

HR Shared Services: A Fresh Look

By Bill Roberts

There is nothing like a recession to demonstrate the efficacy of shared services as a delivery model for human resources (HR) administrative processes. Organizations experienced with HR shared services find the model efficiently handles day-to-day administrative transactions, including delicate issues such as the paperwork aspects of layoffs, thus freeing staff to focus on the myriad morale and other talent-related issues caused by economic downturn.

At Henkel of America Inc., for instance, HR shared services was essential before the recession, and it is even more so now, says Thomas DuFore, senior vice president of HR. The Rocky Hill, Conn.-based company that includes Dial Corp. is the North American operation of Henkel AG & Co. KGaA, in Düsseldorf, Germany, which makes products for home care and personal grooming in addition to consumer and industrial adhesives and sealants.

“Shared services provides the platform for a uniform response to restructuring efforts, and it performs the administrative functions,” DuFore says. “This allows the HR generalists and the management teams to focus on the relationships with the workforce and to ensure our actions reflect our corporate values.”

When BusinessWeek Research Services (BWRS) first studied HR shared services about two years ago, it concluded that this model gives companies a competitive advantage by cutting administrative costs, reducing transaction errors and creating greater employee satisfaction with basic HR processes while freeing HR staff to concentrate on strategic human capital management (HCM) activities (see Figure 1, “The Traits of HR Shared Services”). In the current economic milieu, the payoff from shared services only continues to grow.

“One of the big impacts of people being laid off is to make sure you are taking care of the people left behind, dealing with any survivor mentality,” says Stephen Joyce, HR practice leader at Atlanta-based strategic advisory firm The Hackett Group. “You want to know who your top talent is so you can reach out to assure them,” he says. Through the shared services and business partner model, adds Joyce, “you can allow the business partners to take care of the organization and think about the organizational issues.”

Cornerstone for Strategic HR

For decades, the administration of compensation, benefits and other personnel matters consumed HR and essentially defined its role. Now, thanks to various IT tools including networks, HCM software and the Web, HR processes can be standardized, centralized and automated through a shared services model. This model protects HR professionals from the onerous administrative tasks that can divert them from HCM issues associated with surviving a recession, such as:

- Intelligent employee downsizing strategies
- Talent management strategies to motivate smaller workforces
- Learning strategies to build the competencies of remaining staff members

In the current economic milieu, the payoff from shared services only continues to grow.

Figure 1

The Traits of HR Shared Services

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

Source: BusinessWeek Research Services

A Research Update based on market research information

Based on in-depth interviews with HR executives nearly two years ago, BWRS concluded the shared services model is most effective when it is part of a broad HCM strategy. It does not by itself accomplish strategic HR, but it is the cornerstone of a foundation on which strategic HR can be built. Specifically, the HR executives saw shared services as one of three building blocks for transforming their function; the other two were 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,” one executive told BWRS during those interviews.

Savings Mostly from HR Staff Reduction

Cost efficiencies are the driving force behind the business cases for HR shared services. According to research conducted in 2008 by The Hackett Group, more than 60 percent of shared services operations saved 20 percent or more in costs, with one-third reporting savings of greater than 40 percent.

“Especially in difficult times, organizations need to be conscious of their spending on HR administration,” says Eric Lesser, an associate partner at business consultancy IBM Global Business Services who has been involved in several HR shared services implementations. “Shared services allows them to develop economies of scale and reduce costs associated with transaction processing and employee services, two areas that are often plagued by multiple processes and inconsistent information.”

Viewed another way, “world-class” HR organizations—which Hackett defines as the top quartile, in both efficiency and effectiveness, of 125 companies benchmarked—spent 8 percent less on HR per employee on average than other companies in the study. (World-class HR organizations rely on shared services 65 percent more often than typical companies, according to Hackett.) The gap between the two groups has actually shrunk since 2006, when the world-class group spent 13 percent less (see Figure 2, “HR Spending Still Lower at World-Class Companies”). However, this difference is mainly attributable to increased spending by world-class companies on internal talent management. In 2009, Hackett expects the gap to widen once again.

The cost savings derived from shared services mostly come from reduced HR staffing. In 2008, Hackett found that world-class HR organizations had 20 percent fewer full-time HR staff per 1,000 employees than others in the benchmark study. This gap has widened since 2006, when it was 15 percent (see Figure 3, “HR Staffing Reduced at World-Class Organizations”).

“HR staffing at typical companies increased by nearly 3 percent from 2006 to 2008, while world-class companies saw staffing decrease by just over 3 percent,” The Hackett Group’s Joyce says. World-class companies have done a

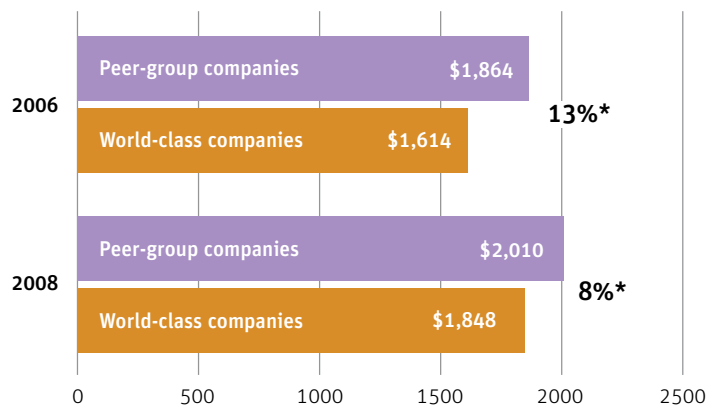
“Especially in difficult times, organizations need to be conscious of their spending on HR administration.”

