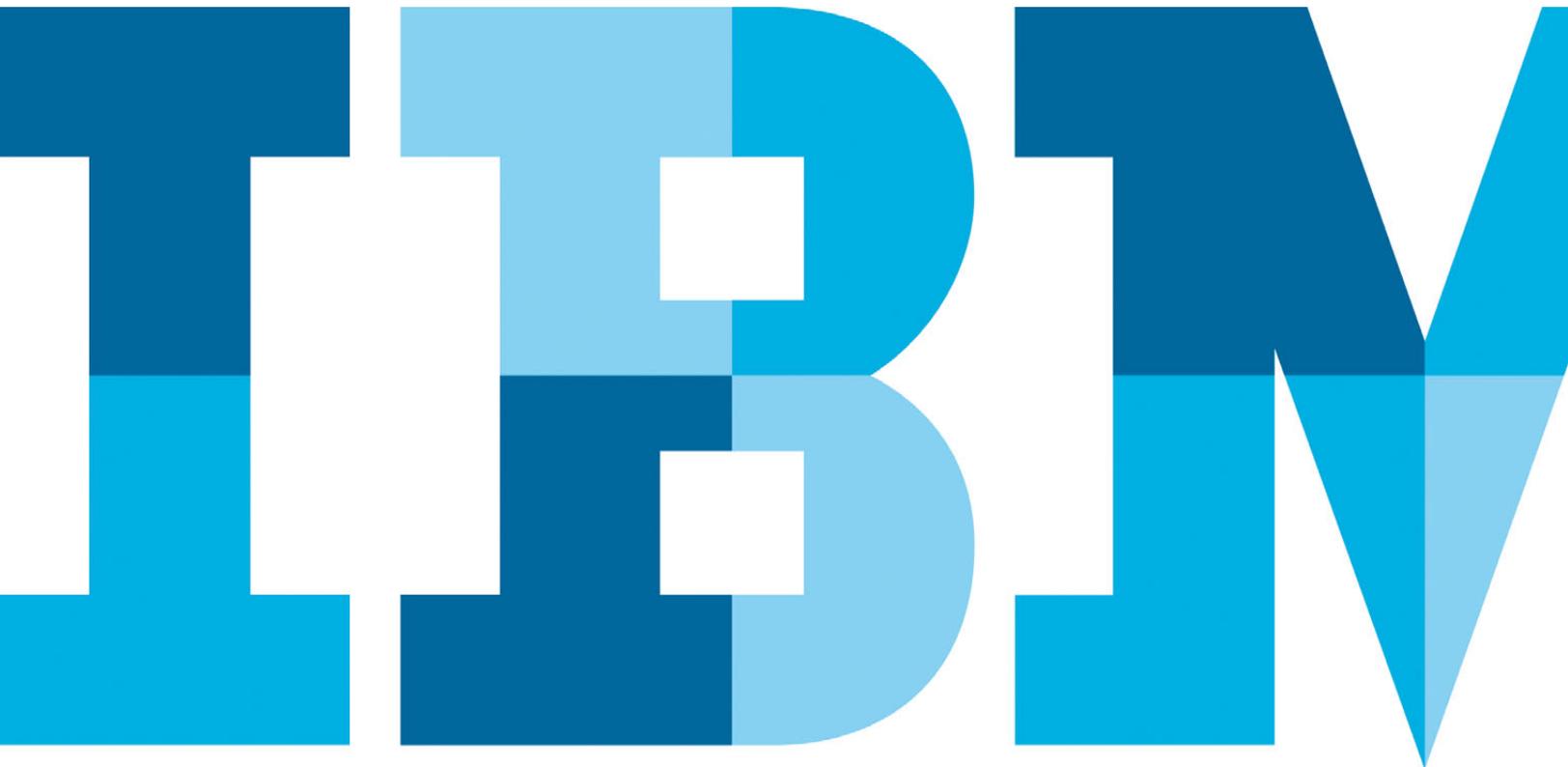


Secrets of human resources outsourcing success

How to keep your retained organization from being left behind



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Introduction

“People power” is one of today’s most vital sources of sustainable competitive advantage.

