

THE RETAINED HR STAFF:

delivering on the promise of HR outsourcing

An HROA Research Project



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Human resources business processing outsourcing (HR BPO) continues its steady march across corporations both in the United States and abroad. Now the fastest-growing segment of US HR services, HR BPO is projected to grow at a compound annual growth rate of 16 percent, reaching \$18.9 billion—or 46 percent of all HR outsourcing spending—by 2010, according to the research firm IDC.

In recent years, companies have become increasingly familiar with the benefits of HR BPO, starting with cost reduction, which, depending on the nature of the engagement, can range from 20 percent to 60 percent off the bottom line, based on the experience of Convergys Employee Care. But companies have also come to expect a key value beyond price: the chance for the HR staff that is retained to turn its focus to more strategic areas, transforming the HR department from a cost center to a better strategic partner.

Through discussions with its members, HROA, an association of professionals who purchase, provide or participate in HR outsourcing, uncovered an issue that many transforming HR organizations were experiencing: these HR organizations weren't becoming more strategic. Together with Convergys Employee Care, HROA set out to determine the scope of the problem and solutions for addressing it.

To gain insight into the issue of the changing needs of HR organizations after a transformational initiative, HROA, with sponsorship from Convergys Employee Care, conducted two concurrent online surveys, one of buyers and the other of providers, during the summer of 2006. The buyer survey was conducted with a select

Filling the Gap

With administrative tasks outsourced, the most essential—and most often elusive—skills that retained HR staff needs are:

- Strategic planning
- Business advisor/ambassador
- Financial acumen
- Data analysis
- Persuasion/communication
- Vendor governance
- Designing HR programs
- Understanding the best uses of HR IT
- Knowledge of the marketplace

group of HR professionals, predominately in North America, nearly three-quarters of whom are currently transforming. The provider survey was conducted with a select group of providers, predominately in North America.

HROA used the findings from the surveys as the basis for a webinar on the same topic. “The Next Generation of Talent, Delivering on the Promise of HR BPO” was sponsored by Convergys Employee Care and delved further into the challenges faced by the retained HR organization through a panel discussion with representatives from both the buyer and provider sides as well as the academic and analyst communities.

Skills Hard to Identify, Harder to Find

Among those survey respondents undertaking transformation, one of the most common reasons for the initiative was a keen interest in freeing internal staff to focus on strategic issues.

Nevertheless, the survey results and webinar discussion support what HROA had been hearing: The goal they'd set has yet to be concretely achieved. Why? Often, respondents noted, the retained HR staff simply lacks the skills that these new roles require, skills that 81 percent of responding HR professionals noted are, in fact, fundamentally different in the post-transformation era from the skills that were required before.

While the survey respondents all agreed that the required skills are different, most were hard-pressed to name these skills: Fully half noted that identifying the skills has been a challenge. The impact is clear: Without being able to clearly define the needed skills and thereby identify the employees who possess or can master them, HR departments are not able to take full advantage of the transformation that HR BPO has offered.

Webinar participants agreed that, while HR has been applying talent management across the enterprise, it has not yet turned its sights on the HR department itself. As Lisa Rowan, program manager for IDC's HR and Talent Management Services, observed, “The shoemaker's children never have shoes, and HR is no different.”

Not surprisingly, even when executives are able to determine what skills they need, finding HR professionals with those skill sets has proven difficult. Confirming this, the vast majority of survey respondents noted a real shortage of the type of talent their post-transformational world required. If it was hard to find stellar HR staff before the transformation—and many noted that it was, citing the scope of work required, the shortage of experienced

talent and pay as limitations—afterwards, it has proven far more difficult.

The more strategically based skills that are now required have not traditionally been part of many HR departments beyond their top executives. That has made it necessary, HR leaders at the webinar said, to go outside their retained department in order to fill the new roles. Sekhar Ramaswamy, vice president of Human Resources at Prudential Financial, told participants,

“Unfortunately there is no silver bullet to address the skills shortage, nor is there a quick and easy remedy for getting today’s HR professionals reskilled,” notes John Gibson, senior vice president, Operations, at Convergys Employee Care. “We believe that raising the issue and bringing the industry together will help generate solutions to meet the growing need.”

