HUMAN RESOURCES TRANSFORMATION: IS IT DRIVING BUSINESS PERFORMANCE?

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Executive Summary

Our research shows that aggressive global expansion and changing workforce characteristics have elevated the importance of recruiting, talent management, and performance management. While some human resources executives have transformed their administrative-focused organizations and regionalized departments to improve their strategic value to their operational and functional counterparts, many organizations fall short of true "transformation." While these organizations focus on efficiency, their business counterparts' strategic talent management issues go unresolved—with significant opportunity cost to market growth and other corporate initiatives. Following a transformation, does your human resources team focus more on the business than administration?

This paper leverages extensive quantitative research into global trends as well as interviews with senior human resources and business leaders that:

» **Uncover the global trends that have advanced the strategic role of human resources.** We share research from interviews and data collected from over 400 human resources practitioners and over 350 global business executives identifying why human resources executives are being asked to transform their organizations.

» **Expose so-called human resources "transformations" for what they really are.** Based on a series of interviews with human resources executives who have successfully transformed their organizations, we explain why so many organizations fail to transform because they focus on administrative process improvements, resources put in charge of day-to-day process management lack the skills and accountability to execute on the vision, and human resources leadership lack some of the competencies necessary to deliver value to the business.

» **Identify how human resources executives successfully transform their organizations to support business leaders.** We identify the major shift a human resources organization undergoes when it truly transforms its capabilities. We share how leaders from these organizations break through where others have failed and include a **case study** from a large global organization that did it successfully.

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Unprecedented Global Business Dynamics Put HR in the Hot Seat

Behind the product design and technological innovations that catapult organizations into well-respected industry leaders are managements' investments in the assets that create tomorrow: people. People are the force behind Google's rapid growth from search engine leader to software and service giant, with products like AdWords, Android, Gmail, and Chrome. Apple's award-winning design genius is overshadowed by its supply chain management discipline, which enables the company to produce discretely and ship millions of newly-launched products to thirty-five countries within days of their announcement. Today, talent truly differentiates firms and our research shows that firms are pressured by the combination of shifting global economics and changing talent requirements.

The Workforce Environment Is Changing

As companies embrace globalization, technology, and competitive pressures (see "Seven Global Trends" later in this report), local labor markets are rapidly evolving and changing—and the skill shortages are pushing human resources into the frontlines of acquiring, developing, and retaining talent. HfS Research surveyed 436 human resources executives to understand the factors affecting companies' workforces (see Exhibit 1), and findings confirmed that worker collaboration and new technologies skills were ranked as the most important factors (both 58 percent), followed by skill and talent shortages (56 percent).

Exhibit 1: Factors Affecting the Global Workforce

To what extent are the following future of work "drivers" important to your company?
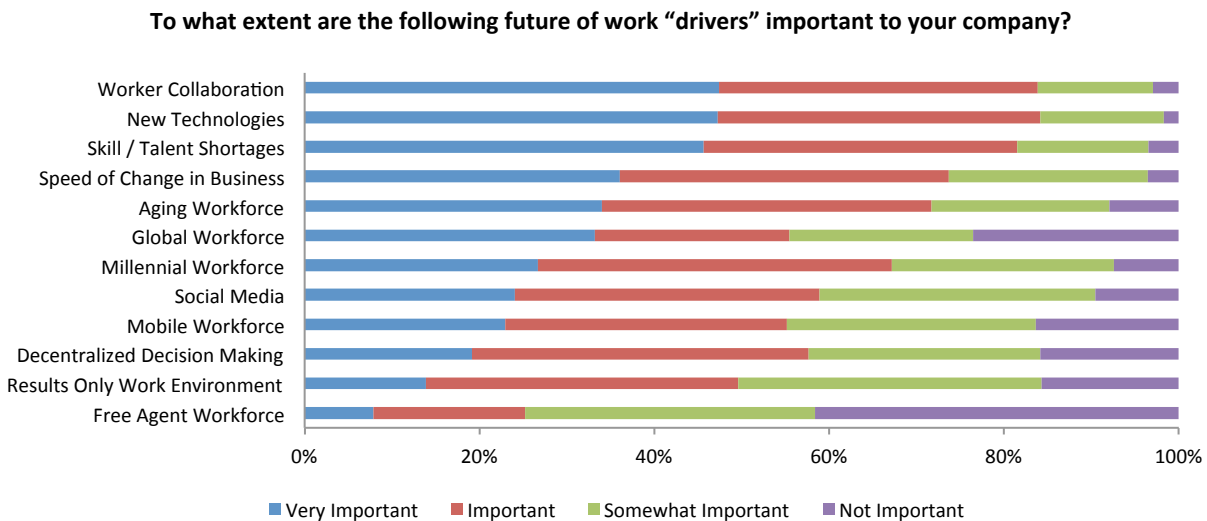
Source: HfS Research 2011, N = 436 Human Resources and Business Executives

There are several implications:

Global business dynamics have stretched the availability of talent, particularly in developing countries. As talent markets tighten, costs have increased and limited availability has impacted the effectiveness of corporate strategies. In PwC's 15th Annual Global CEO Survey, 43 percent of respondents felt talent costs had accelerated faster than anticipated (see Exhibit 2). More importantly, the survey also found that 31 percent acknowledged their rate of innovation was impacted, and 29 percent felt they could not pursue market strategies.