In today’s global marketplace, “people power” represents perhaps the single most vital source of sustainable competitive advantage for your organization. In order to empower their people, many companies initiate some form of human resources (HR) outsourcing—with the intention of freeing up the remaining in-house HR staff to focus on strategic initiatives that can leverage people power to its fullest. However, too few of these organizations move beyond good intentions to actually create a plan for how the retained HR staff will achieve these objectives and what skills they will need along the way.

A failure to plan the retained HR organization—and plan it early—is one of the most common and avoidable reasons why many HR outsourcing initiatives fall short of expectations. If you want to help ensure that your HR outsourcing initiative steers clear of these pitfalls, start planning your retained HR organization and your outsourcing parameters at the same time. This white paper discusses the benefits of an effective retained HR organization plan and describes the areas it should cover, including organizational strategy, staff capabilities, human capital data, alignment with the business and timing.

Fail to plan and plan to fail

The retained HR organization is the crucial link between the company and its HR outsourcing vendor.

Your retained HR organization represents more than just the HR staff who are “left behind.” To start, your retained HR organization will need to act as your day-to-day link between the company and its outsourcing provider or providers. As such, the organization needs to be planned alongside the outsourcing arrangement and be in place at the formal beginning of the outsourcing to make sure that requests and results move back and forth in a timely and efficient manner and to ensure end-to-end employee and manager service.

Additionally, your retained HR organization will be responsible for delivering many of the tangential benefits of outsourcing that go far beyond costs savings—benefits such as more strategic application of human capital to the achievement of business objectives, an increased talent pool and higher retention rates. These are skills your retained HR staff may not currently possess, and it will take time to train them. The earlier the plan for your retained HR organization is in place, the more time there will be for training and new skills acquisition.

Funding for the retained organization is an important requirement that is often overlooked in the outsourcing selection process. If the funding is not provided up front, it will be far more difficult to obtain. If funding for the retained HR organization is not included in the business case for the overall outsourcing arrangement, return on investment cannot be accurately calculated and executive disappointment is far more likely.

The bottom line: When you neglect to plan for the retained HR organization and the outsourcing arrangement simultaneously, you risk diluting the positive, company-wide effect of that arrangement.

A plan for success

While the retained HR requirements of individual companies may vary, the plan for the retained organization should cover the same basic areas.

Every industry has different human capital needs and issues, and every company has its own culture and way of doing business. Even so, there are five basic areas that should be covered in a thorough and effective retained HR organization plan.

1. Organizational strategy—A statement detailing the retained HR organization’s responsibilities, strategies and communications methods with other parts of the business
2. Staff capabilities—What skills are necessary to achieve the organizational strategy, what are the current skill gaps and how those gaps will be closed
3. Human capital data—What types of data the retained HR organization will need access to in order to achieve its objectives, how and when that data will be delivered
4. Alignment with the business—What adjustments and considerations to the retained organization plan need to be made to reflect the company’s business goals, objectives and corporate culture. Decisions include the amount of manager and employee self service to be utilized and assessment and alignment of the retained organization to the overall business strategy
5. Timing—What needs to happen, in what order, and when

Organizational strategy

Developing an organizational strategy is an essential first step in planning every retained HR organization. In this step, you will define the retained organization's mission, determine the strategic roles that will support this mission, and identify the skills, capabilities and processes needed to support those roles. Using the organizational strategy throughout the further steps of the planning process, you will be able to assign priorities and establish timelines more accurately and effectively.

Staff capabilities

The retained HR organization will need to shift its focus from administration to strategy—and will need to acquire new skills to support this shift.

The primary difference between the retained HR organization and its pre-outsourcing incarnation is the shift from an administrative focus to a strategic focus. Often, the most visible examples of this shift are new job titles. HR generalists become HR business partners and HR specialists become members of one or more HR centers of expertise (CoE). With these new titles come new responsibilities.

As part of the retained HR organization, HR business partners provide the crucial link between human resources and the company's other business units. Usually, each business unit has its

own HR business partner who works with the business unit's leadership to develop and implement new productivity initiatives and roll out corporate initiatives. The HR business partner would provide support to the business unit in areas such as succession planning, performance management and the overall talent agenda. Also on behalf of the business unit, the HR business partner may be called upon to develop a talent capacity plan to support a new product or service launch, or to prepare a long-term labor outlook and action plan.

HR business partners link human resources to the company's business units.