Since the first step in finding those solutions is identifying what the neces-

chipping away at HR costs, real, lasting value requires a deeper integration between a business’s strategy and its workforce. For this reason, strategic planning is perhaps the most important skill required—and, webinar participants and survey respondents agreed, it is also one of those least in evidence.

“Today’s retained HR professional must think like a business person first and an HR person second,” Richard Beatty, Ph.D., professor of Human

What has kept the retained HR staff from getting effectively involved in more strategic, business-imperative matters after transformation? Often, respondents noted, the retained staff simply lacks the skills these new roles require.

“My strongest people today don’t have HR backgrounds. They’ve come from different disciplines, including finance, audit and consulting.”

Bridging the Skills Gap

Since there is clearly value in retaining those HR employees who understand the company’s culture, have knowledge of the personalities around the company and possess a long institutional memory, going outside the department for strategically based skills is not always the answer. But how can companies help employees bridge what they’ve identified as a wide skills gap?

Many admit that they really aren’t sure. And perhaps because of this, a majority of survey respondents said they have not developed a dedicated process that would help their retained staff acquire the new skills.

sary skills are, Convergys Employee Care—in consultation with executives and webinar participants and drawing on the results of the survey—has developed a list of attributes that appear to be most important to a post-transformation HR department. “The more we understand what makes a retained HR person successful,” says Gibson, “the easier it will be to move people into positions they are well-suited for and provide them with the resources they need to fill in any gaps.” A better understanding of what is required is clearly the first step toward fully realizing the benefits of HR BPO. And these skills apply to any company following an HR transformation, regardless of industry or company size.

Strategic planning

While HR departments can create economic value for their companies by

Resources Management at Rutgers University and a core faculty member of the University of Michigan’s Executive Education Center, told webinar participants. “People need to understand their business—from the outside rather than the inside. In the future, most firms will compete through brainware, so people need to understand and track the brainware the organization has—and needs.”

Part of the skills gap in this area stems from HR’s traditional positioning as a “people-oriented” career, Beatty observed. “Many HR people entered the profession because they ‘like’ people. That’s a good thing, but it challenges [the retained HR employee] to look at people in terms of the workforce and the globally competitive environment. What workforces do you want to own and which do you want to lease? And which should you get rid of?”



Answering these and other difficult questions requires a new way of looking at the people the company employs, explains Gibson. “To really succeed in this new world, HR professionals need a greater understanding of the company’s strategic capabilities. They need to ask, ‘Which positions create wealth for the company?’ Then they need to take a hard look at the extent to which the company is populated with top talent in those positions and determine if an increase in that level of talent would further the company’s success.”

Business advisor/ambassador

In the survey, respondents noted the importance of being able to interface with executives outside the HR department. As one respondent noted, “[A big issue facing the retained HR staff is] the ability to work with managers—and especially senior managers—on business issues that have nothing to do with HR competencies, including developing and instilling confidence that [we] know what we are talking about outside of an HR competency.”

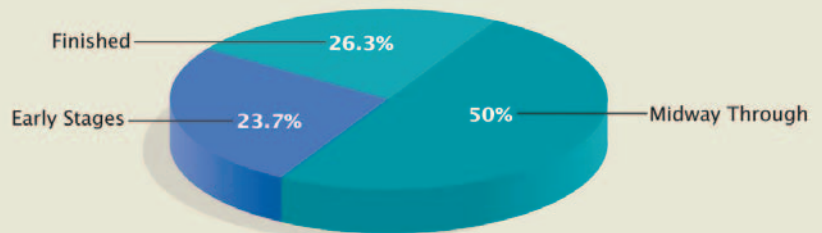
Prudential Financial’s Ramaswamy told webinar participants that he attributes much of his own department’s post-transformation success to its ability to speak to outside executives in their own language. “We are business people first and foremost,” he explained, “and we’re proud of that. We constantly talk in business terms. [When we decided to outsource, for example,] we shared the business case with the chairman and senior management team, in terms of the economic value we were bringing. So we clearly have a seat at the table. And we didn’t just do it a few years ago and put that business case in the drawer; we regularly report back on how outsourcing is doing and continually report on our results versus objectives.”

