

Research Findings

HR Shared Service Centres 2007

Into the next generation



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Foreword

We are delighted to present the findings of our 2007 HR Shared Services: Next Generation research, carried out jointly by Hewitt and SharedXpertise.

The study confirms that the future for HR Shared Service Centres (SSCs) looks bright. They are moving past the initial development phase into a period of growth and buoyancy, both in the US and across the EMEA region. It would seem that SSCs are here, and here to stay, as the majority have plans for further expansion.

In this research, we set out to answer a number of questions:

- Whether HR SSCs are succeeding as a service delivery model;
- What the pitfalls are for those involved in developing or managing services;
- Whether stakeholders and clients are satisfied with the services they receive; and
- What expectations the marketplace has for the future of this service model.

We also set out to clarify where SSCs are planning to make their next generation of investment in order to remain successful in the future.

There are two sections in this report. The first contains data that will be of interest to Shared Services practitioners from a benchmarking perspective. In the second, we analyse the results, exploring the four main messages emerging from the data. We also look into the future and describe what the next generation of HR Shared Services might look like.

We hope that these pages will provide a useful insight into the future of HR Shared Services and that they will inspire your own ideas and practices. We would like to express our special thanks to all the HR professionals who took the time to share their views and experience with us.

We would, of course, welcome your feedback and would be delighted to discuss with you how we can help your organisation to enhance the value that HR Shared Services brings to your company.

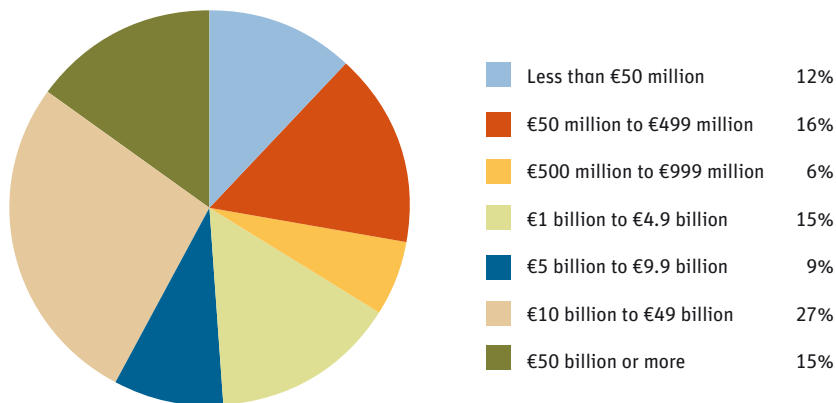
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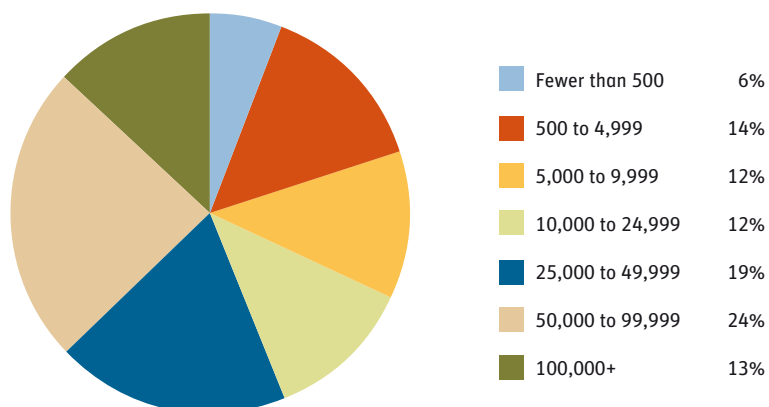
About this Research

The Next Generation Shared Services Research was conducted by Hewitt and SharedXpertise in June 2007 among multinational organisations. 97 organisations participated in the research, of which 61 are based in the EMEA region. Annual revenues of the participating companies are shown below.

Annual Global Revenue



Total Number of Employees in Participating Companies



The research set out to explore key issues for HR Shared Services Centres such as past and future developments, financial management and governance, IT infrastructure and HR.

Executive Summary

Four Key Findings Around HR SSCs

As well as generating some very interesting benchmarking data, this research revealed four key characteristics of HR Shared Service Centres:

1. SSCs are here, and here to stay

The majority of HR SSCs are in the growth stage of their development, with plans to increase their scope even further. This indicates that the SSC model is effective and adding value.

2. A new emphasis on customer satisfaction

The two major immediate objectives for most SSCs are to improve end-user satisfaction at the same time as reducing costs. Technology is the best tool for achieving both and it is not surprising that the largest investments are going into improving IT infrastructure.