Exhibit 2: Talent Constraints Impair Growth and Productivity

Our talent-related expenses rose more than expected

We weren't able to innovate effectively

We were unable to pursue a market opportunity

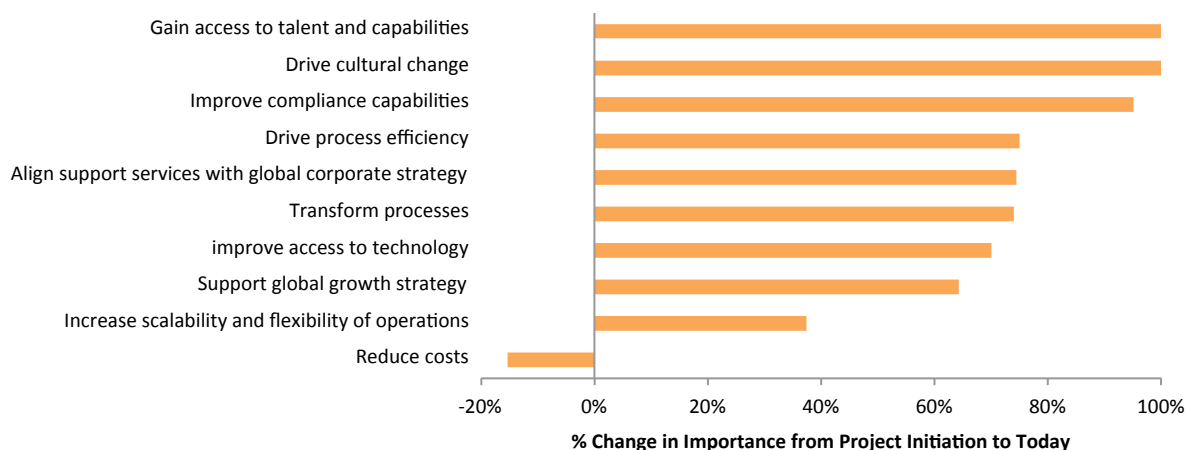We couldn't achieve growth forecasts in the country where we are based

We couldn't achieve growth forecasts in overseas markets

We cancelled or delayed a key strategic initiative

Our production and/or service delivery quality standards fell

0%   15%   30%   45%

Source: PwC 15th Annual Global CEO Survey 2012,; N = 1,258

Clearly, global economics have caused business strategies to increase their reliance on talent. In a study we conducted surveying 362 business leaders on shifting business priorities affecting operations, gaining access to talent and capabilities and driving cultural change nearly doubled in importance, reducing costs (-15%) decreased in total importance.

Exhibit 3: Change in Business Objectives' Importance from Project Initiation to Today

How important were the following business objectives behind your company's operating strategy?
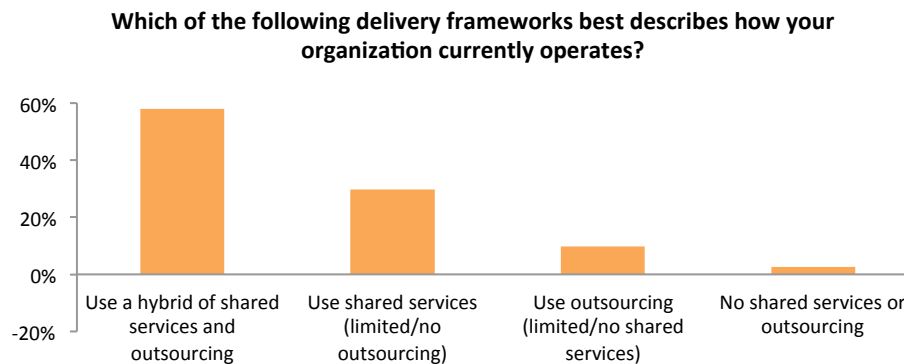
Gain access to talent and capabilities

Drive cultural change

Improve compliance capabilities

Drive process efficiency

Align support services with global corporate strategy

Transform processes

improve access to technology

Support global growth strategy

Increase scalability and flexibility of operations

Reduce costs

-20%   0%   20%   40%   60%   80%   100%

% Change in Importance from Project Initiation to Today

Source: HfS Research 2012 and PwC, N = 188 enterprises with over $3 billion in revenue

Business strategies are increasingly forcing employees to collaborate across customer segments, regions, and processes, which requires changes to organization design, performance management, and culture. Organizations have been forced to adopt global business process ownership models, learn to rely on outsourcing vendors, and develop or enhance shared service strategies. As shown in Exhibit 4, 58 percent of firms use a hybrid of shared services and outsourcing models. Behind these business strategies, cultures must be prepared for new organizational realities. New organization designs are required, and executive leadership must be cultivated to manage more responsibility that is spread globally. Along with new organizational designs, business leaders need to update performance management processes to reflect new goals.
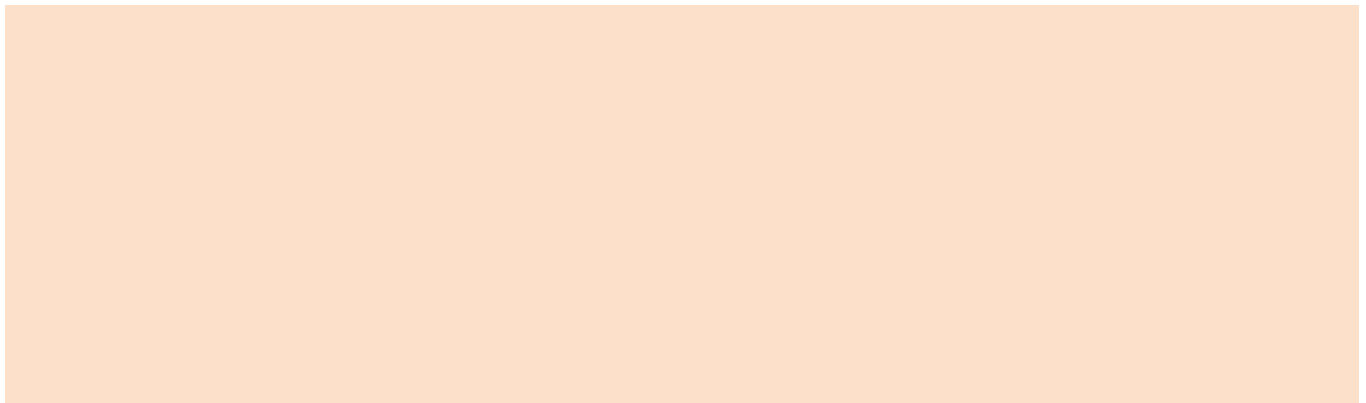
As one human resources executive from a global chemicals company explained, "The pace of organizational change is so great, executives are struggling to keep their leadership focused. But the real challenge is developing and maintaining a leadership pipeline while the world around us changes every three months."

Exhibit 4: Organizational Operations Models

Which of the following delivery frameworks best describes how your organization currently operates?