Of course, earning the ear of top management is intricately linked to strategic thinking skills. As Beatty told webi-

Transformation in Progress

In the Convergys-sponsored HROA survey of HR corporate executives, primarily in North America, 74 percent reported they are currently transforming, with 13 percent more planning to start the process soon.

WHERE ARE THEY IN THE PROCESS?



WHY TRANSFORM?

The benefits HR leaders seek through transformation:

- Reduce/eliminate transactional activities to gain time to focus on other issues (especially strategic issues)
- Improve business unit partnering/communication
- Improve service
- Provide employees access to information
- Improve timeliness
- Increase consistency
- Reduce cost/staff size
- Improve process/accuracy
- Implement best practices
- Standardize processes/systems

FUNCTIONS MOST LIKELY TO BE TRANSFORMED:

Benefits administration
 Payroll
 Training and education
 Entire HR function
 Recruitment/talent management
 Employee incentives
 Relocation and mobility

Tough to Find Talent

50 percent of respondents say they found it difficult to identify qualified candidates for their internal HR positions even before transforming.

PRIMARY REASONS:

- shortage of experienced talent (58 percent)
- scope of work (58 percent)
- pay (42 percent)

But transformation does not necessarily make it easier. That's because, according to 81 percent of respondents, the skills required of retained HR professionals after transformation differ from those required prior to transformation.

NEED LESS:

- Administering
- Managing paperwork
- Processing

NEED MORE:

- Playing a strategic role in workforce planning
- Providing data and business intelligence to the company
- Participating in business planning

Nonetheless, 52 percent of respondents have not developed a dedicated process for the retained staff to acquire these new skills.

WHY NOT?

- 50 percent say they're challenged to identify needed skills
- 83 percent say there's an industry shortage of this kind of HR talent

How do respondents feel they can get these skills?

- 38 percent say identification of standard core competencies
- 28 percent say cross training
- 31 percent say these should be handled by industry associations and academic programs

nar participants, "Once we can demonstrate that we can do some of these [strategic] things—for example, understanding [and planning for ways that] HR impacts the bottom line of the business—I think we're going to have much more ready and willing audiences. [We] have to earn our way in by doing things that have a significant strategic impact—turning ourselves into players on the field, with the ability to score on the scorecard of the organization."

One way to succeed in this area is to more fully empower the service provider, Karen Bowman, president of Convergys Employee Care, told webinar participants. What you need to do, she said, is "really empower the provider to do what you ask them to do—and hold them accountable for it." Then be sure to tout these facts outside the department, she added.

This is especially true in companies where the transition is gradual, Bowman noted, because outside executives sometimes don't understand that the retained HR executives' role has actually changed. "In many situations, the business partner continues to believe the HR community is still performing the same tasks they've always performed," she said. "When that happens, the HR department misses out on a lot of what it's trying to achieve."

Bowman advocates that providers work not only with the HR professionals but also with other business executives, letting them know they should hold the provider accountable for its responsibilities. "We manage a portfolio of assets no different from any other portfolio," she noted, "and as the manager of that portfolio we should be viewed as a critical part of that discussion."

As webinar moderator Richard Crespin, global executive director of HROA, summarized the skill of being a business advisor, "[The retained HR staff] needs: to be an ambassador to the dif-

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ferent business functions, to understand what they need and to ask them to hold you accountable in a different way than in the past. They also need to empower the provider and let go, but take control in a different way, in order to get clear on the scorecard of where HR adds economic value and to create a constant dialogue about that topic.”