Although HR shared services were originally an offshoot of shared services in finance and IT, this branch on the family tree has evolved quite differently. The value proposition for HR shared services is becoming more focused on effectiveness and less on pure efficiency. The true business case for HR service delivery is achieved by giving employees the level of service they need at the lowest possible cost. We believe this is what most HR SSCs are now aiming for, after years of experiencing the drawbacks of cost reduction alone.

3. An 'us-versus-them' culture

The research suggests that an 'us-versus-them' culture prevails between HR and the HR SSC and that there is still much scope for policy and process standardisation. These two findings further compound the challenge of delivering high customer satisfaction at low cost. HR has an important role to play and must work seamlessly with the SSC to meet operational excellence objectives.

4. A struggle for effective performance management

HR SSCs continue to struggle to manage their performance effectively. Currently, most use a combination of efficiency indicators and financial measures. We were concerned to note that nearly 40% of respondents report that they do not use customer satisfaction indicators to measure performance, particularly in the context of their plans for expansion and their stated commitment to improving end-user satisfaction. Future investments in IT should improve the quality of the management information available to measure and manage SSC performance, which will become even more challenging as both their scope and management complexity increase.

Into the Next Generation

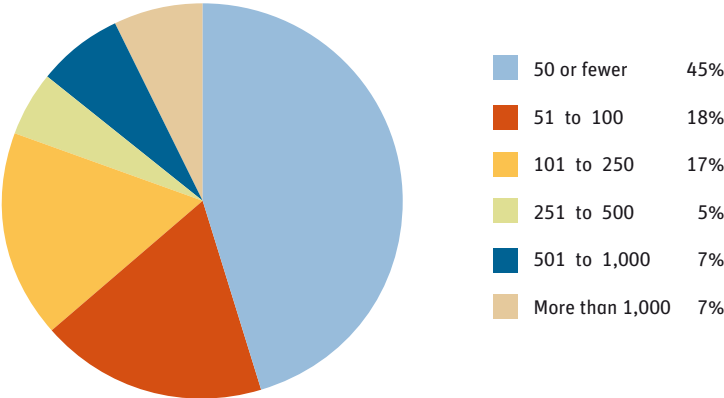
We believe that end-to-end process owners who are accountable for business outcomes will play a pivotal role in future HR structures. Activities carried out by the SSC will be an integral part of these processes which will flow seamlessly from line management to HR, to the SSC and back. This will include both routine transactions and the non-transactional activities that together comprise the complete realm of HR delivery. This model is less centralised and more virtual – less 'bricks and mortar' but more embedded within the country or business and will be supported and enabled by comprehensive IT solutions.

Benchmarks

Size of organisations and Shared Service Centres (SSCs)

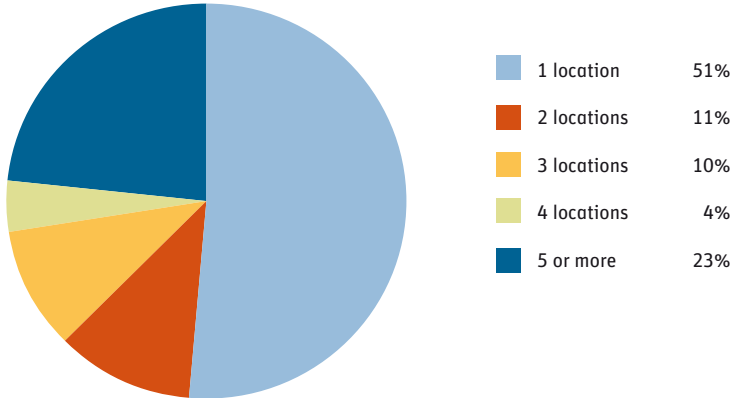
The majority of respondents (80%) employ 250 or fewer staff in their HR SSC.

Number of Employees in HR SSC



Just over half of all respondents operate their HR SSCs from one single location. At the opposite end of the scale, nearly a quarter – the second largest group of respondents – operate their SSCs from five or more locations.

