

An Examination of Trends in Shared Services and Outsourcing in Public Sector Organizations

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I. Executive Summary

More and more, today's public sector Human Resources (HR) organizations are looking beyond traditional methods and past fixes to improve operations and services. From the most basic process improvements to complete IT system overhauls, oftentimes change only happens when public sector HR professionals break outside the status quo to consider alternate problem-solving models. Pursuing a new or different approach to transformation presents its own set of challenges, especially in the context of limited budgets, already stretched staff and skeptical management.

There are many potential alternative solutions. They include moving to a shared services model for back-office and support services as well as information technology outsourcing and business process outsourcing (ITO/BPO), concepts already popular and generally successful within the private sector. While shared services and outsourcing have become commonplace in the corporate world, they remain elusive solutions - at best - within the public sector, particularly at the local and municipal levels. A lack of awareness of the potential benefits of these models coupled with negative stigma and confusion often cause public sector organizations to dismiss these models as options for change. Despite these roadblocks, more public sector organizations are implementing outsourcing and shared services in an effort to transform HR processes and operations and, as this report will highlight, are achieving some interesting results.

This research report seeks to explore the use and potential of shared services and outsourcing within public sector organizations and how these models are shaping HR transformation. Further, this report examines the factors and parties that influence the decision-making process around implementing a new model and the selection of service providers. The goal is to answer the following questions:

- Can outsourcing and shared services models work in a public sector environment?
- What are the most significant barriers to introducing these concepts?
- And to what HR functions are these models most applicable?

This report considers these questions and others in an effort to understand trends around outsourcing and shared services.

This IPMA-HR research effort was sponsored by ADP. EquaTerra conducted the research study, performed the analysis and developed this report on behalf of IPMA-HR and did not receive any funding from ADP. EquaTerra surveyed more than 100 senior-level HR professionals to examine current trends around shared services and outsourcing in public sector organizations during June and July 2006. The respondents represented all major public sector categories and were located in the United States.

Overall Study Results

- Shared services and outsourcing remain unrecognized but often effective tools for improvement and transformation within public sector HR.
- Satisfaction levels with shared services and outsourcing arrangements within public organizations are overwhelmingly positive.
- Cost remains a key factor in considering an alternate model such as shared services or outsourcing.
- Performance measurement and measuring success in general – both for HR overall and for specific shared services and/or outsourcing arrangements – remain a challenge for public sector organizations.
- Current satisfaction with alternate models and solutions does not necessarily translate into future plans to further incorporate these models in additional business function areas. However, additional analysis indicates this trend may be more tied to an overall lack of planning than a proactive decision to forgo these alternate models.

II. Introduction

Shared services and outsourcing are models gaining ground in the public sector.

Public sector HR professionals face both old and new challenges. Failing legacy information technology (IT) systems hinder efficiency, and paper-based processes deter information sharing. HR departments short on staff often must focus their energy on transactional day-to-day tasks in lieu of thinking strategically or planning for the long term. The impending retirement of Baby Boomers presents a recruiting challenge as fewer people choose to join the public ranks. In this environment, change and improvement often happen to combat or avert serious crisis, leaving little time for thoughtful consideration or research on potential models or methods that could lead to lasting solutions. Further, HR groups rarely have the time or resources to compile the information necessary to develop a compelling business case for improvement.

That said, shared services and outsourcing are models gaining ground in the public sector, having proven effective in the corporate world. Shared services is already a fairly common model for today's HR departments while outsourcing is making some in-roads despite negative stigma and confusion on the difference between outsourcing and offshoring. Both models usually require some kind of initial financial investment, though increasingly outsourcing service providers are getting creative in helping buyers fund the initial stages of efforts. Lack of investment capital often presents a barrier for some public sector organizations. Both models also necessitate a sometimes major shift in culture that may deter organizations from pursuing the option. However, for those organizations that are able to make the jump, the outcomes appear to be worth the risk. Shared services and outsourcing models offer resources and tools that deal with both the old and the new HR challenges while at the same time freeing up staff to concentrate on more forward-looking efforts.

“Given the many challenges facing public sector HR departments and the increased emphasis on demonstrating HR’s added value to organizations, it is important that consideration be given to alternate HR service delivery methods such as shared services and outsourcing.”

- Neil Reichenberg
IPMA-HR Executive Director

As Neil Reichenberg, IPMA-HR Executive Director, explains, “Given the many challenges facing public sector HR departments and the increased emphasis on demonstrating HR’s added value to organizations, it is important that consideration be given to alternate HR service delivery methods such as shared services and outsourcing. While a “one-size-fits-all” approach is not being recommended, there may be advantages that can be derived from alternate approaches. This report provides valuable data on shared services and outsourcing models that have been used successfully by organizations. Sharing information on alternate approaches among the public sector HR community will assist HR professionals in their efforts to become strategic partners within their organizations.”

This study explores current trends in shared services and outsourcing within public sector organizations. The research focuses on the experience of organizations currently utilizing these models, the barriers they face, the parties and factors that influence the process and the role of service providers. This study targeted senior level HR professionals and all respondents completed an online survey instrument launched in June 2006. Respondents answered questions only about the current model their organization utilizes.

III. Public Sector's Perception of Shared Services and Outsourcing

For shared services, respondents indicated access to advanced technology and ease in management as important attributes. For outsourcing, respondents indicated the expertise of vendors, overall speed and a lack of needed expertise in-house as factors that make outsourcing an appealing option.

To examine the role and use of shared services and outsourcing in the public sector, we begin by considering the overall perception of these as tools for HR transformation and how this perception may impact decisions to pursue these models. For the purpose of this study, we define HR transformation as *“the act of significantly improving the technology, processes and staffing associated with the HR function in order to achieve cost savings and improve service delivery efficiency and effectiveness.”* Various factors and parties can influence the decision-making process within HR. Our goal was to determine the level of influence and the impact of these different factors on pursuing an alternate solution or model.

Respondents were asked to rate their perception of both shared services and outsourcing on a scale of one to five, with one being low/negative perception and five being high/positive perception. The average response for shared services was 3.1 and for outsourcing, 2.8. These results echo previous studies that indicate public sector organizations and professionals do not recognize these alternate approaches as viable tools for HR transformation. For both shared services and outsourcing, the overall response is relatively neutral.

At the same time, those respondents that indicated a positive perception on each model were asked a follow-up question on the model's most appealing attributes. For shared services, respondents indicated access to advanced technology and ease in management as important attributes. Further, respondents also indicated a push toward the systems due to a lack of needed expertise in-house. For outsourcing, respondents indicated the expertise of vendors, overall speed and a lack of needed expertise in-house as factors that make outsourcing an appealing option.

As in previous studies, shared services and outsourcing allow public sector organizations to gain the needed expertise or skills without taking on the often burdensome costs of additional full-time employees. These models also enable organizations to utilize professionals they may not otherwise have the means to recruit or hire.