– ERIC LESSER
 IBM GLOBAL BUSINESS SERVICES

Figure 2

HR Spending Still Lower at World-Class Companies

World-class companies increased their spending on talent management, but they still spend less than peer-group companies on HR. (Dollar figures represent total HR cost per employee in 2006 vs. 2008.)



*Difference between peer and world class

Source: The Hackett Group

A Research Update based on market research information

much better job than others of reducing labor in transactional areas, largely through better technology leverage. Outsourcing also plays a role, as does the reduction of complexity through fewer benefits plans, systems and suppliers, he says.

Focus on the Remaining Workers

As important as the savings are, the bigger challenge HR faces during an economic downturn is to develop strategies for nurturing, reassuring, motivating, developing and reallocating the talent that remains. These more strategic goals need to be accomplished at a time when HR organizations themselves are being downsized. Clearly, remaining HR personnel need to be freed from administrative tasks to best respond to these more high-touch areas.

“Shared services centers help to free up more strategic HR personnel to focus on key issues around workforce redeployment, training, leadership development, employee morale, etc., that are strategically important, especially in difficult times,” IBM Global Business Services’ Lesser says.

Without a central point for employee queries, for instance, HR personnel would spend most of their time answering the same types of employee questions and never have time for more strategic work. “In today’s economy, organizations must be prepared to address strategic workforce issues or risk having a decimated workforce when the [economy] returns,” Lesser says.

Because a shared services platform collects companywide consistent data in a central locale, the model can provide the information sources needed to help decide and design various talent strategies. “Too often, HR professionals spend more time collecting data than analyzing it. Shared services can make it easier to access data in one place,” Lesser says. “Shared services can also provide workforce analytics support to HR executives and line managers in situations where [there are] limited analytic resources across the organization.”

The Experience at Henkel

Henkel of America has used HR shared services for several years for more than 8,000 workers. Among the services covered are payroll, data management, compensation, staffing, relocation and training, and the model makes extensive use of employee and manager self-service. The company outsources the HR call center function, which is located in Louisville, Ky. Other functions are operated virtually by shared services employees in several locations on a common HCM software platform—the same platform used globally by the entire company. Because Henkel considers the platform and data management mission critical, it retains both in-house.

According to DuFore, the shared services model was essential for the downsizing efforts Henkel faced because it provides the platform and data for processing the informa-

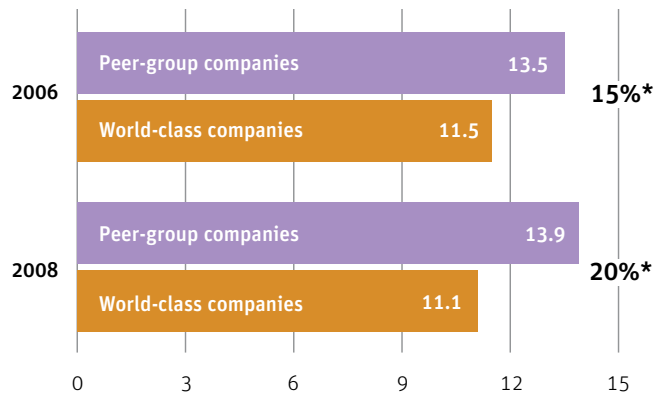
“Without shared services our ability to deliver timely, cost-efficient services during this recession would be compromised.”

– THOMAS DUFORE
 HENKEL OF AMERICA INC.

Figure 3

HR Staffing Reduced at World-Class Organizations

World-class HR organizations had 20 percent fewer full-time HR staff per 1,000 employees in 2008 compared with peer groups; two years ago it was 15 percent fewer. (Figures represent the ratio of full-time HR employees per 1,000 employees, 2006 vs. 2008.)



*Difference between peer and world class

Source: The Hackett Group

A Research Update based on market research information

tion in a consistent way. “Without shared services our ability to deliver timely, cost-efficient services during this recession would be compromised,” he says. “Shared services has provided leadership in developing standard and consistently applied approaches and has been responsible for many of the administrative details.”

Henkel of America has been in a mode of continuous workforce reduction for about three years; the recession has only accelerated it. The company has continued to downsize and eliminate open HR positions, yet it has also kept employee satisfaction high.

As a result of the successes enjoyed by the North American operation, Henkel’s parent company is studying the shared services approach as a model for more than 55,000 employees worldwide. “We are using this downturn as an opportunity to take a further look at how we can enhance the HR services we offer our business partners and to sharpen our processes,” DuFore says. “We are also exploring further offshoring to our administrative service center in Manila.”

Conclusion

In the time since BWRS first studied HR shared services the model has only become more effective at cutting costs and freeing HR professionals to concentrate on strategic HCM goals. During the current economic downturn this two-pronged benefit has become even more compelling.

In fact, many of the HR organizations that had only partially completed their shared services rollout when the economy began its decline have accelerated their efforts, knowing the cost savings and process efficiencies that would result.

“If they have a shared services organization in place and they have not completed the transition, this gives them the opportunity to accelerate during the downturn. We’ve seen some employers who have decided to accelerate their efforts,” The Hackett Group’s Joyce says. “Those that have invested in HR shared services, even if they are at different points in the journey, are much better off than those that haven’t.” ■

“Those that have invested in HR shared services, even if they are at different points in the journey, are much better off than those that haven’t.”

– STEPHEN JOYCE
THE HACKETT GROUP

Bill Roberts is a freelance writer based in Silicon Valley who writes about technology, business, and management.

This research project was funded by a grant from SAP