Financial acumen

If the retained HR staff is to “get clear on the scorecard,” as Crespin put it, it’s clear that they need to have a deeper understanding of the business’s financials. “When we say that, post-transformation, HR now becomes a business, understanding the financial aspect becomes key,” IDC’s Rowan explained during the webinar.

Again, this is a skill HR executives admit that many of their employees lack. Even those fresh out of business school may not be getting this information. As Rutgers’ Beatty noted, “Companies have told us that our Master’s program has more finance and accounting than any other program in the country, [which they appreciate],” adding candidly, that, “They also tell us that we still don’t have enough.”

Data analysis

Among the skills HROA survey participants were able to identify is the ability

to analyze and interpret data in the post-transformational age. Some 41 percent of respondents said that this is one of their top requirements, after workforce and business strategic planning. This is especially true of data warehousing and data-mining technologies, which allow HR to analyze trends in the workforce and perform “what if” queries in order to see how specific actions may affect the future organization.

And it is especially true post-transformation, Convergys’ Bowman told webinar attendees. “When a company uses a service provider,” she noted, “it doesn’t take the time that it used to take to garner data that is really comprehensive. But just as a CFO or a finance leader shows up at meetings with spreadsheets, HR staff needs to have significantly more data at their fingertips.”

IDC’s Rowan pointed out that one of the benefits of outsourcing the day-to-day transactional work is the improved data the provider generates for HR. However, she noted, with more data available, retained HR employees “need to be able to make sense of what they’re seeing and turn it from data to information. If they can analyze it and apply some metrics to it, they can elevate the strategic level of HR,” she said.

Skills are also needed to develop and determine the types of additional data

that are required if HR is to reach its more strategic objective. These include using the company’s own internal databases to find talent within the company itself. “If you really believe that talent creates wealth,” Rutgers’ Beatty declared, “then we need to begin building some databases around talent by asking the right kinds of talent questions. I see firms beginning to do that by developing the databases that enable HR to make better strategic workforce decisions.”

Persuasion/communication skills

While it may be easy to oversee a subordinate whose office is down the hall—or even across the country—motivating and communicating with an outside provider where responsibility is shared presents a whole new set of challenges.

Prudential Financial’s Ramaswamy described a typical challenge facing a retained HR employee at his firm. “At one time, a woman who works for me had a staff of several hundred people,” he explained. “Now she runs the day-to-day relationship with our outside provider. She needs to do much more influencing, rather than directly managing operations herself. The skills are different from giving orders to people who work directly for you.”

Influencing skills begin with the knowledge that you’re in partnership with



your providers, webinar participants agreed. Therefore, the ability to listen—to the provider, to HR customers and to others—is critical. Only when the retained HR staff really understands a given situation can they see how to move forward. And in addition to listening and persuading, noted Bowman,

An understanding of vendor governance issues not only helps an HR department avoid these challenges, but also helps position the retained staff to the broader organization as a strategic partner. “The challenge that we continue to hear from the retained side of the organizations we support is the frustra-

retained HR professionals can turn their attention to designing HR programs. However, while the ability to do this was cited in the HROA survey as a required post-transformation competency, it was also clear that this was a competency that few respondents could claim to have developed fully. Which

“In many situations,” noted Bowman, “the business partner continues to believe the HR community is still performing the same tasks they’ve always performed. When that happens, HR misses out on a lot of what it’s trying to achieve.”



both retained HR staff and their providers must continually develop communication skills, to be sure everyone knows what’s going to transpire.

At the same time, however, Ramaswamy cautioned that HR staffers must be realistic about their expectations. “I’m sure other companies have had similar experiences,” he said, pointing out that “the minute the work went out to a service provider, the standards immediately went up internally in terms of the performance that people expected.” If a firm has a problem with a process and simply hands it to its provider, he noted, the problem is likely to remain, regardless of how skilled the staffers are at influencing or communicating.