For already strained HR departments, the inherent greater flexibility of a shared services or outsourcing model may permit employees to focus on more strategic activities versus transactional tasks.

For already strained HR departments, the inherent greater flexibility of a shared services or outsourcing model may permit employees to focus on more strategic activities versus transactional tasks. This point emphasizes the sort of 'chicken or egg' dilemma with implementing both shared services and outsourcing. These models would likely allow HR leadership staff to move away from transactional activities to deal with long-term planning, performance monitoring, innovation and improvement. All of these efforts would lead to increased efficiency, higher customer satisfaction and improved HR capacity to act as a strategic asset. Unfortunately, securing the support and funding necessary to pursue an alternate model usually requires gathering information and building a business case to demonstrate the likely outcomes of the change. If employees are mired in day-to-day transactions, building a convincing business case is likely a low priority.

Stan Lepeak, Director of Research at EquaTerra, notes, “While leadership in many public sector HR organizations may feel they do not have the time, or requisite background, to explore and define a business case for moving to a shared services and/or outsourcing model, it is imperative they find the time for at least a cursory effort. The potential performance and cost improvements these alternative delivery models can bring – and have brought other public sector organizations – have become too great to ignore.”

The decision-making process itself may also be a factor in the public sector's lack of recognizing these models as potential solutions. Respondents were also asked about the various factors and parties that influence decisions to pursue shared services or outsourcing solutions. Politics is an enormous issue for public sector organizations, namely government, which impacts decisions around transformation. Interestingly, slightly more than half of respondents (52 percent) indicated that politics have no influence over decisions regarding shared services or outsourcing. The following results further depict the impact of politics on these decisions:

- 30 percent said politics drive outsourcing decisions
- 30 percent said politics hinder outsourcing decisions
- 13 percent said politics drive shared services decisions
- 17 percent said politics hinder shared services decisions

Compliance is another common factor that influences decisions around shared services and outsourcing, especially as many public sector organizations stand to face steep fines if compliance requirements are not met. Some examples of compliance requirements include payroll tax and garnishment, data privacy, and other industry or region-specific mandates. Despite the importance of remaining compliant, this factor appears to have little influence over shared services and outsourcing decisions. Similar to politics, 65 percent of respondents indicate that compliance has no influence in these decisions. The following results further depict the influence of compliance on these decisions:

- 21 percent said compliance drives outsourcing decisions
- 11 percent said compliance hinders outsourcing decisions
- 11 percent said compliance drives shared services decisions
- 8 percent said compliance hinders shared services decisions

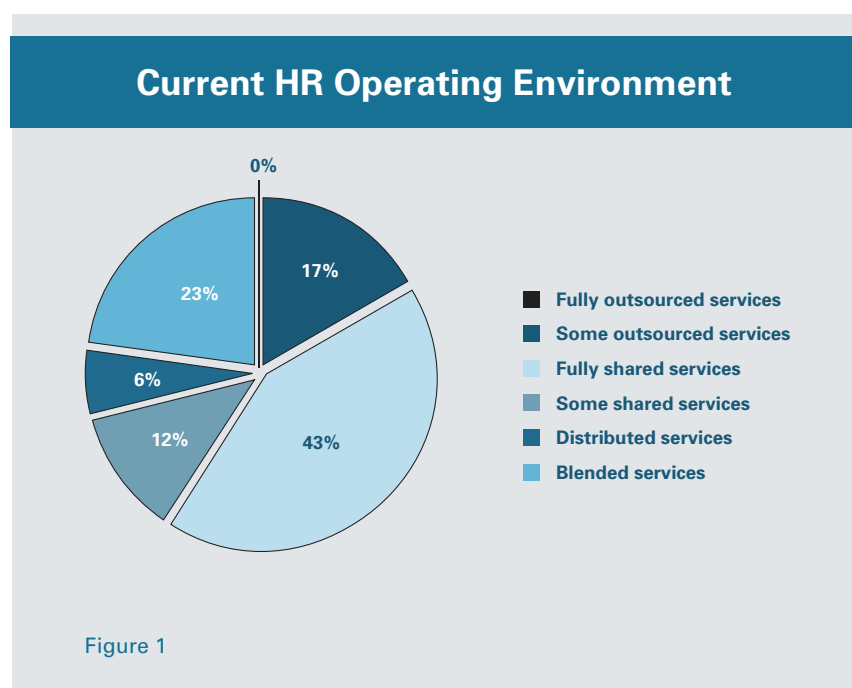
With these factors seeming to have minimal influence, we next considered the parties that may impact decisions around transformation and pursuing alternate solutions such as shared services and outsourcing. Respondents were asked to rate the influence of specific parties including organizational management, HR leadership, fiscal management and HR staff on a scale of one to five, with one being low/no influence and five being high influence. Organization management ranked high with a mean score of 4.0. HR leadership was only slightly behind at 3.9. The organization's fiscal leadership ranked at 3.5 and HR staff ranked at 3.0. These mean scores indicate that, in most cases, the decision to pursue an alternate solution such as shared services or outsourcing may require the building of consensus or may start in one area, such as HR, but require the approval and support of management. In a previous study conducted for IPMA-HR focusing on HR transformation, respondents identified the importance of management's support in HR transformation efforts. These rankings also indicate the level of management's influence over these decisions.

IV. Current HR Operating Environment and Future Trends

While shared services is a common operational model among today's public sector organizations, outsourcing is not as widespread.

The following section examines the public sector experience with shared services and outsourcing. Despite the apparent lack of interest or recognition of these models as viable methods of transforming or improving HR, organizations that use these models appear to be very satisfied with the outcomes. First, it is important to note that while shared services is a common operational model among today's public sector organizations, outsourcing is not as widespread. Respondents were asked to identify their organization's operating model from the following choices:

- **Fully/Some Shared Services:** In this model, administrative and support functions are provided on a self-serve basis from a consolidated stand-alone system operated by personnel, allowing personnel to focus on policy oversight, analysis and consultation services to customers. This model pools internal skills/resources and/or leverages outside services and common IT systems in order to enforce standards and exploit economies of scale.
- **Fully/Some Outsourcing:** This approach assumes that the organizational activities/in-house workload will be contracted out to the vendors or suppliers who specialize in these activities. External firms offer either piece-meal solutions (e.g., payroll, training) or more comprehensive, end-to-end solutions across the HR function.
- **Blended Services:** This model refers to some combination of shared and outsourced services.
- **Distributed Services:** In this model, each agency controls basic administrative or support functions. Solutions for such tasks as hiring are geared to the specific needs of each agency.



Shared services is the most common operating model with a little more than half (55 percent) of organizations currently utilizing this model. None of the responding organizations use a fully outsourced model, while 17 percent outsource some services. As in previous studies, the number of organizations using some level of outsourcing tends to be minimal, another point we wish to explore here.