*Source: HfS Research, 2012, N = 362 Enterprises*

Technology impacts every employee. Technology no longer remains the domain of the operations employee tasked with performing administrative work. Today, IT provides rich analytics necessary to forecast financial performance, analyze customer and supplier dynamics, monitor workforce behavior, and track product performance. More importantly, complex transaction management requires sophisticated use of tools to analyze problems, preferences, and historical patterns. Whether an employee is adjudicating a claim, managing product development, or collecting overpaid funds, he or she must have the technology skills to perform the necessary research and take action. One human resources executive explained his dilemma this way, "When we replaced our global shipping logistics system, our supply chain ground to a halt. We had spent months training users on the system—they knew how to use the application in the classroom, but the business process was so different, our users didn't know how to use it in the real world."

Human Resources Executives Can Be Substantive Leaders in Times of Change

The good news is, despite the lack of investment in the function, human resources executives are still viewed as the leader in areas that matter. As shown in Exhibit 5, the human resource executive is viewed as a critical leader and advisor to business stakeholders. Most importantly, nearly 62 percent of respondents felt that human resources departments need to serve a leadership role in managing skill and talent shortages. This is a vital role in the context of changing business strategies. HR leaders need to embrace this role change.

Exhibit 5: Where Human Resources Is Expected to Lead

In your organization, what role does the HR function play in shaping how a company responds to the future of work drivers?

Legend: ■ Leadership Role ■ Advisor Role ■ Execution-only Role ■ Informed Only
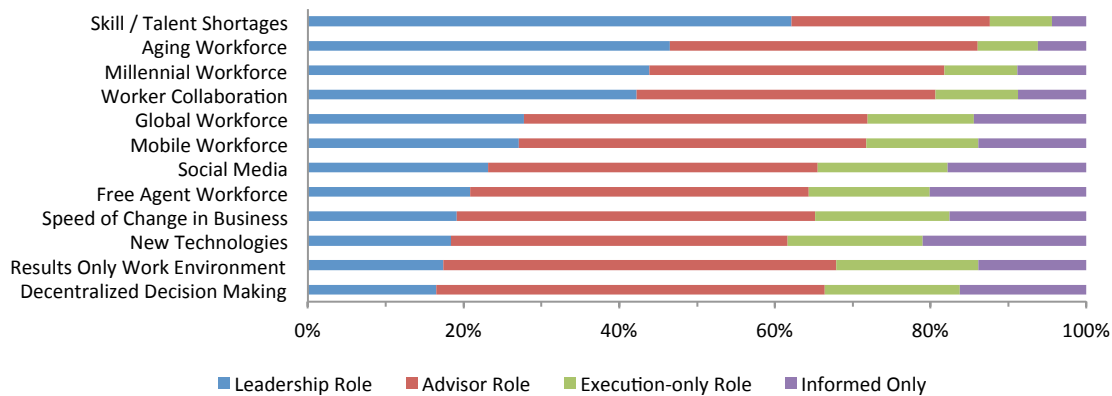
Source: HfS Research, 2011; N = 436 Human Resources and Business Executives

Seven Global Business Trends Driving the Need for Human Resources to Transform

1. **Global expansion of Western companies into countries with developing economies.** Slowing economies in the United States and Europe have driven growth-seeking companies to tap into rapidly developing economies in China, India, and Latin America.

2. **Expansion of leading regional companies from Asia and Latin America into Western countries.** Once considered only regional forces, Asian and Latin American conglomerates have expanded to North American and European countries in search of new customers. These organizations' low-cost operations create opportunistic growth opportunities in Western countries, where potential customers affected by slowing economies seek less expensive products.

3. **Economic hardships of the last decade have left little fat within organizations.** Recessions of the last decade and weaker economies have forced business leaders to make major staff reductions. Today's leaner companies require skills to transform business operations through process reengineering and leveraging existing capabilities across more markets.

4. **Companies operate under increasingly complex regulatory environments.** Financial, environmental, consumer rights, and privacy standards have advanced in both Western and Eastern economies. Employees must be knowledgeable of local market requirements while remaining vigilant against building inefficiencies into local processes.

5. **The pace of business has accelerated.** Organizations must rapidly launch multiple products into many countries at one time to drive revenue objectives. They must react quickly to competitive products and marketing and maintain close relationships with their customers, whose business environments are also changing quickly—all of which encourages companies to invest in talent strategies.

6. **Organizations are realigning work within their teams to create nimbler standardized global business processes.** Management needs better, more consistent information. Customers and supply chain processes demand simpler, but standard global processes. As a result, many organizations are creating global business process ownership models that drive consistent processes and improve allocation of capital.

7. **Simple work has been automated or outsourced—the remaining work is complex.** The need for talent is primarily driven by the sheer complexity of work that employees must now handle. Massive investments in ERP, MRP, and CRM systems over the last decade have left employees with the remaining complex work. Employees now need to design and manage self-service portals and inventory management systems.

Source: HfS Research and PwC 15th Annual Global CEO Survey 2012

Human Resources "Transformations" Thrust into the Corporate Spotlight

Human resources executives have been caught up in the whirlwind of change. They've been asked to centralize, globalize, cut costs and staff, and embrace new technology just like their business counterparts. And some have overvalued their changes by branding them as "HR transformation." Yet, when they've done little more than update technology or shift services to a shared services center, are they really transformed? We found six particular challenges that prevented organizations from succeeding:

» Preference for well-known process efficiency tactics over developing new strategic capabilities.

» Ineffective strategies for handling global requirements.

» Unfamiliarity with the need to predict and adapt to changing business trends.

» Business partners who were slow to leverage human resources in new ways.

» The lack of a burning platform to drive change.

» Human resources teams that didn't upgrade their own talent to deliver new capabilities.

Operational Efficiency Objectives Fall Short When It Comes to Transformation

Most "transformations" are exercises in technology implementation, outsourcing, or process efficiency. Leaders become so transfixed on ridding their organizations of inefficiency and waste, they neglect to transform. Human resources executives focus on putting out fires, targeting one after another. Armed with benchmark process and cost data and the well-intentioned panacea of folding all systems into a single system of record, the team marches down the road toward administrative efficiency. It's a comfortable, even easy, target: process redesign and technology can fix all your ills.

