 5 percent to 20 percent difference in expertise-related activities.

As important as cost savings are to today's organizations, the impact of shared services goes beyond just pure efficiencies. Therefore, the impact it has on effectiveness (e.g., service quality, cycle time)—as seen in the above paragraph—and employee satisfaction also should be measured. The best-run shared services are those that can demonstrate measurable impact along all three dimensions: cost, service quality and increasing the effectiveness of human capital.

A Winning Combination

Strategy Enablement

The overall goal for organizations today is to have the structural flexibility to respond quickly to business change, to support their growth strategies (e.g., mergers and acquisitions) and global expansion, and to improve organizational learning across organizational boundaries. Further, the goal is to allow HR to reposition itself as more strategic.

To accomplish those goals, organizations need to:

- Determine what processes are competitive differentiators, consolidate the remainder of the processes, eliminate redundancies and deliver the same services to different groups in the organization.
- Remove the distraction of administration so that HR professionals can use their expertise to help better align the business strategy and HR policies and procedures with the corporate strategy.
- Enable seamless collaboration between participants on an end-to-end business process, beyond departmental and company boundaries.
- Offer easy-to-use and personalized services to a broad user base.
- Provide flexibility for adjustments, enabling the process design to follow the business requirements.
- Provide value and make it easy for employees and managers to participate in key processes.



Tools for Success

The SAP ERP Human Capital Management (HCM) solution is the business process automation platform of choice for shared-services centers. The solution:

- Supports global service delivery through comprehensive localization.
- Mitigates compliance risks through consistent processes.
- Encourages process standardization via predelivered best practices and templates.
- Delivers strong economies of scale through multiclient/multicompany capabilities.
- Enables agile decisions toward service centralization through granular enterprise services.
- Provides operational transparency through built-in analytics and service level management.

Relevant SAP features/functions for support of a shared-services strategy include:

SAP Employee Self-service: With the SAP Employee Self-service application, you can provide employees with easy access to the information and applications related to their employment. This ERP application enables employees to create, view and modify personal data—and manage routine HR tasks—anytime, anywhere.

SAP Manager Self-service: With the SAP Manager Self-service application, you can provide managers with the information and applications they need to perform budget and staffing tasks quickly and efficiently. This ERP application includes content, services and processes to support management decisions that align with business goals.

SAP ERP Employee Interaction Center: SAP ERP brings communication and decision-support tools, such as employee profiles and contact history, to HR professionals and service-center agents handling inbound inquiries as well as support for critical HCM processes such as those related to health and retirement benefits, payroll and compensation, employment, and global transfers and relocations.

SAP HR Processes and Forms:

- Automate paper-intensive and time-consuming employee-related processes such as hiring, termination, organizational reassignment and maternity leave.
- Accelerate data entry with Adobe interactive forms.
- Handle routine workforce processes quickly with flexible workflow templates.
- Define processes through flexible support of business roles such as affected employee, affected managers and HR professionals.

Business Process Outsourcing: SAP maintains an ecosystem of BPO partners that can further augment the shared-services portfolio with select offerings.

Duet: Duet software enables seamless access to SAP business processes and data via Microsoft Office. Duet is the result of a groundbreaking collaboration between SAP and Microsoft and is the first joint product created and supported by these two industry leaders.

SAP is a trusted partner of over 10,000 HR organizations globally. For over 35 years, SAP solutions have supported organizations in reducing the administrative costs associated with managing employees as well as in improving service, quality, accuracy and timeliness of information. Today, with heightened competitive pressure to maximize the return on human capital, organizations look to SAP to support new organizational models that require the capabilities of today's technology and enterprise software. SAP ERP Human Capital Management delivers all the elements for a successful shared-services deployment, whether kept in-house, taken out of the organization to be managed by a BPO partner or a combination of the two. SAP ERP HCM also delivers the tools to help organizations measure the impact of a shared-services/BPO strategy. SAP's solutions can help organizations achieve reduction of direct costs (improved HR ratios, headcount reduction), organizational efficiency (process optimization) and organizational effectiveness (better support of business processes, integration with the corporate strategies, etc.).

* In March 2006, ASUG and SAP agreed to jointly launch a series of best practices surveys in the areas of Business and IT Strategy. The Best Practices Survey Program serves as a forum for SAP customers to understand current and emerging trends in technology and business processes, identify drivers of performance and understand implications of adopting best practices. It complements the in-depth ASUG/SAP benchmarking program with a Best Practices assessment on the highest level.