Key capabilities that support the HR business partner's new role include:

- *Analytical skills* that go beyond the traditional examination of transactional volume. In the new retained HR organization, the HR business partner must be able to analyze data in a way that focuses on measuring the creation of business value. The HR business partner must be able to use the available data to develop evidence-based recommendations and business cases and provide cost and change-impact models.
- *Business acumen* that includes an understanding of the needs and mitigating factors driving the industry as a whole, the company and business unit, and its customers and partners.

- *Consulting skills* that allow the HR business partner to serve as advisor to the business unit on human capital issues. These skills include the ability to build dynamic relations with business unit management, the ability to diagnose problems and determine root causes, and the ability to develop recommendations, business cases and action plans.
- *Change leadership skills* that the HR business partner can draw on to help motivate business unit staff to embrace and implement new initiatives—including the ability to structure the supporting recognition and performance measurement systems and maintain effective communication with varied stakeholders.
- *Knowledge-sharing skills* that allow the HR business partner to disseminate best practices and other information within the business unit, as well as among other HR business partners and members of the HR centers of expertise.

For members of the HR CoE, the shift to a more strategic focus for the retained HR organization represents a new opportunity to serve as thought leaders supporting human capital management throughout the company. Along with providing subject matter expertise to the HR business partners, CoE members are generally responsible for designing the necessary human resources programs and processes and monitoring their effectiveness. CoE members are also responsible for identifying and applying best practices from sources both within and outside the company for their process area. In short, the CoE creates and evaluates policy.

HR centers of expertise (CoE) serve as thought leaders, supporting human capital management throughout the company.

Key capabilities for individuals in the HR centers of expertise include:

- *Functional expertise* that encompasses a deep and thorough understanding of the individual's specific focus area and the ability to develop and evaluate HR policy that the outsourcing provider will then execute.
- *The ability to partner with internal stakeholders*, such as HR business partners, shared services, managers and employees in the development and implementation of effective policies.
- *Process design and stewardship skills*, such as the ability to create the consistent, companywide process activities and metrics necessary after a merger or acquisition while identifying and maintaining necessary regional or business-unit-specific variations.
- *Large-scale project management skills*, including the ability to develop detailed action plans and track action against those plans, manage budgets and financial systems and maintain lines of communications with key stakeholders.

The most effective way to identify and prioritize the skills needed by the retained HR organization is to leverage the methods HR already uses for other business units.

Key capabilities of the retained HR organization

HR business partners:

- Analytical skills
- Business acumen
- Consulting skills
- Change leadership skills
- Knowledge-sharing skills

HR center of expertise (CoE) members:

- Functional expertise
- Ability to partner with internal stakeholders
- Process design and stewardship skills
- Large-scale project management skills

Table 1: This table summarizes the skills that HR business partners and the members of the HR retained organization.

Of course, not all of these skills and capabilities will be resident within the HR organization, either before or after outsourcing. So, a crucial part of the planning process for the retained organization is determining which skills are missing and how to supply them.

Retraining—external, internal or a combination of both—will be necessary to some extent for almost all retained HR organizations. The amount of that retraining and the source of the new knowledge will depend on the individual company, its culture and its set of existing HR skills. In addition, retained HR staff will need to be encouraged to acquire, assimilate and use the

new knowledge in their evolving roles. It is also important to recognize that some existing HR staff will not be able or willing to embrace new, more strategic roles—this reality should be recognized and accommodated in the overall talent model for the retained HR organization. A sample framework for this model can be seen in Figure 1.

The most effective way to plan for the skills and capabilities needs of the retained HR organization is similar to how HR plans for the same needs in any other business unit—with an examination of the existing state, a definition of the desired state, a gap analysis and a plan for closing those gaps.

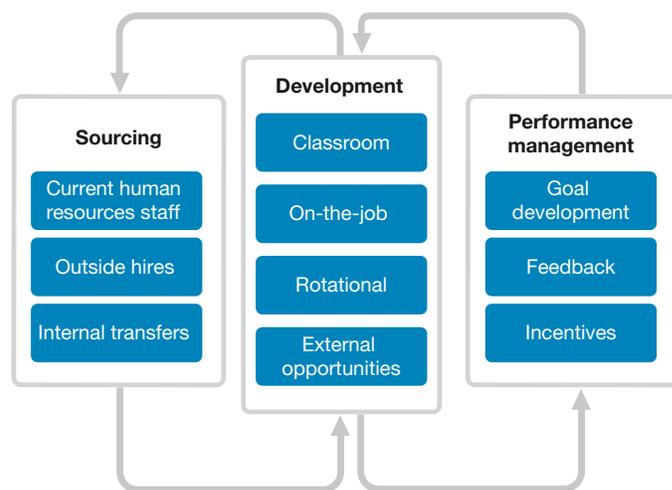


Figure 1: Developing an HR talent model. A sample framework for development of the skills and capabilities needed within an effective retained HR organization.