Vendor governance

This leads directly to vendor governance. Every company has established principles that determine how the partnership will work, but questions about who owns certain decisions or transactions are likely to crop up even months or years after the transformation.

tion that employees still hold them accountable for delivery issues rather than the more strategic issues,” Convergys’ Bowman told webinar participants. “That can be avoided when a company reinforces the governance structures and has the right kind of open channels with the provider as part of that network.”

Prudential Financial’s Ramaswamy added that retained staffers must learn to implement an appropriate monitoring program to ensure that the relationship proceeds as planned.

“Unfortunately, I have found that, by and large, the staff really didn’t have those skills,” he explained. The company made the transition by bringing in new people from outside, while retraining some of those who had been retained. Now, Ramaswamy’s department’s vendor governance process is so thorough it is used as the model across the company.

Designing HR programs

The operating principle behind most outsourcing arrangements is that

doesn’t mean it’s not on their agendas. Building this competency, webinar participants and other executives have noted, is clearly an act in progress.

“If making the workforce a true asset to the organization is key,” said Bowman, “it’s logical that developing initiatives that help your company redesign jobs, recruit and retain the right employees, build teamwork skills, and assist employees in managing inevitable future changes would be prized traits in HR departments. While, of course, some of this was done prior to a transformation, HR departments post-transformation really have the ability to be forward-thinking, to proactively meet the organization’s needs.”

Convergys’ Gibson agrees. “Designing HR programs is much different than performing administrative activities,” he adds. “Rank-and-file HR staff will likely look to their leadership team to guide them in determining what programs need to be developed, based on the needs of the business. To accomplish more strategic activities, staff will have to think in a new way. Therefore,

to appropriately prepare their staff to carry out their new roles, many companies will need to rely on external resources such as an academic program or an association to beef up the skills of their employees.”

Understanding the best uses of HR IT

With technology now being used in such varied areas as payroll, reporting, benefits administration, online recruiting, e-learning, intranets, succession planning and performance management, retained HR employees need at least a basic understanding of HR IT.

“HR’s knowledge doesn’t need to rival that of the IT department,” Gibson says, “but the more the HR employee understands the abilities—and the limitations—of the technology, especially as it relates to the larger strategic objectives of the department and the organization, the better.”

Knowledge of the marketplace

Of course, even before transformation, the HR department didn’t operate in a vacuum. HR employees have always needed to know about a company’s customers and competition. But post-transformation, a more direct focus has become key.

“In certain functions of HR such as recruiting, there have long been deep levels of knowledge of the marketplace,” Convergys’s Bowman told webinar participants. “But there is more to do if they are to develop and retain a workforce that can easily respond to changes in demand, competition and more.” In addition to that, she said, “In a transformed environment, the HR leadership is much more engaged than they have been with the customer himself or herself. So understanding what skill sets you need to be customer-facing is important.”

Moving Roadblocks

HROA also asked service providers for their impressions of their clients’ transformations. Providers largely agreed with corporate HR professionals on the goals and benefits of transformation. Among the post-transformational skills they agree are most needed by the retained HR staff:

IN FOCUS



OUT OF FOCUS

Service providers also cited challenges they believe prevent the retained HR staff from focusing on strategic issues:

- An ongoing view of HR as an administrative, not a strategic function
- The lack of necessary business skills among HR leadership
- Although the administrative HR duties may have been outsourced, the HR staff is still handling the heavy administrative burden, diverting attention from transformation
- A failure to reassess and communicate new competencies for the revised HR function and to apply those competencies to existing talent
- Focus on other issues among HR staff—hiring, training, etc.—which take focus away from achieving transformation goals
- Competing corporate initiatives, internal disagreements
- Lack of appropriate skills/expertise/experience among HR staff
- Lack of sound and objective metrics to project and document ROI
- Lagging implementation issues

Getting These Skills for Your Employees

In the years since HR BPO has become an accepted and growing practice in corporations around the world, it's also become increasingly clear that there is a gap between the skills the retained HR staff has and the skills retained HR needs to have if it is to fulfill the strategic promise of outsourcing.