The problem with creating a leaner, more efficient human resources organization is that today's business leadership needs something different. Surely, everyone needs to be cost effective and serve their internal customers efficiently, but the changing global business market requires human resources to deliver a different array of services, not the same services for less. A human resources executive who had led one of the largest global human resources transformations described what happened when he initially followed this path, "Every day I was bothered by the lack of innovation. We were doing what everyone else was. Outsourcing wasn't innovative. We moved puzzle pieces. We spent millions on technology and training our teams. Absolutely none of that was innovative."

By focusing on administrative goals, human resources leaders overlook the need to develop *different* services, such as maximizing business time spent on workforce productivity, identifying how business performance is impacted by workforce metrics, understanding the root cause behind first-year and high-performer attrition, and coordinating succession planning and management development activities. Building the capabilities to deliver these services requires a
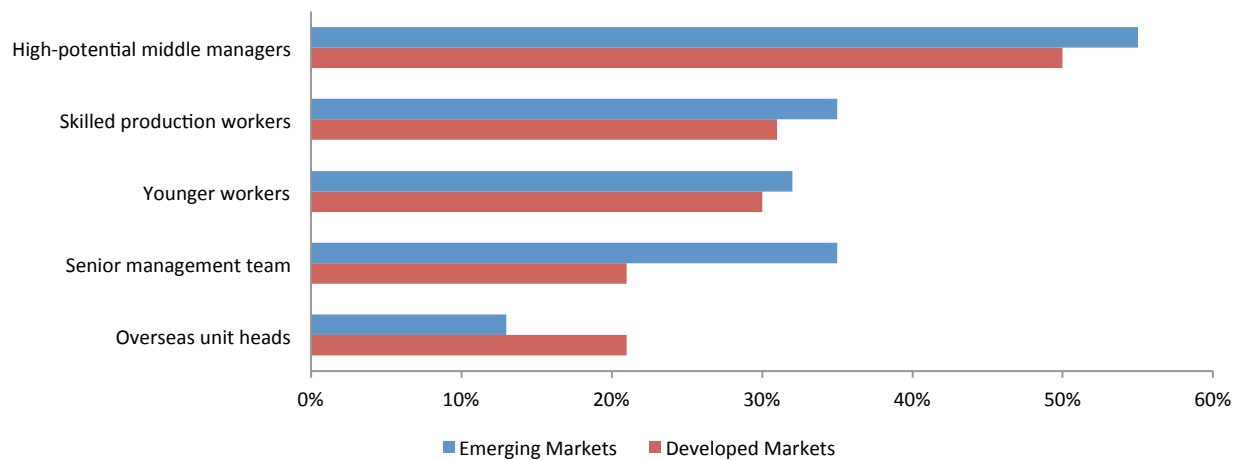
true transformation.

What Is a Human Resources Transformation?

An organization that undergoes a human resources transformation redefines how its human resources team collaborates with the business to execute business strategy. Through the transformation, an administratively focused human resources organization assumes accountability to achieve business objectives, instead of human resources objectives. Human resources transformations:

» **Expose the human resources organization to the true business of a company.** Human resources team members must understand the true nature of their business's competitive environment and the company's executive strategies to achieve success. This understanding isn't simply a responsibility of human resources leadership. For processes to deliver their true value, every member of the team has to be ingrained into the business.

» **Assign accountability to the human resources organization to achieve business goals.** Transformations aren't about getting to know your neighbor—they're about taking an active role in execution of business strategy. Since execution rarely happens in silos, accountability forces both the business and human resources to collaborate.

» **Redefine the metrics of success.** It's time to push your ratios of human resources staff-to-employees metrics away! Metrics like these are cost-efficiency measures that rarely provide business benefit. The right metrics focus on business challenges, such as incentive compensation differentials between high and low performers, succession plan readiness, and distribution of performance management ratings. Your metrics have to change to meet your transformation aspirations.

» **Reconfigure human resources process and technology to contribute to strategy.** Whereas most human resources organizations are designed to deliver cost-effective service, transformed human resources organizations adapt practices that deliver business through their processes. Since the value lever is different, the processes are often different. For example, performance management processes must change from an annual documentation process to a process that progressively develops talent, quantifies skills, and identifies high performance. With that change, analytics and technology-enabled performance management tools become essential.

Global Solutions Still Require Local Strategy to Be Effective

Many transformations run into roadblocks or limit their effectiveness when they fail to consider market requirements. Take for example the finding in PwC's 15th Annual Global CEO Survey that sourcing and retaining talent in emerging markets is consistently a challenge (see Exhibit 6). Recruiting in developing markets often requires different strategies. Organizations that approach every market with a one-size-fits-all sourcing approach often improve performance, but clearly leave value on the table by not leveraging effective local strategies. Transformations that approach all processes with this mindset severely limit their value proposition. Of equal importance, this mindset also disenfranchises local leadership, thereby sustaining human resources' image as a corporate bureaucracy that doesn't understand the business.

Exhibit 6: Sourcing Emerging Markets Talent Remains a Major Concern

Flexibility Is Key: Achieving Transformation Is Like Changing the Wheels of a Car While Driving

A consistent theme in our interviews was just how frequently the business changes and how those changes stall transformations. Frequent leadership changes accompanied by reorganizations play a major factor, but changes in the actual business environment as a result of new product introductions, new regulations, or competitive pressure compel organizations to shift their objectives, too. While Eastern Europe may have been an ideal market expansion opportunity in one year, souring Western economies created opportunities for some organizations to opportunistically shift gears and address a more profitable market. One senior human resources leader for a large US federal agency said, "Overnight, our mission changed from chasing criminals to tracking terrorists. Human resources needed to change to support the business, but early on we lacked the ability to adapt." Too often, human resources organizations lack the flexibility to adapt to evolving market conditions. While well-developed human resources teams predict changes and adapt with them, most teams are blindsided by change. High frequencies of change can eventually fatigue organizations and stall their transformation, which is an issue for both human resources and business leaders alike.

Listen to the Business Managers: It Still Takes Two to Tango

Transformation cannot be forced onto managers; it has to be a collaborative and rewarding process for both sides. Many transformations are stalled by business leaders who aren't vested in the changes human resources is making, but in a human resources transformation, the business also needs to change its ways. For years, business leaders have experienced only the most tactical of human resources capabilities and have learned to use them solely in this way. Need to hire someone after they leave? Call your human resources representative. With the exception of compliance-related training, business executives and line managers have grown accustomed to expect little from their human resources representative except to offer helpful advice at critical moments. One senior human resources executive described the meetings he attended to communicate how the business needed to interact with his team differently. "Those workshops were really hard. Line managers couldn't wait to get out of the room. They just wanted us to keep our costs down and say 'yes' to the things they wanted to do."