Human capital data

A robust plan for retained HR includes an examination of accessibility and reliability of the company's human capital data.

With the retained HR organization's new strategic focus, the time when HR can rely on anecdotal evidence and simple transactional data is at an end. In order to provide the required insights to their business units, HR business partners and the CoE members who support them must have access to accurate, timely, reliable and outcome-focused human capital data and information.

In many companies, human capital data is stored in numerous silos to which HR staff has had limited or no access. Therefore, any plan for the retained HR organization must include an examination of the human capital data available, the data needed and the accessibility of that data. Along with the training in new analytical skills discussed in the staff capabilities section of this white paper, it may be necessary to plan and budget for new hardware, software and data management processes.

Alignment with the business

How the retained HR organization aligns itself with the rest of the company—and the company's business goals—is the most individualized part of the retained HR plan.

A highly individualized part of the plan for a retained HR organization is the examination of the retained organization's alignment with the rest of the company and its business goals and objectives. Depending on the needs of management and the employees, the members of the retained HR organization may need to be accessible for day-to-day questions, more hands-on in their relationships with the business units or more consultative in approach.

For example, a pharmaceutical company with a high percentage of highly educated employees may require the retained HR organization to continue to maintain some responsibility and availability for day-to-day benefits-related questions and other employee questions. A retail company—with higher turnover rates, seasonal workers and a larger number of entry-level employees—may need the retained HR organization to focus more on providing direct store manager support for local HR issues, versus an organization with a higher percentage of knowledge workers who have direct access to personal computers and information networks.

While there is a general consensus on what is typically outsourced and retained by the internal HR staff, as outlined in Table 2, there is also some amount of flexibility within this framework to accommodate the needs of the individual company. This will also need to be examined and accounted for during the planning of the retained HR organization.

Who does what?	
Retained HR organization:	HR outsourcing (HRO) provider:
<ul style="list-style-type: none"> • HR strategy • Policy and program design • Policy interpretation • Broad employee communications • Change management ownership • Facilitation with the broader organization 	<ul style="list-style-type: none"> • Contact center • Employee data management • Payroll • Benefits administration • Learning administration • Recruiting • Reporting and analytics • HR IT management • Third-party vendor management

Table 2: This general framework for outsourced versus retained HR organization responsibilities can be aligned to the individual needs of the company as a whole.

Timing

An examination of how much change needs to occur and how quickly that change needs to take place plays an important enabling role in the plan for the retained HR organization.

How much change can the people, processes and company culture handle at one time? How quickly does change need to occur to realize maximum benefits and maintain executive support? Striking a balance between the answers to these two questions forms an important part of a successful plan for the retained HR organization.

It generally helps to break the process for creating and empowering a retained HR organization into two distinct phases. During the first phase—lasting for approximately the first 18 months—the plan for the retained HR organization is created and validated. Priorities are determined based on a combination of company needs and the availability of resources. Finally, the implementation of the plan begins with the execution of “quick wins” that will incent the business units and the retained HR organization to continue making changes and maintain executive interest and support for the transformation.

The second phase is more long-term in outlook—lasting from two to five years, on average. It is during this phase that the more in-depth and far-reaching changes take place, such as HR staff retraining and data management restructuring. How many of these types of changes are made and how long they take to make depends on the company, with the speed of change corresponding to the company’s need for a transformed HR organization.

The retained organization needs to work with the outsourcing provider, too.

While the retained HR organization becomes more strategic, it will still need to perform some administrative and supervisory tasks.

No matter how much of a company's HR function is outsourced or how strategically oriented the retained HR organization becomes, there will still be a need to handle some administrative tasks internally. In addition, there is always a need to oversee the work of the outsourcing provider or providers and employ a liaison between the outsourcer and the company—which may require a set of skills not commonly available within the current internal HR organization. Unless these tasks and skills are included in the initial plan for the retained HR organization, there is the possibility for creating disillusionment and dissatisfaction with the outsourcing arrangement on the part of the business units and company management.