Shared Services

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Shared services is the most common operating model, with 55 percent of respondents indicating they operate within a fully or partially shared services environment. Satisfaction with shared services appears quite high with only 10 percent of respondents indicating they were dissatisfied with the move to a shared services model. Forty-seven percent of respondents indicated the process of moving to shared services was challenging but with satisfying results, while 35 percent felt the process was a relatively easy one with satisfying results. Only 8 percent of respondents felt it was still too soon to tell the outcomes of their move to shared services.

It is important to note, however, that more than 50 percent of respondents operating under a fully or partially shared services model indicate that the process of implementing the system was challenging. Since an organization's involvement is much higher when moving to a shared services model rather than an outsourcing model, the change management, staff and time requirements influence this perception. The required commitment and subsequent change management may cause organizations to see the process as more challenging.

Steven A. Harman, Director of Human Resources for the City of Livermore, California, notes, "Whenever we consider changing the way we procure or deliver HR services we face resistance. Much of this resistance is due to concern about retaining an adequate degree of oversight and control over these services. To overcome this challenge, whenever we select a service provider, we share the decision-making responsibilities with our customers. We establish oversight committees and involve our customers in the selection process. We also require standard measurements and regular reports from the service providers that allow us to track and monitor performance."

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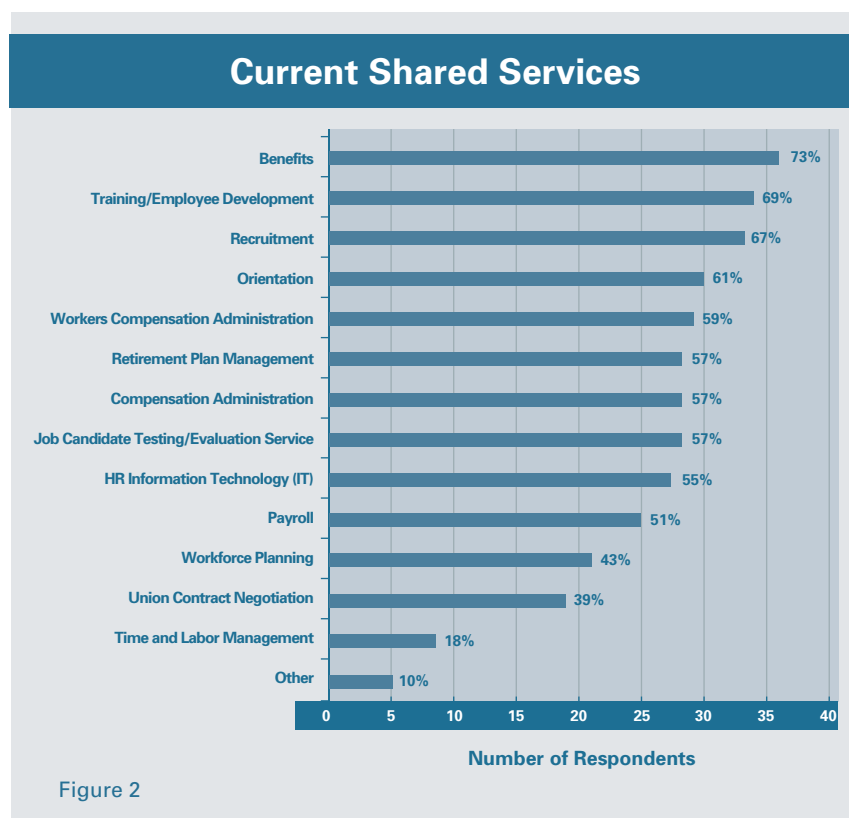
- Steven A. Harman
Director of Human Resources
for the City of Livermore, California

Figure 2 depicts functions most likely to be included in a shared services model. Benefits (73 percent) is the function most likely to fall within the shared services model, with training/employee development (69 percent) and recruitment (67 percent) a close second and third. At the other end of the scale, only 43 percent of respondents include workforce planning within their shared services model. Union contract negotiation (39 percent) and time and labor management (18 percent) are also unlikely candidates for shared services.

When asked about any areas considered "off-limits" for shared services, payroll topped the list for half of the respondents. About one third (31 percent) of respondents also named benefits, compensation administration, orientation and union contract negotiation as "off-limits" functions. What is deemed off limits in public sector HR organizations is often influenced by the size of the organization. Other EquaTerra research studies have found, for example, that larger federal-level organizations are more likely to have outsourced payroll or moved to a more comprehensive shared services model to support that HR function.

The majority of organizations currently utilizing some level of shared services are likely to move additional functions to this system in the future (57 percent). Only 6 percent of respondents indicate they are not likely to move additional functions to shared services. This outcome appears to lend some credence to the idea that past satisfaction would influence future plans around shared services and HR transformation in general.

Benefits, payroll and retirement plan management are among those functions most likely to be moved to shared services. Despite these outcomes, a follow-up question presents a remarkable inconsistency within the results. When asked about plans to move additional functions to shared services in the next two years, 81 percent of respondents had no plans to do so.



“This lack of strategic planning is an issue public sector HR organizations must address. In the larger context, it can mean that HR will likely become less supportive of the larger organization’s strategic needs over time, particularly relative to issues around staffing, succession planning and compliance.”

- Stan Lepeak
Director of Research, EquaTerra

So, why does past success not translate to future action? This contradiction may have more to do with actual planning than with the shared services model itself. As noted in previous studies, again this study finds that most responding organizations had no strategic plan. More than half (52 percent) of responding organizations have no strategic plan. For those organizations that do have a strategic plan, 39 percent include shared services or outsourcing within that plan. Despite high satisfaction, many organizations may simply lack formal or detailed plans for the future.

Lepeak highlights the potential impact of having no strategic plan, “This lack of strategic planning is an issue public sector HR organizations must address. In the larger context, it can mean that HR will likely become less supportive of the larger organization’s strategic needs over time, particularly relative to issues around staffing, succession planning and compliance. Relative to outsourcing and shared services, approaching either of these efforts without a clear strategy, business case, set of goals to achieve and means to measure success in meeting those goals will certainly create problems achieving success.”

As we explored some of the factors that influence decisions around pursuing alternate models, we also sought to hone in on why an organization would decide to implement a shared services system. Similar to outsourcing, the highest percentage of respondents (57 percent) indicated that shared services was the best overall option for the organization. Forty-five percent found shared services to be the most efficient option.

Interestingly, only about a quarter of respondents (26 percent) named cost as a factor in pursuing shared services. Cost appears to play a more important role in pursuing outsourcing rather than shared services.

Outsourcing

While there may only be a small pool of organizations that currently utilize some type of outsourcing within HR, the experience with outsourcing appears to be overwhelmingly positive.

While there may only be a small pool of organizations that currently utilize some type of outsourcing within HR, the experience with outsourcing appears to be overwhelmingly positive. When asked to characterize their overall experience with outsourcing, a little over half, 53 percent, indicated the process of moving to the model was relatively easy and they were satisfied with the results. Forty-one percent of respondents said that while the process was somewhat challenging, they were also very satisfied with the results. Outsourcing, as an operating model, received no negative feedback with only one organization indicating it was still too soon to tell what the effort's outcomes would be.