HR executives need to spend more one-on-one time with their business managers to understand their real talent issues and spend a lot of time listening before pressing home transformation initiatives. Transformation can only be effective once HR and the business function leader are all bought into the objectives and outcomes.

Practice What You Preach: Ensure Your Own Human Resources Talent Is Leading Edge

Upgrading talent is a critical and ongoing endeavor of any leading organization, and human resources is no different. However, many transformations stall because the teams are too heavily skilled in tactical execution and lack the analytical consulting skills necessary to serve as strategic contributors. Our research shows that human resources executives are unsatisfied with their ability to manage key workforce drivers. As shown in Exhibit 7, less than 9 percent of respondents felt very satisfied with their ability to manage key drivers, like workforce globalization, the speed of business change, and skill and talent shortages. Worse yet, less than 42 percent even felt satisfied with their ability to manage these critical issues.

Exhibit 7: Human Resources Satisfaction with Its Ability to Manage Key Drivers

How satisfied are you with your (or your function's) ability to manage the following future of work "drivers" in a way that supports your company's objectives?
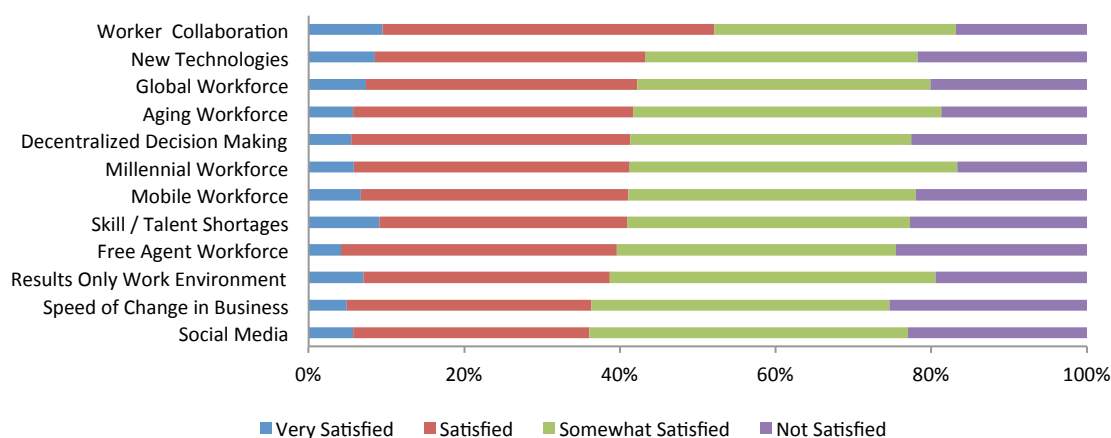
Source: HfS Research, 2011; N = 436 Human Resources and Business Executives

Several of the organizations we spoke to cited challenges in hiring experienced human resources professionals with strategic skills, especially in certain areas of the world where human resources was truly a back office function. "It doesn't work to put HR managers in the front line," explained one senior human resources leader. "The sad reality is that people are going to lose their jobs because they are not well equipped to do the new jobs. We had new roles and responsibilities. There are a high number of failures."

Along with a shift in strategy comes a fundamental shift in roles and responsibilities of a far more strategic nature. This requires a major change in personnel that far too few organizations undertake. Said one senior leader, "I now hire two types of people: statistical analysts and industrial psychologists. I don't want people who can talk about FMLA. I need people who can talk through the numbers and the people motivators to help them manage changes."

Make Transformation "Real": Tie It to Commonly Understood Business Objectives

Transformation isn't about fixing one-off problems, but that's exactly the rut in which many human resources teams find themselves. Inevitably, it leads to a hodgepodge of reorganizations and system upgrades that don't truly matter to the business. Without a direct tie to corporate strategy, human resources teams quickly fade into irrelevance. An executive vice president of human resources described his organization before he was hired to transform their team as a "merry band of do-gooders" that each year created a new "top 10 list of things to fix without a common thread in the entire thing."

Human resources teams need a common strategy, a call to arms, to undertake a completely new role in an organization. It helps internal stakeholders collaborate and prioritize, and communicates the changing role of human resources to external stakeholders—along with their new engagement models. Human resources transformations need to directly support the organizations big picture objectives. A senior leader told us, "We tried this first in the Arctic, but, without a business challenge, no one took it seriously. HR in itself cannot walk in and change without the business needing a change." If human resources isn't a ready contributor to the issues the business faces, its "transformation" isn't meaningful.

When Transformations Are Truly "Transformational"

Even though most organizations experience more than one of the pitfalls we've described, some organizations successfully transform their human resources team into a business-focused organization that hardly resembles a traditional human resources team.

The Difference a Successful Transformation Makes

Organizations that successfully undergo a transformation are *substantially* different than those that try and fail or those that never attempt one. As shown in Exhibit 8, there are a number of areas that differentiate business-focused human resources organizations.

Exhibit 8: Human Resources Organizations Before and After

| Administratively Focused Human Resources Organizations	Dimension	Business-Focused Human Resources Organizations
At process touch points or for exceptions	Business Engagement	Actively involved in addressing business issues and organizational development opportunities
Managing cost and efficiency of human resources team, along with executive leadership's special projects	Strategy	Developing talent management and human capital management strategies that drive business success
Focused on compliance, process efficiency, and human resources requirements	Talent	Analytic, insightful, and relationship focused; strong knowledge of business
Focused on managing multiple systems and processes to human resources timelines	Operations	Focused on benchmark efficiency, but with a careful focus on operations with strategic value

Source: HfS Research and PwC, 2012

When it comes to business engagement, business-focused human resources organizations develop the corporate agenda almost as much as they actively execute against it. They engage with the business as a collective team instead of engaging transactional points of contact. While major growth strategies are developed by business leaders, the talent management strategy to support these objectives are equally important, while they continue to focus on cost effective operational excellence. Talent within the team may ultimately differentiate a business-focused team. While blocking and tackling remains important, engaging strategically requires advanced analytic skills, a solid understanding of the business, and superior organizational development capabilities. This high-performing team leverages their expertise to engage with the business, but also to create strategic value from tactical processes.