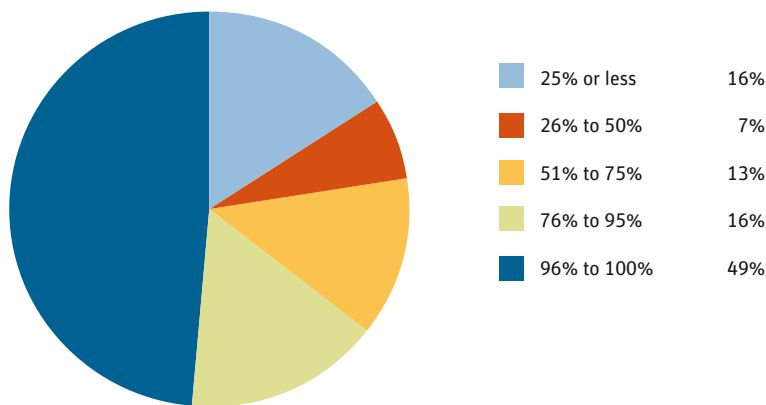
Number of HR SSC Locations



Penetration of the HR SSC

Nearly half of all respondents say that their HR SSCs deliver HR services to 96%–100% of their organisations. For the remainder, uptake of the HR SSC offering is spread evenly, ranging from less than 25% to 95%.

HR SSC Service Enterprise-wide Penetration

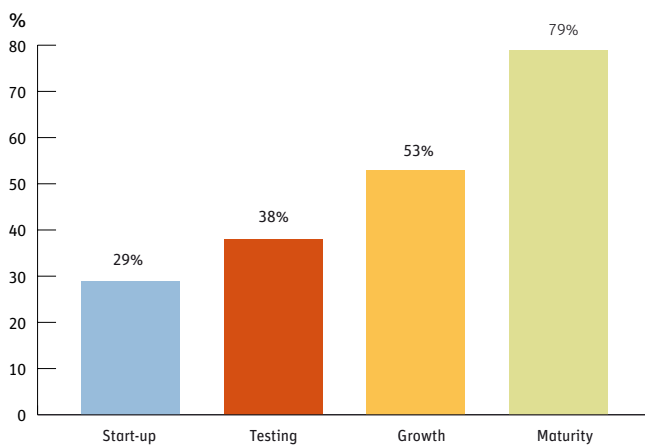


The percentage of HR SSCs that delivers services to the entire organisation grows steadily as the HR SSC matures.

Our data indicates a greater organisation-wide penetration of HR SSC services among US organisations, where nearly two-thirds deliver services to the entire organisation, compared to just under half in EMEA. This is no surprise given the extreme contrast between the US' geographic and legislative homogeneity and the diversity of the EMEA region.

There is also a clear link between the phase of growth and the level of uptake of services throughout the organisation. The percentage of HR SSCs that delivers services to the entire organisation grows steadily as the HR SSC matures. By the time HR SSCs are in the 'growth' phase, 53% report providing HR services to nearly their entire organisation. Reaching the 'maturity' phase of growth drives that figure up to 79%.

HR SSCs Providing Enterprise-wide Service, by Maturity Phase



Definitions:

Start-up phase: We are moving processes and responsibilities from the business into the SSC. We are not yet fully operational.

Testing phase: We have been fully operational for a short period of time and we are still testing the value to the organisation.

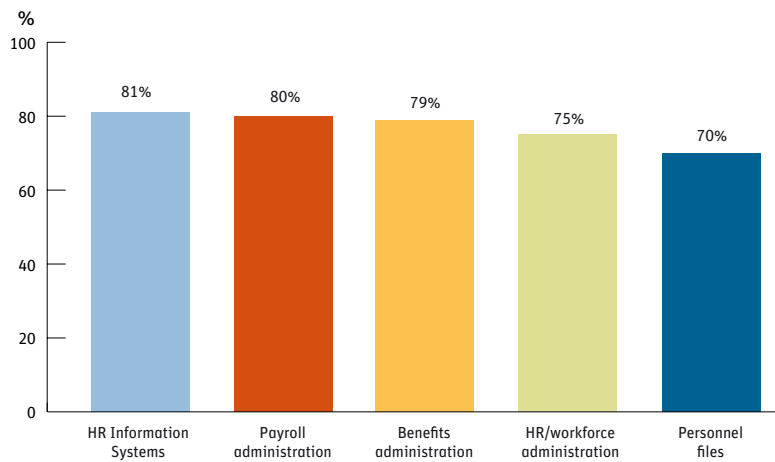
Growth phase: We have succeeded in the set-up and testing phase of development and operations, and are now increasing our scope in terms of services, clients and/or locations.

Maturity Phase: We have been in operation for a long period of time, reached maturity, and don't expect any major changes to occur over the next few years.