Workers compensation administration is the most common HR functional area to be included in an outsourcing model (61 percent), while 56 percent outsource retirement plan management and 50 percent outsource benefits programs. None of the responding organizations utilize outsourcing for orientation-related services and only 6 percent utilize the model for compensation administration, workforce planning or recruitment. At the same time, respondents were asked to indicate if specific HR areas were considered "off limits" to outsourcing efforts. Orientation (78 percent) and compensation administration (67 percent) were at the top of the list with benefits and recruitment (both 56 percent) following slightly behind.

With satisfaction levels high, it comes as no surprise that more than half of responding organizations (53 percent) indicate they are likely to outsource additional functions in the future. For these organizations, benefits, retirement plan management, training/employee development and workers compensation administration are the functions most likely to be outsourced in the future. In an interesting contradiction, other survey results indicate that benefits is often considered an area "off limits" to outsourcing despite these outcomes.

Earlier in this report, we explored some of the factors that may impact decisions to pursue an outsourcing arrangement. For those organizations that identified themselves as currently outsourcing some HR processes, we delved deeper into the decision process to outsource. When asked about factors that influenced the decision to outsource, 67 percent of these organizations indicated that outsourcing was the best overall option. Forty-four percent of organizations felt that outsourcing was the best-cost option and the same number felt it was the most efficient option. Cost obviously plays a significant role in any decision involving HR transformation, but it is definitely not the only factor and may not be as important as meeting the needs and desires of the organization as a whole.

Finally, in an effort to provide a well-rounded view of the outsourcing experience, respondents were asked about insourcing. For the purpose of this study, insourcing is defined as the transfer of an outsourced function back in-house. Only about one third of respondents (29 percent) have brought previously outsourced functions back in-house. COBRA management, risk management, payroll, union contract negotiation and workers compensation administration were those functions most often brought in-house.

V. Lessons Learned

Both researchers and public sector organizations may stand to learn the most about current trends in outsourcing and shared services by exploring the lessons learned with these models. First, it is clear that few organizations seek the assistance of an independent advisor in preparation for pursuing or implementing one of these alternate solutions. Sixty-five percent of respondents have never used an independent advisor (e.g., sourcing advisor, legal services, benchmarking firm, research analyst) in the context of the decision-making or implementation process.

“All too often, organizations believe they can drive the outsourcing transaction to successful completion by themselves,” said Glenn Davidson, who leads the public sector group for EquaTerra. “Unfortunately, their people don’t have the experience, in-depth knowledge, or practical know-how necessary to do so. Or, worse yet, these organizations implicitly trust the provider of outsourced services to give them sage advice. Their people fail to understand the innate conflict between providing impartial advice and their interest in the ‘downstream’ work.”

Obviously, with investment capital scarce, the idea of spending additional dollars before implementing an actual solution may seem unrealistic for these organizations. Organizations may not be aware of the valuable supporting role an independent advisor can play or potential benefits their services can deliver relative to the costs of the investment. However, respondents indicate that despite high satisfaction, these models are not perfect and if allowed to go back, organizations would like to fix mistakes or possibly negotiate different terms to govern the agreements. It is also important to note that approximately a third of all respondents (35 percent) have utilized some type of independent advisor in the past.

“With shared services and outsourcing, it is important for organizations to remember that an investment is required to perform them successfully. They may have to spend some money to save some larger amount of money. Enlisting the help of third-party experts is something to strongly consider.”

- Stan Lepeak
Director of Research, EquaTerra

On this point, Lepeak comments, “With shared services and outsourcing, it is important for organizations to remember that an investment is required to perform them successfully. They may have to spend some money to save some larger amount of money. Enlisting the help of third-party experts is something to strongly consider when undertaking shared services and outsourcing, just as a home buyer/seller uses a realtor, investors use an advisor, or firms undertaking M&A hire a banker.”

Clearly, the respondents to this study demonstrate high levels of satisfaction with their shared services and outsourcing efforts. Respondents were asked to rank overall satisfaction with outsourcing or shared services solutions on a scale of one to five with one being low/unsatisfied and five being high/very satisfied. The mean rank for respondents was 3.7. While this number may not seem overly compelling, it is important to note that 65 percent of respondents ranked satisfaction high at a four or five while only 5 percent ranked satisfaction low at a one or two.

Further evidence of this satisfaction is the small percentage of respondents that would have made changes if given the opportunity to go back with the knowledge gained through the overall experience. When asked if they would do something differently, a little over one third of respondents, 36 percent, would have established service level agreements within the outsourcing or shared services arrangement. Twenty-nine percent would have negotiated a better price and the same percentage would have conducted additional research on options. Finally, 26 percent would have established a stronger commitment to change management prior to implementing the new model, and the same number of respondents would have selected a different service provider.

Respondents ranked cost and pricing as the most important service provider attributes, with the provider's reputation and demonstrated success ranking close behind.

The last number may be the most telling - only about a quarter of respondents would have selected another service provider. This outcome indicates that for the most part, organizations are selecting a service provider that meets their needs and provides a satisfactory level of service. At the same time, the outcome related to establishing service level agreements may point to the recognition that a service provider could provide more efficient and better service. This result may also demonstrate a lack of awareness on the purpose of service level agreements and the importance of these agreements within a service provider contract.

Organizations usually consider a variety of factors when selecting a service provider and various parties may influence the selection process. To further explore the selection process, respondents were asked to rank the importance of service provider attributes. Cost and pricing had the highest overall score, with 33 percent ranking the attribute as the most important and 31 percent ranking it as the second most important. The service provider's reputation and demonstrated success ranked as the second most important attribute overall and specialization in the public sector ranked third.

Interestingly, despite the seeming importance of a service provider's reputation, service provider brand name and national standing were not identified as important attributes in selecting a service provider. Organizations also do not appear to be concerned with a service provider's financial standing as only 3 percent identified it as important. It is possible that respondents may equate reputation with brand name and national standing leading to the low results for these attributes. Further, other study outcomes provide additional evidence on the importance of a service provider's experience and success in the public sector. When asked to rank the importance of previous public sector experience on a scale of one to five, with one being low/no importance and five being high/very important, the mean rank was 4.1. Organizations are definitely more likely to select a provider with demonstrated success and experience in the public sector.