Eight Common Traits of Organizations That Successfully Undergo Transformation

All is not lost on the road to transformation. Despite the differences companies have, such as industries, regions, and leadership, those that successfully transform exhibit eight common traits shown in Exhibit 9:

Exhibit 9: Eight Common Traits of Transformed Organizations
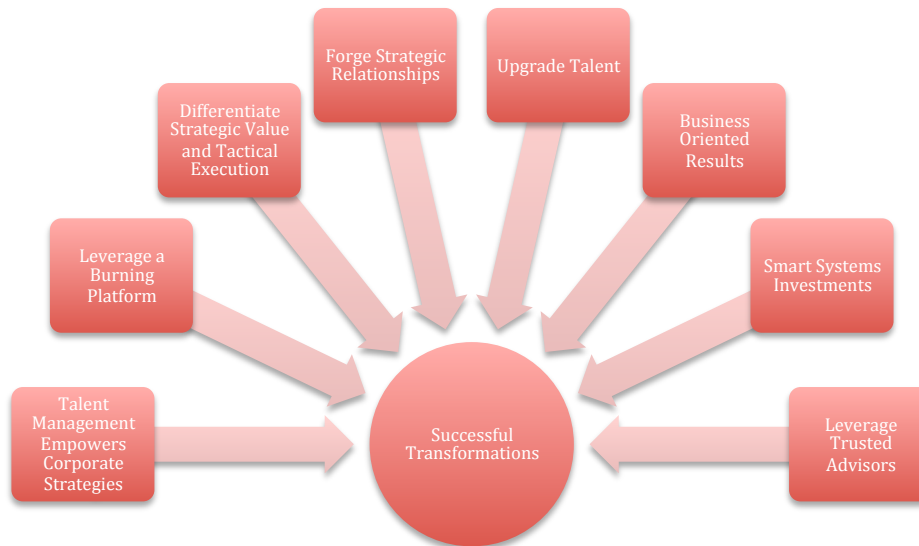
Source: HfS Research and PwC, 2012

Employ Talent Management Strategies to Empower Corporate Strategies

One of the defining characteristics of a transformed human resources organization is how closely talent management strategies align with corporate strategies. The role of human resources isn't simply to account for costs of resources, but to help business leaders build business plans to justify their investment. With organizations now focused on global business process ownership and entering new geographic markets, human resources must arm its business leadership with the labor market essentials. The right information can position a company in geographic locations where they can improve their odds of success. In addition, as business leaders change their business strategies and deploy new products and services, human resources leaders must help business leaders with adjustments in their approach to talent management. Possibly most importantly, transformed human resources teams proactively help business leaders manage the value proposition of human capital by differentiating between critical and non-critical roles, and developing strategies to improve management bench strength. As one global trading company executive said, "Our objective to expand to new markets puts pressure on our management team's bench strength. Our Asian general managers don't have the knowledge of Latin American markets, so we need to aggressively source experienced managers."

Picking the Right Time to Transform

Successful organizations typically undergo human resources transformations projects during times of significant organizational, economic, or functional change such as:

» **Business restructure, reorganization, or adoption of global and centralized business models** – Where the HR organization needs to make changes to align with a new business model or strategy and support the wider business change.

» **Change in the HR technology and sourcing agenda** – Where HR technology needs upgrading, optimizing, or wholesale change in outdated or underperforming software (e.g., ERP, global human resources system, or shift by IT to outsourced technology provider).

» **Regulatory change and compliance** – Where there is a need to make changes to culture, behavior, and the underlying human resources processes, technology and data, policies, and capabilities.

» **Corporate cost reduction** – Where the cost base of HR needs to be reduced; this can be headcount driven and include third party spending (e.g., training or recruitment).

» **Pre/post merger** – Where HR needs to transform HR process, technology, policy, data, and structure to better align with an acquired or to-be-acquired business.

As these triggering events occur, business leaders need the support of a strategic human resources capability. Human resources executives who have successfully transformed their teams leveraged these opportunities to create a change platform that positions their organizations differently.
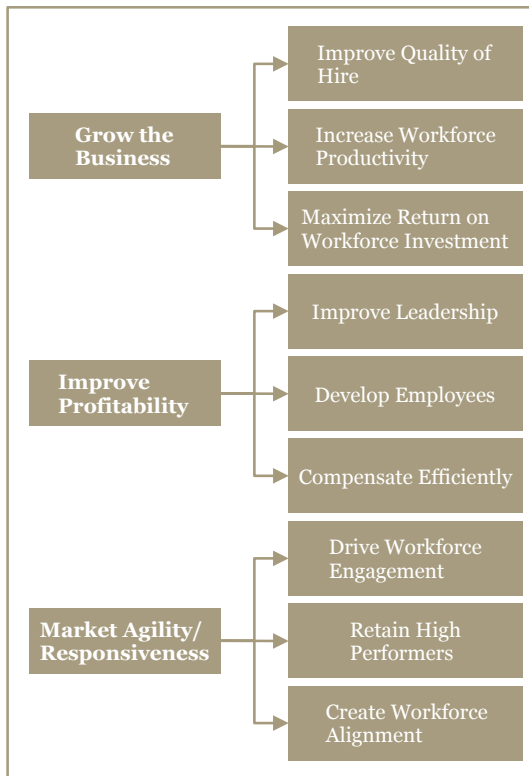
Know the Difference Between Strategic Value and Tactical Execution

Typical human resources organizations drown their best talent in a rising tide of open job requisitions, beneficiary updates, and annual performance management processes. This leaves them with little time to actually perform strategic work. One of the best practices of transformed organizations is to offload tactical work into shared services centers managed internally or by outsourcers. Management of these centers is solely focused on efficient, cost-effective service delivery. Freed from tactical burdens, strategic relationship managers can now focus on getting to know the business and the leadership better. One senior executive explained, "We were receiving hundreds of thousands of job applications each year and processing payroll ourselves all over the world. Our people didn't have the time to get strategic, so we outsourced both and this freed our time to develop specialized talent sourcing strategies and insight into compensation strategies." As shown in Exhibit 10, adopting a shared services or outsourcing strategy for tactical processes remains an important option for many organizations.