Some of the areas you may want to plan for the retained HR organization to handle include:

- Human capital management strategies
- Project management and vendor liaison
- Compliance matters—including both vendor compliance to contracts and service agreements and in-house organizational compliance
- Oversight of connection points where outsourced processes interface with in-house processes and technology
- Relationship building between the business lines and the outsourcing provider or providers

Overcoming the resistance

Include in the plan ways to overcome resistance to change among the retained HR staff, as well as the business units.

There is resistance surrounding virtually every initiative for change. It makes sense, then, to include tactics for overcoming this resistance in the plan for your retained HR organization.

A significant resistance factor within the HR organization is the recognized need to continue to provide service to the business unit. This is often wrongly translated as a mandate to continue business as usual on the part of individual HR staff—rather than helping employees understand and begin to use the outsourced services—resulting in the repetition of work that is concurrently being performed by the outsourcing provider. The retained HR organization becomes a shadow of the outsourcer, and the company does not realize the anticipated costs savings or strategic gains.

Another source of resistance is the lack of analytical skills among HR personnel. Although it is becoming generally accepted that HR staff need to think analytically, many companies have yet to translate that acceptance into action. When faced with new responsibilities for which they are not prepared, the retained HR staff may understandably resist. As discussed in the staff capabilities section of this white paper, it is important to include pathways for HR employees to acquire the new skills they will need to function optimally in the retained organization.

Perhaps the best way to overcome HR staff resistance is to make that same staff a part of the solution. When the members of the future retained HR organization participate in the defining and shaping of that organization, they are far more likely to participate positively in the changes necessary to implement the organization. As active participants in the planning process, the HR staff will also better understand the consequences of not changing, providing another important motivator in overcoming resistance.

Reaping the rewards

A carefully planned and supported retained HR organization can help a company transform its human capital into a powerful and unique competitive advantage.

When the retained HR organization is planned right from the start—hand-in-hand with the search for an HR outsourcing provider—the number and extent of the benefits can be dramatically increased.

For the company as a whole, retained HR organizations that have been properly planned can provide invaluable strategic guidance on issues such as sourcing talent, allocating resources across competitive initiatives, measuring performance and building key capabilities and skills. As a proactive driver of organizational effectiveness, the retained HR organization can help the company leverage its human capital in ways that provide a dramatic and sustainable competitive advantage.

Furthermore, careful upfront planning of the retained HR organization can have a significant impact on the entire outsourcing initiative's business case.

During the process of determining the correct balance of outsourced versus retained full-time equivalents, important decisions are made regarding what is expected of retained and outsourced HR personnel, and what business managers really need and expect from their HR business partners. As a result, everything from programs and committees to governance structures can be streamlined, with duplicative efforts removed. All of which leads to a markedly increased potential for achieving more robust cost, efficiency and competitive advantages from the outsourcing initiative.

Within the retained HR organization, proper early planning can result in lower costs and risks, jobs that are more satisfying, greater productivity and retention, and an environment where people are able to do their best work.

Finally, planning your retained HR organization, and planning it early, can help you make the most important transformation of all: the transformation of HR from a cost center to a strategic partner.

Help is available

As a provider of both HR outsourcing and retained organization solutions, IBM can provide support through any and all of the phases of your HR transformation. For example, IBM partnered with a large international financial services company to build out a more fully functional service delivery model and supporting technology platform in less than 10 months. IBM received the highest satisfaction score as measured by a client executive engagement survey.

Among our offerings:

- *Change management resources*, providing a structured change management consulting service
- *Governance*, providing examples and proven suggestions for an effective governance structure
- *Case studies and client examples* showing the results of various retained HR organization structures
- *Methods and tools* to assist the HR organization with intra-organization redesign, skills and competencies mapping
- *Access to metrics* that show the right size of a retained HR organization
- *Collaborative and advisory capabilities* of experienced HR professionals working within the IBM business

For more information

To learn more about IBM capabilities that support the retained HR organization, or IBM solutions for HR outsourcing, please contact your IBM marketing representative or IBM Business Partner, or visit the following website:

ibm.com/services/process

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