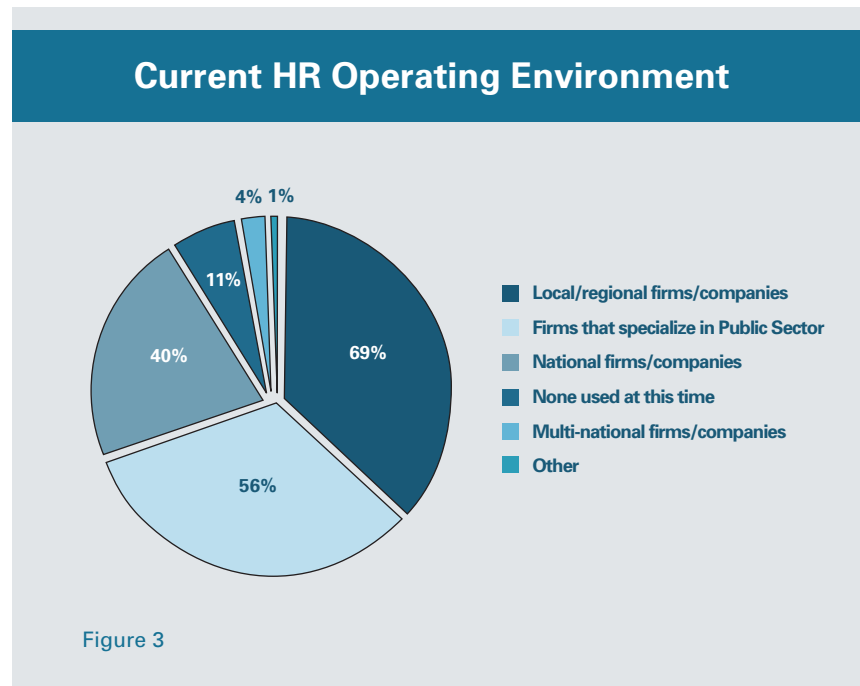
Barbara Montoya, Director of Human Resources and Personnel for the Montgomery City-County government in Montgomery, Alabama, adds another perspective to the importance of public sector experience. Montoya notes, "Unfortunately, during my 22 years of public sector HR experience, I have encountered service providers, 'experts,' if you will, who were not equipped to provide services in the public or private sector. If we plan to use a service provider, we look for one with successful experience in the public sector that can provide references we can contact or visit. I would not say that lack of public service experience impacts a qualified service provider's performance, but depending on the service being provided, there is a learning curve for orienting the provider to the nuances of public sector work."

EquaTerra's Davidson adds, "Commercial firms often presume that cost savings and avoidance of capital investments are the overriding drivers for outsourcing. Sometimes those presumptions are correct; but more often than not, access to advanced technology, improved delivery of services to employees, and redeployment of funds and personnel to more mission-critical tasks are the real drivers for change."

Figure 3 provides a complete breakdown of the types of service providers currently utilized by responding public sector organizations.

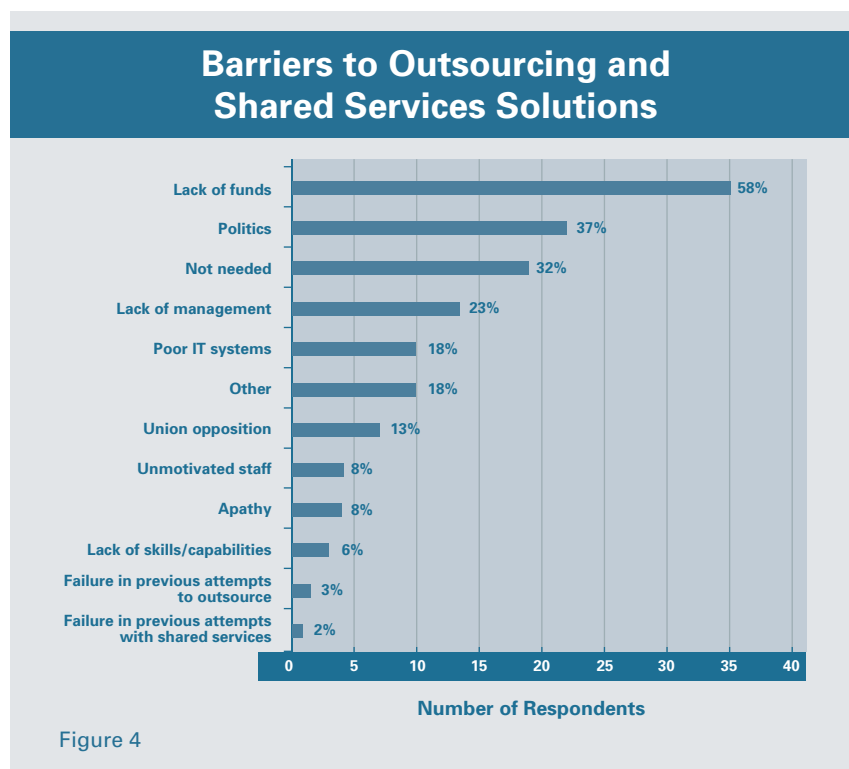
Again, these results echo previous outcomes related to service provider experience in the public sector. Over half, 56 percent, of respondents currently utilize service providers that specialize in the public sector. The highest percentage of respondents, 69 percent, utilize a local or regional service provider. Since 72 percent of respondents are organizations that serve between 10,000 and 499,999 constituents, these organizations may not have access to some of the larger, national service providers.

This could be due to a number of reasons – the scope of the work or arrangement may not be large enough to attract a national service provider or these providers may simply be too expensive. Likewise, some local governments may be under restrictions to use local or regional firms rather than national firms.



VI. Future Transformation and Alternate Models

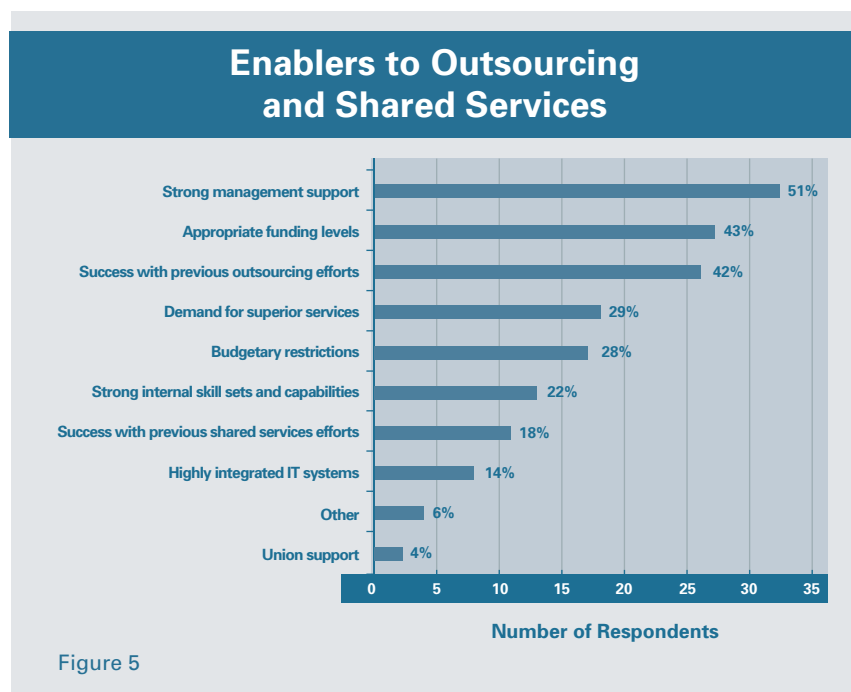
Any time an organization attempts to pursue transformation, various factors and parties can propel or hinder the process. In previous research, we have identified the numerous challenges HR departments or areas often face when attempting to improve processes and services. Figure 4 depicts those factors identified as barriers to pursuing an outsourcing or shared services solution.