Exhibit 10: Adoption of Human Resources Shared Services or Outsourcing Strategies by Process
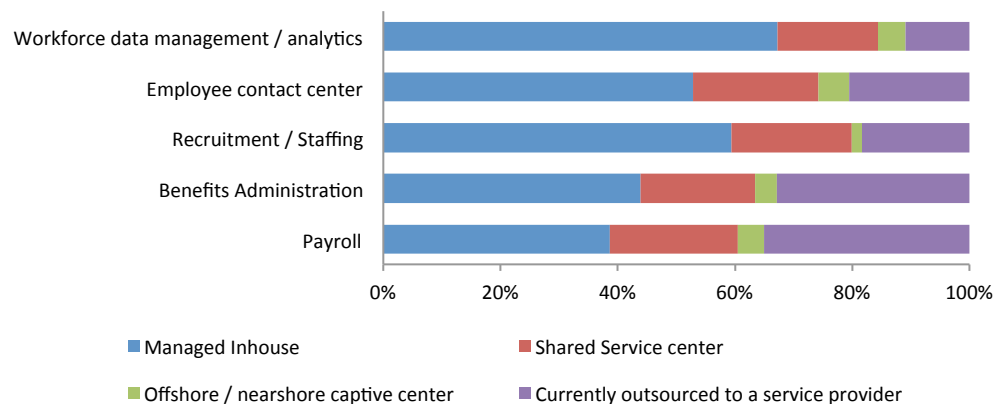
Source: HfS Research and the London School of Economics Outsourcing Unit, 2011, N = 347 Buyers of Outsourcing Services

Exhibit 11: Business-Oriented Metrics

Grow the Business	→	Improve Quality of Hire
	→	Increase Workforce Productivity
	→	Maximize Return on Workforce Investment
Improve Profitability	→	Improve Leadership
	→	Develop Employees
	→	Compensate Efficiently
Market Agility/ Responsiveness	→	Drive Workforce Engagement
	→	Retain High Performers
	→	Create Workforce Alignment

Source: Source: PwC, 2012

Forge Strategic Relationships with Business Leaders

One of the hallmarks of successful transformation is the open-armed acceptance of human resources within leadership teams. Whereas human resources is irregularly invited to present an "update" in typical organizations, strategic human resources capabilities is an important part of senior leadership agendas. A former executive vice president of human resources said, "As we developed the capability to strategically engage with leaders on organizational development issues, they couldn't get enough of us." In particular, organizations have found success by developing the human resources partner better because the role requires greater analytic, relationship, and business understanding than other human resources roles.

Upgrade Human Resources' Talent to Perform New Roles

One of the hardest, but most critical changes reported by executives with whom we spoke was the upgrading of internal talent. Across the board, executives recognized that many lifelong human resources practitioners lacked the talent to develop complex organizational development and talent management strategies. Many process-oriented resources also lacked the ability to forge deeper relationships with senior executives. In order to succeed, all organizations need to develop and upgrade existing talent. Talent needs to have more analytical skills, the ability to develop talent management and human capital strategies to business objectives, and the ability to coach managers through important organization changes.

Deploy Metrics That Drive Business Results Instead of Human Resources Results

As the adage goes, "You get what you measure," and transformed human resources organizations track remarkably different metrics than typical human resources organizations. In part, this is due to the development of new processes. A senior executive said, "We created processes that helped them focus on outcomes. Succession planning, competency assessment, and high potential lists. We added metrics that focused the business on these outcomes." The strongest metrics focus on value levers that drive business outcomes, as shown in Exhibit 11.

Don't Prioritize Process and Systems Standardization over Business Alignment

Many organizations lose the plot when it comes to process and system strategy and blow through millions of dollars in capital to create standard processes or deploy applications that support every regional need. Global irregularity in regulation, language, and workforce capabilities make this an expensive investment. As one senior executive said, "Pan euro payroll didn't work. Global recruiting didn't work. Our largest competitor spent €750M to implement SAP on one instance with countless templates. I'm not sure that was a good value." That isn't to say that transformations do not standardize and right-size their technology footprint. Most organizations value eliminating unnecessary redundancy or deploying the full capability of existing applications. These efforts can save money and improve organizational flexibility. However, the important investments should be more strategic because they drive outcomes that align with the business.

Leverage Trusted Advisors to Bring Focus to Discipline and Change Management Processes

It may seem like a self-aggrandizing finding, but successful executives with whom we spoke universally said that they couldn't have managed a human resources transformation without a consulting partner. They valued the large project management and transformation discipline consultants brought. They also valued the advice and counsel experienced consultants contributed. "They did thinking I didn't have time to do," said one senior human resources leader. "They're there working every day and thinking about it even when I couldn't. They kept the program moving forward."

Case Study: Global Human Resources Transformation Dramatically Improves HR Delivery and Cost

— **Issue** —

A large global company set out to transform its human resources (HR) function. The transformation goals included ensuring a consistent delivery of HR strategic services globally and significant improvements to HR delivery costs. The company believed that varying HR processes and policies across geographies were creating inconsistent service and redundant expense. In order to achieve the reductions in cost and ensure a consistent high level of HR strategic services, the company adopted a hybrid HR outsourcing model and best-in-class HR technology.

— **Action** —

The company began by designing the retained service delivery model to align HR with the businesses it supported. Additionally, the team was asked to identify the most critical future state process redesign opportunities that would drive consistent and efficient services while aligning the services to the needs of the business. Team members documented the business context and HR's strategic vision. This information formed the future state design principles. The team also conducted a detailed review of the activities that were in scope and out of scope for a potential outsource provider. Lastly, the team utilized benchmarks to fully inform the delivery model. The outcome was a leading practice macro HR service delivery model that included outsourced administrative activities, strategic centers of excellence, and a retained shared services function. The model operationalized the company's cost improvement and service delivery objectives.

The company next developed its retained organization transition plan. The plan had to align the retained organization transition timing and activities with a simultaneous technology implementation and transition of administrative activities to an outsourced provider. This level of concurrent transformation required integrated planning across teams. It also reinforced the need for a comprehensive and effective change management plan. The company leveraged its consultants' global implementation experience and leading practice transition methodology to develop an integrated transition plan.