Processes covered by the SSC

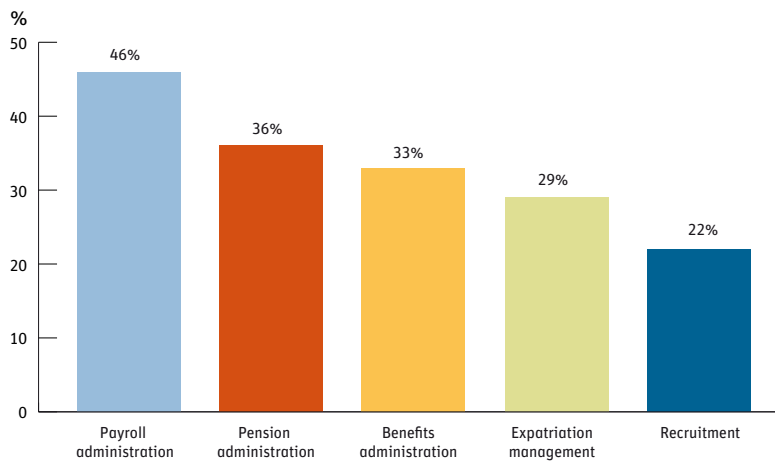
Not surprisingly, the processes that most commonly fall within the scope of the SSC are those which are most likely to realise savings through economies of scale in large organisations.

Top Five Processes in the SSC Scope



For most companies, only a few processes lend themselves to outsourcing and even then, fewer than half of our study participants are (partly) outsourcing them at this time.

Most Commonly Outsourced (or Partly Outsourced) HR Processes

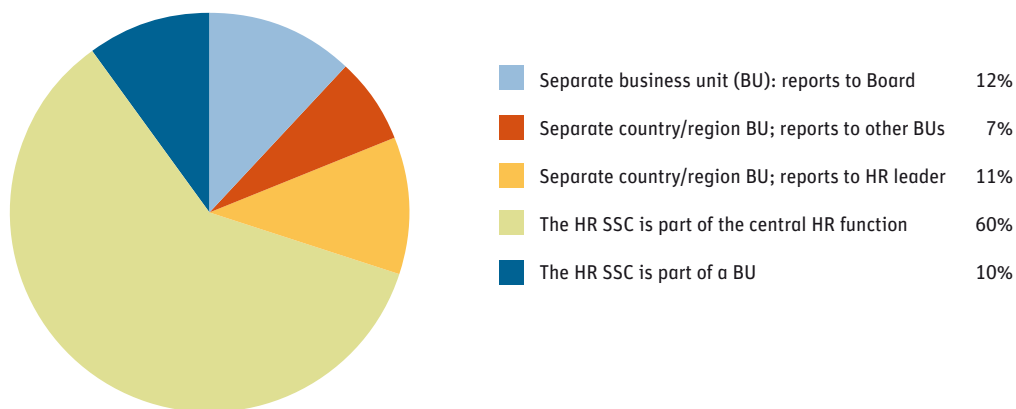


Governance

It clearly helps to have the board or HR Director driving the standardisation and uptake of services provided.

When it comes to governance and organisational structure, it is interesting that almost 60% of respondents' HR SSCs are part of a central HR function, with the SSC manager reporting to the HR Director. Very few report straight into the board (14%) and those that do generally perform services for the whole organisation. Just under 70% of those that report to the HR Director service the majority of their company. It clearly helps to have the board or HR Director driving the standardisation and uptake of services provided by the HR SSC. SSCs with alternative governance models generally service smaller proportions of the company.

HR SSC Governance Models



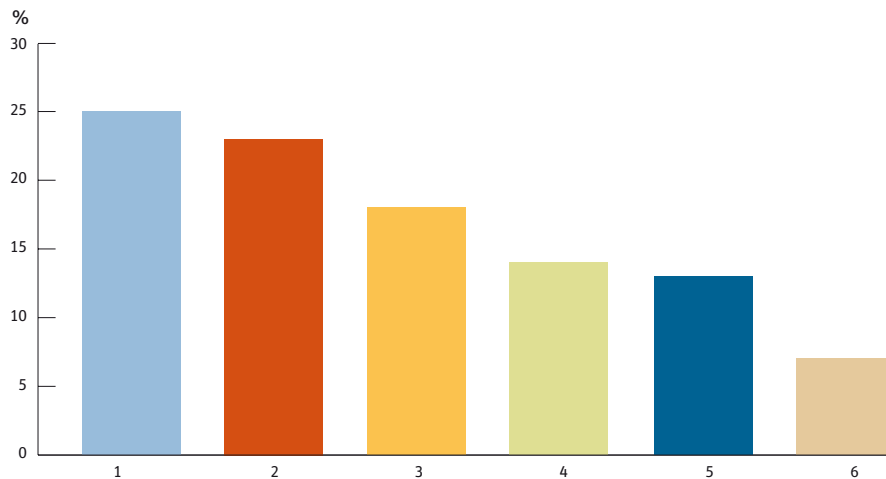
Cost allocation methods

Value-versus-cost discussions are difficult to quantify without a clear and transparent cost/price structure.