Lack of funds presents an enormous barrier for pursuing an alternate model for transformation.

Similar to the importance of cost and pricing when selecting a service provider, lack of funds presents an enormous barrier for pursuing an alternate model for transformation. Politics may also present a barrier as evidenced in previous findings demonstrating politics' influence over decisions to pursue alternate models. Interestingly, 32 percent of respondents identify these solutions as not being needed. This outcome may be due to success with other models or methods of transforming the organization or particular services and processes.

Figure 5 presents the key enablers to pursuing outsourcing or shared services solutions as identified by respondents.



Management support is a crucial factor in implementing an outsourcing or shared services solution.

These and previous results indicate that management support is a crucial factor in implementing an outsourcing or shared services solution. Management support is essential in being able to overcome other barriers such as inadequate funding or politics. Human resources may often be an area overlooked when thinking about transformation, especially if the likely impact is difficult to define. Again, the cost of these solutions and of transformation in general comes through as an important issue. Without appropriate funding, transformation stalls and alternatives, especially those solutions that may require an initial investment, often disappear as an option.

Earlier results indicate that success with an alternate solution like outsourcing or shared services does not always translate to future plans that include these models. Here, we see that success in previous outsourcing efforts is identified by 42 percent of respondents as an enabler. This outcome demonstrates an interesting point in that breaking through the initial barriers, about culture, stigma and cost around an alternate and usually untraditional solution, may be the most important thing an organization can do. Once an organization has one of these models in place and can prove success, it is that much more likely to pursue a similar solution for another process or area in the future. It is here that associations or similar groups might be able to share success stories and help organizations begin to build a business case on the likely impact of this change.

Measuring success continues to present a challenge for many public sector organizations even as performance metrics and related measures become more hot-button issues. Measuring success is important in building the business case to not only support the initial exploration and implementation of alternate models for HR transformation, but to keep these models working effectively in the long run. Unfortunately, without an adequate system to measure performance, organizations often cannot build the appropriate evidence that would help them to gain important support to pursue transformation. While many organizations recognize the importance of measuring success, the measures they depend on, such as customer satisfaction or speed of service, are difficult to track.

“It is critical that organizations undertaking outsourcing and shared services efforts take the dual steps of defining relevant metrics to track the identified goals of their efforts, but also select metrics that they can practically track and measure accurately (or accurately enough) to satisfy key stakeholders.”

- Stan Lepeak
Director of Research, EquaTerra

“Some suggest that a decrease in the level of ‘background noise’ means that people are content. However, this can be an erroneous assumption, as it is human nature to stop criticizing or commenting when previous attempts to seek redress are refused or ignored.”

- Glenn Davidson
Public Sector Lead, EquaTerra

For this study, respondents were asked to identify the indicators their organizations use to measure success. Improved efficiency and speed of service came out on top with 89 percent of respondents citing this as an important measure. Customer satisfaction was also identified as important (76 percent), as was meeting strategic goals and targets (69 percent). On the surface, these measurements appear appropriate since speed and efficiency in service is important. But how is the speed and efficiency of services being measured? Are these organizations able to demonstrate improvements in speed and efficiency quantitatively or do managers rely on anecdotal evidence? Oftentimes, organizations have no method of determining how long a process takes or how long it should take.

Lepeak points out the importance of these efforts for the long run, “It is critical that organizations undertaking outsourcing and shared services efforts take the dual steps of defining relevant metrics to track the identified goals of their efforts, but also select metrics that they can practically track and measure accurately (or accurately enough) to satisfy key stakeholders.”

Customer satisfaction presents a similar problem. In a follow-up question, more than half of respondents (63 percent) do not conduct any kind of internal satisfaction survey. If customer satisfaction is such an important indicator, how is data being captured? Oftentimes, customer satisfaction becomes an anecdotal measure based on unreliable data such as calls to HR or complaints.

As EquaTerra’s Davidson notes, “Some suggest that a decrease in the level of ‘background noise’ means that people are content. However, this can be an erroneous assumption, as it is human nature to stop criticizing or commenting when previous attempts to seek redress are refused or ignored.”

That said, when appropriate infrastructure exists, calls and complaints can be tracked effectively and provide good information. Unfortunately, few organizations have the infrastructure in place to make this an effective measure. Instead, organizations find themselves reliant on inappropriate and often misleading information.

According to the respondents, it would appear that offshore outsourcing is rarely an option for a public sector organization. For the purpose of the survey, offshoring is defined as the use of a third-party service provider to deliver services from a jurisdiction and geographic location other than the organization’s home country (US/Canada) or origin. At the same time, confusion between offshoring and outsourcing in general, and the assumption that all outsourcing involves the moving of some work to outside of the region or country, creates a stigma for outsourcing within the public sector.

Respondents were asked directly about offshoring and provided a definition of offshoring in an effort to clarify the corresponding questions. Only one respondent indicated his/her organization currently utilized some type of offshoring arrangement. This outcome demonstrates that few organizations may want to publicize the fact that they utilize offshoring, a reason that may have led to underreporting.

Public sector organizations often must operate within limitations and restrictions put in place by other governing bodies such as the city council or state legislature. When asked if restrictions or limitations exist that regulate the outsourcing process, more than half (55 percent) indicated they operate without any limitation that may impact the decision to outsource. Of those organizations with limitations or restrictions, the most common limitations deal with labor laws or agreements, the organization’s procurement or purchasing process and/or geographic limitations. Since the most common restrictions to impact outsourcing tend to center around geography, an additional follow-up question was asked specifically about geographic limitations. A little more than half (52 percent)

of respondents indicated that geographic restrictions are in place that may limit outsourcing.

Aside from these restrictions and limitations, would most public sector organizations consider an outsourcing or similar solution that included an offshore component? With debate over outsourcing taking up a great deal of space in the business pages and now a hot political topic as well, the anticipated answer would be a definite no.

The clear majority indicated offshoring was not a factor in pursuing an outsourcing solution.

When asked if offshoring was a factor in pursuing an outsourcing model, the clear majority, 79 percent, indicated offshoring was not a factor in pursuing an outsourcing solution. However, when asked if the organization would consider an offshore service provider, 59 percent said no and 36 percent said they didn't know. Only 5 percent of respondents indicated they would consider an offshore service provider.

While this comes as no surprise, it is important to point out that many organizations probably are not completely aware of the location of all of their services providers' services. It is likely that many public sector organizations may be utilizing offshore services today and simply do not know about it or are willing to acknowledge it.

VII. Conclusion

Overwhelmingly, organizations are pleased with results when utilizing alternate models like outsourcing and shared services.