What has not been clear, however, was that the skills gap existed, in large measure, because neither corporate executives nor the retained HR staff understood what those necessary skills were. The HROA survey and webinar, sponsored by Convergys, have revealed those skills. What's necessary now are

innovative methods—abetted by sound governance as well as strong change management programs—that can help to create the next generation of human resource talent.

What are those methods? Many HR professionals say they have struggled to identify them, with varying degrees of success. “We had a lot of internal [development and] coaching sessions, and we used an outside consultant for a piece of it,” Prudential Financial's Ramaswamy said. He also provided HR staffers with opportunities to expand their horizons. “We put them on a task force, a special project, where they were exposed to something different. [Getting this] broader perspective has really helped their development.”

Schools and professional associations such as HROA are also working to teach these skills. And many respondents to the HROA survey said they believed training should fall to industry associations and academic programs. But many of these groups are also not yet ready to meet this challenge. As Rutgers' Beatty told webinar participants, “Most programs, even at the Master's level, are still divided between labor and HR. There are very few truly strategic HR programs that build these new kinds of competencies.”

A growing number of experts believe service providers can help employees learn these skills. “Having a networking group that involves both the buyer and the provider that could meet regularly would advance this cause,” IDC's Rowan said. “[At these meetings,] they would not discuss day-to-day transactions, but rather personal and professional development.”

Some providers are particularly well-situated to offer counsel and programs, noted Convergys' Bowman. “Providers are stepping up to offer the business consulting skills and the strategic and conceptual thinking skills that will allow retained HR to be problem solvers and business partners. For example, our people are getting much more comfortable with the ability to access, mine and manipulate data.”

Providers can also offer analyses of career paths for HR professionals that might take them out of HR. “In many organizations, good business leaders take a stint in HR,” Bowman noted. “We're now helping companies see that the reverse can also be important: Good HR leaders may benefit from having stints in other departments.” Convergys is also exploring the benefit of providing some client employees with a career path through the provider as a way of enhancing their skills.

Getting Started

Knowing what to do with your retained HR organization after you transform requires that you have a well-thought-out and detailed plan. Be sure to consider the following activities as you build your next generation of HR talent:

- HR, as the champions of change, will be focused on the needs of the organization and its employees during the transformation. However, HR staff are just as vulnerable during what is sure to be an emotional time. To ensure success, it's critical that someone has designated responsibility for change management with the HR team.
- HR executives should have a clear understanding of what they are asking of their HR staff before, during and after the transformation.
- Post-transformation, HR executives need to have clearly redefined roles and, if necessary, create new roles, based on the established governance protocol.
- HR executives need to candidly evaluate the retained HR staff's current skills in concert with the redefined or new roles to determine if they have the requirements to do the job and, if not, to prepare development plans to close the gaps.
- Academic programs cannot meet the immediate need that companies have to up-skill or re-skill their retained HR staffs. Consequently, companies will need to develop innovative solutions—such as cross-career pathing—with their service provider or to create short-term assignments in other areas of the business that will boost the retained HR staff's finance and accounting and communication skills.
- Prepare internal stakeholders to work with HR as a strategic partner.

What's necessary now are innovative methods—abetted by sound governance and strong change management programs—that can help create the next generation of HR talent.

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About HROA

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Corporate Headquarters

201 East Fourth Street
Cincinnati, Ohio 45202 USA
Tel: 513 723 7000
Fax: 513 421 8624

Regional Headquarters

Europe, Middle East & Africa

Cambourne Business Park, Cambourne
Cambridge CB3 6DN, UK
Tel: 44 1223 705000
Fax: 44 1223 705001

Latin America

Cenu - Av.das Nacoes Unidas,
12.901 - 34 andar - Torre Norte
CEP: 04578-000 - Sao Paulo - Brasil
Tel: 55 11 5102 1800
Fax: 55 11 5102 1911

Asia Pacific

30 Cecil Street #11-08 Prudential Tower
Singapore 049712
Tel: 65 6557 2277
Fax: 65 6557 2727