Most HR SSCs do not have a robust charging mechanism that reflects costs accurately.

Our results show a wide range of cost allocation systems. A quarter of SSCs engage in a mixture of activity-based and fee-per-employee costing, and nearly a quarter undertake no transfer pricing or billing at all. Rigid activity-based costing and one-off allocations at the start of the year are the least favoured methods.

HR SSC Cost Allocation Methods



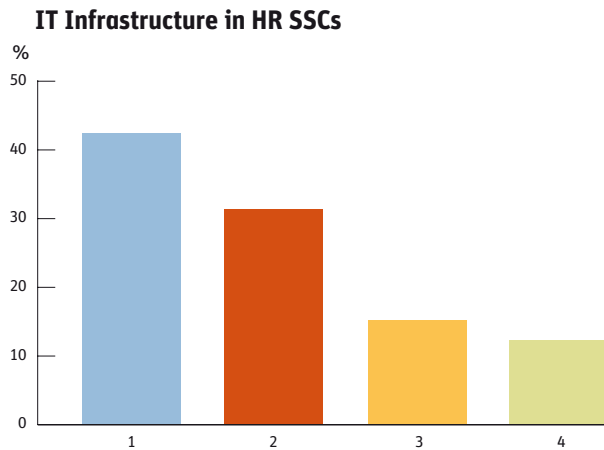
Key:

- 1** A mixture of activity-based costing for certain activities and a fee per employee for other activities.
- 2** No transfer pricing or billing takes place.
- 3** The HR SSC charges the business a fee per employee served.
- 4** At the start of the fiscal year the business allocates a one-off amount to the HR SSC (this may or may not be corrected at the end of the year).
- 5** The HR SSC charges the business the cost of resources in the SSC specifically allocated to that business.
- 6** Activity-based costing, where all activities and services have a fee attached and bills are periodically sent to the business, made up of volume x fee.

The low usage of rigid activity-based costing suggests that this method is too expensive for most SSCs to sustain. However, a certain degree of transparency is required: the problem SSCs face is that value-versus-cost discussions are difficult to quantify without a clear and transparent cost/price structure.

IT infrastructure

According to our research, 42% of participants use several integrated IT systems, whilst another 31% report that some of their systems are integrated and others are not. Only 12% of all respondents enjoy the relative luxury of having all the functionality they require integrated into one system. The remaining 15% use several non-integrated systems.



Key:

- | | |
|--|--|
| 1 Several integrated systems are used for payroll, HR data management, filing, workflow and query management. | 3 Several non-integrated systems are used for payroll, HR data management, filing, workflow and query management. |
| 2 Some systems are coupled or integrated with each other, and some are not. | 4 All the functionality required is captured in one system. |

Our results also show that some degree of integration is important to growth. Among the centres we surveyed, none that have reached maturity is operating with non-integrated IT systems.

Given these results, it is not surprising that a majority of respondents report that managing IT is the most difficult issue in an HR SSC. However, HR SSC managers do seem to be highly aware of this issue: 63% of respondents are planning to invest in their IT infrastructure in the next two years.

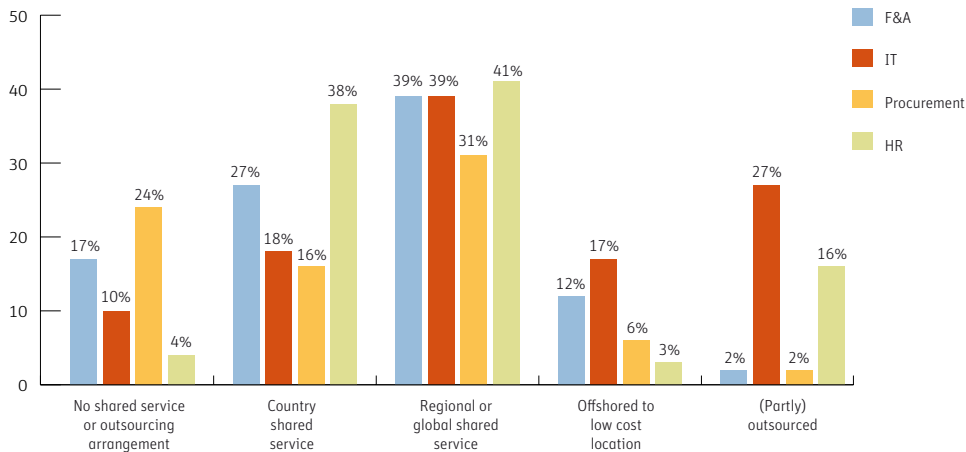
Shared services in other functions

The vast majority of our research participants (87%) is engaged in shared services or outsourcing/offshoring strategies in at least one function other than HR. However, it is important to acknowledge that this figure may be influenced by the fact that our pool of respondents is, by definition, composed of organisations that support business process transformation.