The results of this study indicate that a public sector HR organization's ability, or appetite, to break out of the norm and move toward non-traditional and innovative solutions may be the most important step. Overwhelmingly, organizations are pleased with results when utilizing alternate models like outsourcing and shared services. Based on this success, these organizations are very likely to pursue these types of models for other functional areas or move additional processes into these models in the future even if they do not have immediate plans to do so.

Shared services and outsourcing may not work for every organization or every HR functional area. However, the experience of the organizations using these systems is informative to any organization thinking about or pursuing transformation. These organizations were able to combat the initial challenges and topple the long-term barriers to successfully implement these systems. For organizations struggling to build an appropriate business case or gain support for this and any kind of change, these success stories may be crucial tools. Success stories that demonstrate how organizations, and specifically HR, can combat the skepticism, stigma and politics can help to guide the process or provide a roadmap for other organizations.

Success stories and related information will also build awareness on shared services and outsourcing work, and hopefully open up additional options for HR organizations dealing with tough problems. As Lepeak further clarifies, "The point is not that the use of shared services or outsourcing is the best model for all public sector HR organizations or the best means to address all the problems an organization might face. Rather, organizations are remiss if they do not at least consider and explore these models as an alternative option to traditional models."

Professional associations, such as IPMA-HR and similar groups can play an important role for building awareness on this topic and for helping organizations move forward in exploring other options.

Professional associations, such as IPMA-HR and similar groups can play an important role for building awareness on this topic and for helping organizations move forward in exploring other options. Only when organizations have better information about the various options are they best equipped to select the option that will meet their needs and work within their environment.

Similarly, successful organizations need to focus on measuring their success for both the direct and indirect outcomes of these systems. They need to thoroughly address the following points:

- How are these organizations monitoring the performance of these models and the functions within them? Moving to shared services and outsourcing is an ongoing process that requires organizations to track performance and manage outcomes even if they are distant from the day-to-day transactions.
- Is the organization utilizing or working toward a formal performance monitoring system?
- What was the business case for undertaking outsourcing or shared services models? And how or was it met?
- What constitutes success – cost savings, process improvement, both – and how do organizations measure this on a day-to-day basis?

These are all questions organizations should be asking to ensure the success of their efforts today and set the stage for further transformation in the future.

Along with the day-to-day performance and management, organizations should consider how the move to alternate models is impacting HR's overall role. How has – or could

- outsourcing certain HR functions impact how HR employees spend their time? Have these models allowed HR to act more strategically and be better prepared for future challenges? These are more difficult questions to answer, but most organizations often pursue these models to shift staff time and energy away from transactional tasks. In essence, is HR becoming more proactive and less reactive, and ultimately, better able to handle challenges like the aging workforce or smaller candidate pools? When an organization can demonstrate that an alternate model, such as shared services or outsourcing, not only improves the efficiency of a transaction or improves the quality of services but also allows HR to act as a strategic asset – this may be the best evidence on the potential and impact of transformation.

VIII. Report Scope and Research Methodology

EquaTerra conducted this research during June and July 2006 with an online survey instrument. Over 100 public sector HR executives responded to the survey. The survey targeted senior HR officials, with 67 percent of respondents identifying themselves as the Human Resources or Personnel Director. Other titles included Deputy or Assistant Director of HR and Manager of HR. Among all of the respondents, 57 percent identified themselves as the primary decision maker for their organization's HR.

To better understand the role of each respondent in his/her organization, we asked each respondent to describe the areas in which they have decision-making influence. The majority of respondents (more than 90 percent) have influence over strategy while 83 percent have influence over operations. Little over half of respondents, 55 percent, indicate they have influence over sourcing decisions regarding services and 66 percent indicate influence over sourcing decisions related to operations such as purchasing supplies. These results should be considered within the public sector context in which these professionals function and the bureaucracy that may limit these levels of influence. In addition, this report examines the sourcing decision process more closely to consider the other factors that may influence decisions to pursue a shared services or outsourcing model.

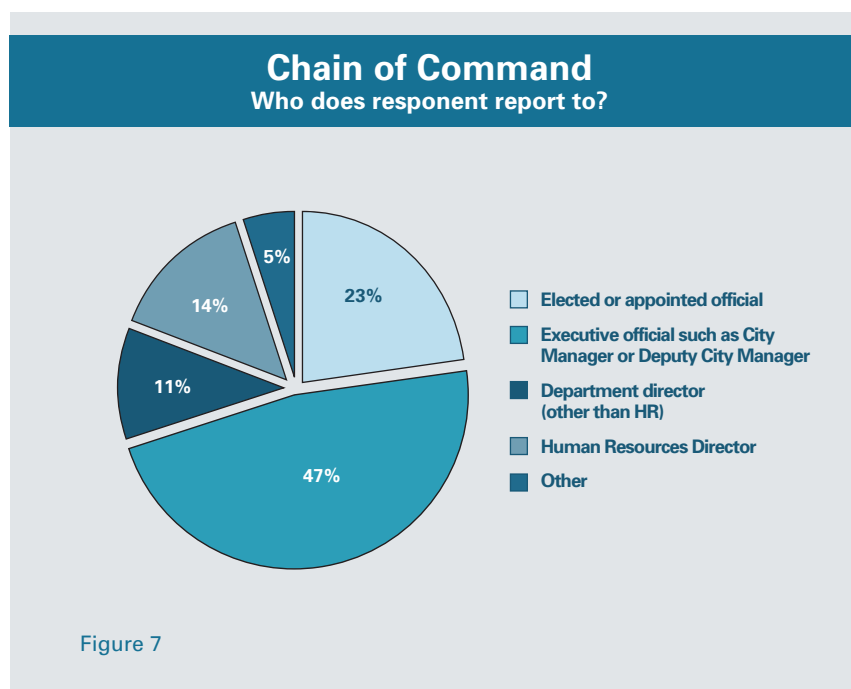
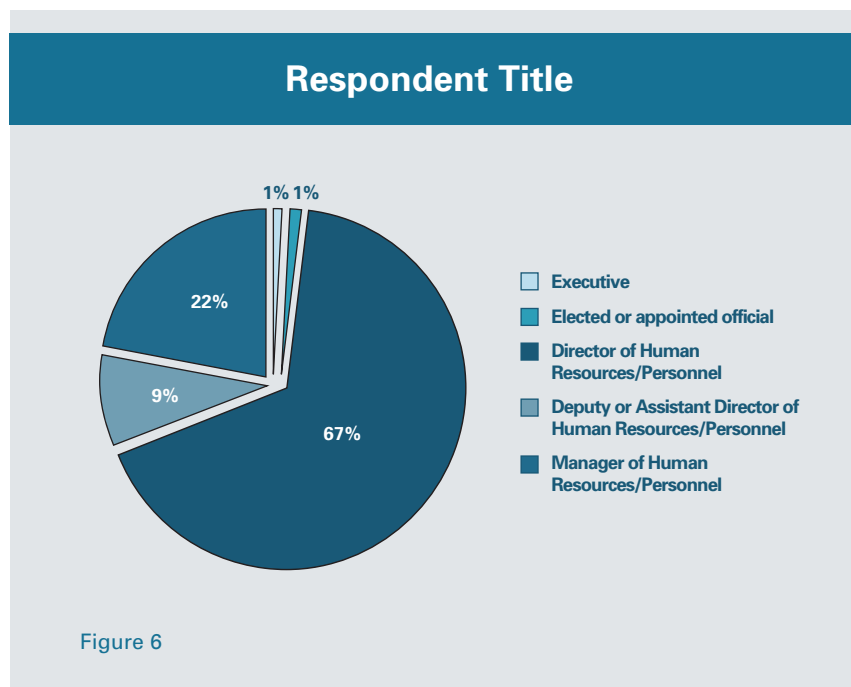
Overview of survey respondents:

- a. 77 percent were local government, municipality, city, county or town/township
- b. Other respondents included federal and state entities, not-for-profits, school or special districts and other public organizations
- c. 72 percent of responding organizations serve between 10,000 and 499,999 constituents

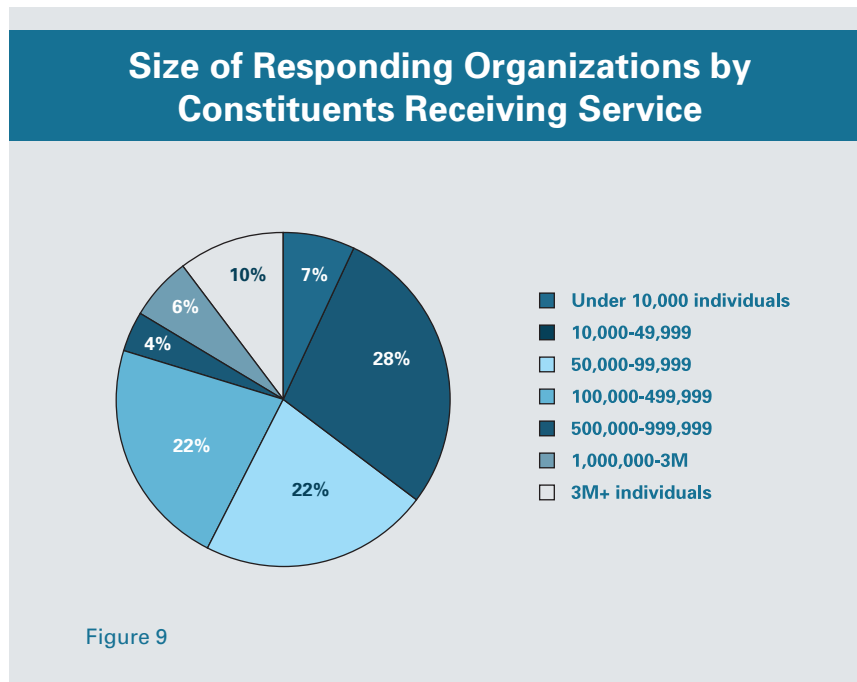
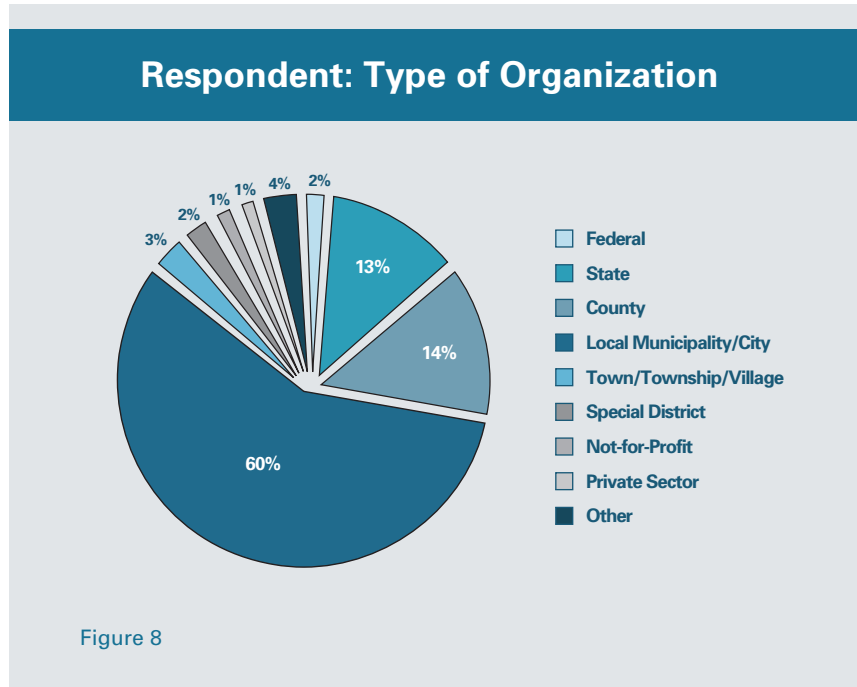
The Appendix of this report provides additional survey respondent demographics.

IX. Appendix

This appendix contains several figures that depict the demographics of study respondents.



Other responses include: Court Executive Officer, Chief Administrative Officer and Civil Service Commission



IX. About the Organizations Responsible for this Report

About The International Public Management Association for Human Resources

The International Public Management Association for Human Resources (IPMA-HR) is a non-profit organization representing the interests of over 7,500 human resource professionals who work primarily in the public sector. IPMA-HR members are employed at all levels of government within the United States and other countries and international organizations. The mission of IPMA-HR is to provide human resource leadership and advocacy, professional development, information and services to enhance organizational and individual performance in the public sector. To further this mission, IPMA-HR provides a wide range of resources including publications, research, assessment, professional development programs, and certification. IPMA-HR is recognized for providing human resource leadership that makes a difference in the public sector.

To learn more about IPMA-HR go to: <http://www.ipma-hr.org>.

About ADP

Automatic Data Processing, Inc. (NYSE: ADP), with nearly \$9 billion in revenues and more than 570,000 clients worldwide, is one of the largest providers of a broad range of mission-critical, transaction processing and information-based business solutions. ADP® Employer Services (ES), a division of ADP, offers the widest range of HR, payroll, and benefits administration solutions from a single source, to meet the extensive needs of public sector employers. For more information about ADP, please visit the company's Web site at www.ADP.com.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their business processes. With an average of more than 20 years of industry experience in over 600 global transformation and outsourcing projects, our advisors offer unmatched industry expertise. EquaTerra has deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes with advisors throughout North America, Europe and Asia Pacific. Our people are passionate about providing objective, conflict-free advice to our clients, which has fueled our exponential growth over the past three years. We help clients achieve significant cost savings and process improvement with outsourcing, internal transformation and shared services solutions. It is all we do.

For more information on EquaTerra's public sector capabilities, please contact Glenn Davidson at: glenn.davidson@equaterra.com or +1 202 904 2311; or go to: www.EquaTerra.com.

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