The most commonly reported management strategy for finance & administration (F&A), IT, procurement and HR is within a regional or global shared services centre.

It is no surprise that the IT function is considerably more likely to outsource (27%) or offshore (17%) processes than any other function. At the opposite end of the scale, procurement departments are showing the slowest uptake of transformation, with 24% having no shared service or outsourcing arrangement – although 31% are operating regional or global shared services.

Shared Services and Outsourcing in Other Functions



As with HR, European respondents are less likely to outsource or offshore other functions than their US counterparts.

What the Research Tells Us

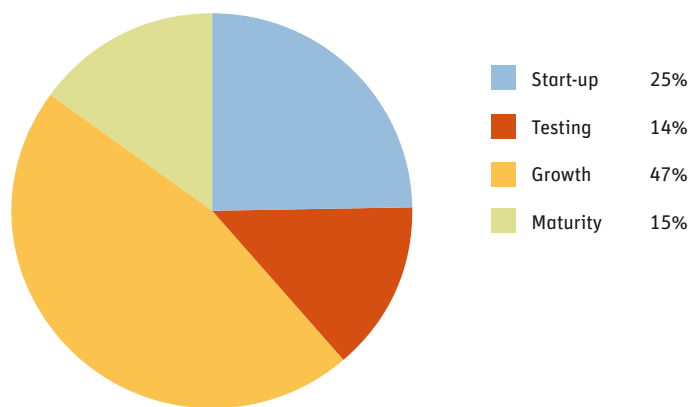
Growth has been steady from the outset.

Our research confirmed the following four key characteristics for today's HR Shared Service Centres:

1. SSCs are here, and here to stay

The fact that the largest number of HR SSCs in our survey (47%) are in a growth phase indicates that the model is meeting or exceeding expectations worldwide. This widespread level of success proves that SSCs can add value. Another quarter of respondents are in the start-up phase, whilst the remaining respondents are in the testing (14%) or maturity (15%) phases.

SSC Development Phase



Definitions:

Start-up phase: We are moving processes and responsibilities from the business into the SSC. We are not yet fully operational.

Testing phase: We have been fully operational for a short period of time and we are still testing the value to the organisation.

Growth phase: We have succeeded in the set-up and testing phase of development and operations, and are now increasing our scope in terms of services, clients and/or locations.

Maturity Phase: We have been in operation for a long period of time, reached maturity, and don't expect any major changes to occur over the next few years.

The research also indicates that growth has been steady from the outset. Three-quarters of respondents have increased the process scope of their SSCs since they were established and over half have increased the number of customers they serve. Just over half have also increased their geographical reach by adding to the number of locations from which they provide services.

Looking ahead, 84% of all respondents intend to increase the scope of their SSC in terms of processes, locations, customers and/or functions within the next two years, indicating that further growth is likely to continue. Only 12% have no plans to change and only 3% of respondents intend to reduce scope and return activities to business units. All of this data, paired with the finding that service uptake across the enterprise rises as the SSC matures, indicates to us that SSCs are here to stay.

In contrast, our respondents report a limited take-up of outsourcing, which would suggest that SSCs are becoming a viable option for some organisations. Internal SSCs, in some cases combined with single process outsourcing (e.g. payroll, benefits administration), are maturing as an alternative.

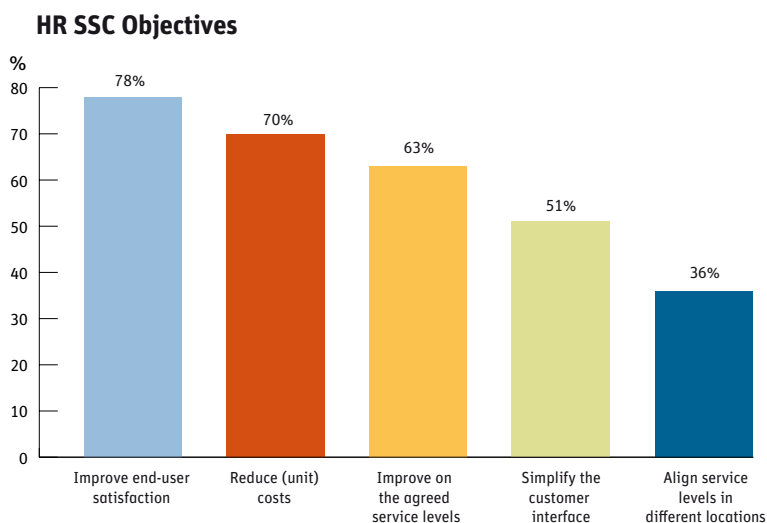
Just over a third of our respondents do report plans to (partly) outsource some processes currently delivered through the HR SSC, whilst nearly a quarter plan to offshore some HR operations.

This trend is more prevalent in the EMEA region than the US. In EMEA, 41% of respondents are planning to outsource some or all processes currently delivered through the HR SSC, whilst only 28% of US respondents are planning to do so. This gap probably reflects the comparative maturity of the US HRO market – many of our US respondents may have already outsourced the processes EMEA respondents are considering outsourcing. Overall appetites for offshoring are similar in both regions (EMEA 23%; US 20%).

2. A new emphasis on customer satisfaction

The value proposition for HR shared services is becoming more focused on effectiveness and less on pure efficiency.

The majority of our research respondents are balancing two key issues in first and second place on their list of current business priorities: 78% are committed to improving end-user satisfaction, whilst at the same time 70% are concentrating on reducing unit costs. Managing the potential conflict between these two objectives, one serving the customer's interests and the other operational excellence, is likely to create fresh challenges in the future.



It is not surprising that most respondents are planning to invest in improving their IT infrastructure, as IT is the lever most likely to generate improvements in both customer service and cost savings. It will be necessary for HR SSC managers to standardise processes, drive self-service applications and manage service centres with integrated call management, workflow and knowledge management applications in order to have any hope of achieving this difficult balance.

Although HR shared services were originally an offshoot of shared services in finance and IT, this branch on the family tree has evolved quite differently. HR differs from finance and IT in fundamental ways that have implications for the design of shared services delivery models:

- Transaction volumes are much smaller in HR than in IT or finance. IT call centres typically receive thousands of help calls per week compared to the hundreds that may be handled by the HR call centre serving the same population.
- HR transactions are typically personal in nature, requiring a different level of confidence and empathy.
- HR is not as black-and-white as IT or finance. HR transactions vary widely simply because they reflect employees' life and career circumstances.
- Finally, the most routine HR transactions are increasingly handled by employees themselves through self-service tools. Consequently, an increasing proportion of transactions handled by service centres are exceptional in nature.

For all these reasons, the value proposition for HR shared services is becoming more focused on effectiveness and less on pure efficiency. Indeed, cost and service must be viewed as mutually enabling objectives. For example, well designed and deployed self-service tools provide unequalled convenience and simplicity at the lowest possible cost per transaction. Meanwhile, call centre employees who are equipped with the core skills, training, and resources to handle enquiries and transactions correctly and completely, consistently getting it right first time, provide a better service at a lower total transaction cost when the value of factors such as employee and manager time, cost of re-work, misinformation and errors, is taken into consideration.

The overly simplistic notion that routine HR service delivery is non-value-added and must therefore be compromised to achieve lower costs is at the heart of many HR delivery model failures. The true business case for HR service delivery is achieved by giving employees the level of service they need at the lowest possible cost. We believe this is what most HR SSCs are now aiming for, after years of experiencing the drawbacks of cost reduction alone.

3. An 'us-versus-them' culture

Activities performed by an HR SSC are part of an end-to-end process in which HR must also play a part.

When asked the question whether HR in the business has changed since the introduction of the HR SSC, 67% of respondents in EMEA report that this is not the case ('somewhat or not at all').

The fact that issues such as 'dealing with too many exceptions to policy', 'optimising the process interface with HR in the business' and 'dealing with different customer needs' are listed as three of the most difficult issues to manage clearly indicates that there remains an 'us-versus-them' culture between HR and the HR SSC and that there is still much scope for standardisation of HR policies and processes. This further compounds the challenge of delivering excellent customer service at low cost.

Activities performed by an HR SSC are part of an end-to-end process in which HR must also play a part. Too often the creation of an HR SSC unlocks an attitude in the business that 'administration is no longer our problem', and HR will deliver or enter incomplete and, inaccurate data with the expectation that the HR SSC will fix it. This is obviously not acceptable and, while the SSC must take responsibility for driving efficiency in transactions, HR must take responsibility for data integrity as well as driving standardisation and accepting and enforcing self-service applications.

Interestingly, there is a strong contrast between the US and EMEA in terms of the level of change HR has gone through since the introduction of SSCs. In EMEA, the majority (67%) reports that HR has changed 'somewhat or not at all' while in the US 76% declare that HR operations have changed 'much or very much'.

Managing the relationship with HR in the business is also much easier in the US than it is in EMEA. This could indicate that the business case for HR shared services (and therefore for HR to change) is much clearer in the US than it is in Europe, where legislative, cultural and other differences make standardisation more difficult.

4. A struggle for effective performance management

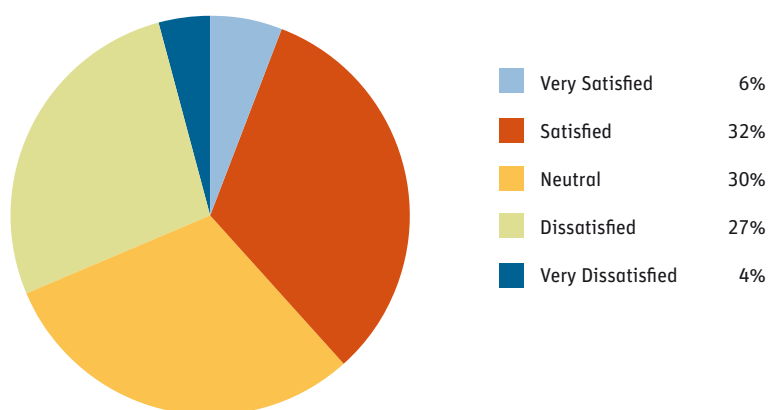
Current findings suggest that HR SSCs have not yet found a comfortable and reliable set of practices that can improve planning and provide better insight.

In spite of the rosy growth picture for HR SSCs, satisfaction among stakeholders is not high enough. According to respondents, no single staff category is, on average, satisfied or very satisfied with the SSC.

HR SSCs most commonly use efficiency/process indicators (85%), followed by financial measures (72%) to measure their performance. Given the relative ease with which these measures can be generated, combined with a general focus on cost containment, it is no surprise that the majority of HR SSCs use this type of indicator. This may also be a legacy from the Finance and IT origins of shared services which, as explained earlier, are naturally more focused on efficiency and process value drivers than HR.

We were concerned to note that nearly 40% of respondents report that they do not use customer satisfaction indicators to measure performance, particularly in the context of their plans for expansion and their stated commitment to improving end-user satisfaction.

Satisfaction with Management Information Available



Just under a third of respondents are dissatisfied with the management information available to measure and manage SSC performance and another 30% are neutral. This is a problem in the context of plans to increase scope and presumably management complexity.

Although it is likely that planned IT investments are driven by the need to improve management information, current findings suggest that HR SSCs have not yet found a comfortable and reliable set of practices that can improve planning and provide better insight.

Into the Next Generation

Over the past decade, HR transformation has concentrated on putting the function's house in order. Unfortunately, this preoccupation with fixing yesterday's problems has meant that HR has not been at the table to address tomorrow's issues.

Internal focus was directed at addressing the criticisms of the past and finding ways of delivering existing services more consistently, more quickly and more cheaply. However, these efforts had an over-emphasis on cost and efficiency benchmarks and generally failed to deliver breakthrough for the function. Many technology investments led to compliance not enablement, and self service has often been seen as shifting work, not adding value.

We believe that with Next Generation HR, HR will move from being a business partner to being a business driver by:

- Being process-oriented and outcomes-focused;
- Being accountable for processes that deliver business results;
- Building the right people and organisational capabilities; and
- Adopting a 'supply chain mentality' for HR. When HR is viewed as a necessary expense, it can only deliver increased value by improving efficiency. In other words, by saving money. This is yesterday's definition of success.

The next generation of HR leaders will have what their predecessors have lacked for decades. They will have a clear and unequivocal mandate to improve business results by achieving better returns on human capital invested. This concept is not new. What's new is the high-level recognition that human capital management is a critical factor for business success. HR leaders who cannot play this game will fall by the wayside, replaced by a new generation of value creators.

SSCs will play a key role in this generational shift by taking on the delivery aspects of human resources that otherwise rob HR leaders of their focus on the business.

We believe that end-to-end process owners who are accountable for business outcomes will play a pivotal part in future or 'Next Generation' HR structures. Activities carried out by the SSC will be an integral part of these processes which will flow seamlessly from line management to HR, to the SSC and back. This will include both routine transactions and the non-transactional activities that together comprise the complete realm of HR delivery. This model is less centralised and more virtual – less 'bricks and mortar' but more embedded within the country or business and will be supported and enabled by comprehensive IT solutions.

The planned investments in technology and the issues SSC managers are facing indicate that a number of progressive HR functions are already moving in this direction, leaving centres of expertise and business partners free to focus entirely on consultation, strategy and design.

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