— **Impact** —

The transformation project is expected to achieve up to 30 percent cost savings from the current state. Additionally, the transformation of the HR organization, and not just the administrative tasks, allowed HR to deliver a consistent high quality of HR strategic value and impact across the global organization. This transformation enabled HR to deliver services to the business's strategic needs and align itself to the outcomes of the business.

The Bottom Line: Leaders Must Cultivate the Talent within Human Resources to Make Transformation Possible

In the face of global industry changes that escalate worldwide talent management demands, human resources leaders have a mandate for transformation. Our research shows that the easy work is incorporating vision, developing a scope, building a project plan, and obtaining management permission to execute a transformation. The hard work is persevering through the changes in people and culture that must occur along the bumpy road toward building strategic, business-oriented capability. Leaders must cultivate the talent within human resources to make this possible and build business

knowledge within their teams. Those who take this road find that they are transformed. Those that don't will often stall or fall short of their objectives.

To many, it may seem ironic that talent management and organizational development within a human resources team is the limiting factor behind its own success. After all, if human resources cannot turn its capability inwardly to help itself first, how can it expect to have the capability to help others succeed? Yet, this is the crux of a human resources transformation—the ability of human resources leaders to help executives link business strategy to human capital strategies, such as talent management, organizational design, and performance management, requires a transformation in its own human capital strategies. Based on these capabilities, executives will open their doors and human resources executives will leverage their newly developed capabilities to earn the right to have a seat at the table.

About the Authors

Tony Filippone, Executive Vice President, Research

Tony Filippone is Executive Vice President, Research, at HfS Research. He oversees the quality of HfS' overall research agenda and published research and works with the HfS analyst teams to ensure HfS' content is relevant for the firm's buy-side clients' sourcing strategies.

His prime research focus is delivering practical advice and imparting real-world vendor management experience to buy-side clients and service providers on what really matters—how to govern outsourcing programs in a manner that creates real value to all parties. He also oversees the company's research in the healthcare industry BPO vertical and the document management and call center BPO horizontals.

Prior to joining HfS, Tony spent nine years at WellPoint, the United States' largest health benefits company, where he had multiple leadership roles. Tony initiated and led the company's enterprise-wide BPO governance for a multi-vendor, multi-process (call center, back office processing, imaging/data entry/mailroom, and KPO) program with thousands of FTEs. Tony led strategic sourcing in complex indirect services procurement, where he managed the selection and enterprise-wide implementation of an industry leading procurement application while simultaneously leading cross-functional sourcing teams in outsourcing, marketing, consulting, facilities, contingent labor, and human resources categories. Tony also led WellPoint's strategic procurement initiatives, including creating and leading its strategic supplier management program, demand and consumption management analyses, and business process benchmarking. Before joining WellPoint, Tony spent seven years consulting with Accenture and MarchFirst, where he specialized in business process simulation and reengineering, strategic customer relationship management, and post-merger/acquisition integration management.

Tony holds a MA in Communication Management from the University of Southern California's Annenberg School for Communication and a BA in Organizational Communication (Magna Cum Laude) from Pepperdine University. Tony is also a Certified Professional in Supply Management (CPSM) from the Institute of Supply Management (ISM).

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Diane Youden, Principal, Human Resources Transformation, PwC

Diane leads PwC's HR Transformation practice and has over twenty years of experience of working with companies in improving their Human Resources organizations By working with her clients to develop and execute HR strategies that align to the business goals and objectives, the HR organizations are able to optimize their value to the business. Diane's broad range of experience and subject matter knowledge covers the many disciplines of HR and enables her to have a holistic view of HR and payroll operations—from strategy through tactical execution and continuous improvement. Leading teams of individuals with backgrounds in HR operations and talent management, Diane works with organizations to evaluate their overall HR operating model and organization structure and develop the path forward to optimize or right-size the use of technology and outsourcing in overall HR delivery.

Diane has worked with organizations to deliver large and small-scale HR transformation activities, including overall HR strategy, service delivery models, talent management strategies, culture assessments, and implementation of HR shared services. With the focus on building a sustainable HR infrastructure with the right HR capabilities and competencies, the HR function is able to provide strategic direction and insightful information to enable the business to manage its talent resources.

Kevin Pennington, Director, Human Resources Transformation, PwC

Kevin is an HR and business transformation executive with more than nineteen years of professional experience in HR, HR shared services, HR sourcing, business transformation and management consulting. He has global HR transformation experience and brings a perspective of both the client and the service provider. His experiences have focused on global business strategy, shared services, business transformation, vendor sourcing and selection, change management, and process improvements.

Kevin works with his clients to improve their human resources organization and capability by developing and implementing HR strategies and solutions that drive alignment of HR to business goals. Kevin also serves as the leader of PwC's HR Shared Services and Outsourcing services.

Phil Fersht, Chief Executive Officer, HfS Research

Phil Fersht is Founder and Chief Executive Officer of HfS Research, the acclaimed analyst advisory organization covering global services and outsourcing strategies. He was named "Analyst of the Year 2011" by the Institute of Industry Analyst Relations (IIAR), winning the award for the second successive year. This is the most coveted global award for industry analysts in technology and services. He is a renowned expert in the fields of Shared Services and Business Process Outsourcing and frequently discusses complex industry-specific issues that impact how enterprises manage their global business operations.

An acclaimed industry analyst, practitioner, advisor and strategist, Fersht has lived and worked extensively in Europe, North America, and Asia. During this time, he has advised on more than 150 major outsourcing, shared services and offshoring engagements and consults regularly with senior operations and IT executives on their global sourcing strategies. At HfS Research, Phil directs and contributes to the firm's research, consulting, and social media strategy, in addition to overseeing the firm's global finance and business operations.

During his career, Phil Fersht has worked at AMR Research (Gartner Inc), leading the firm's BPO and ITO practice. Previously, he served as market leader for Deloitte Consulting's BPO Advisory Services, where he led numerous outsourcing and offshoring advisory engagements with Fortune 500 enterprises. He also worked for outsourcing advisor Everest Group, leading the company's BPO research practice. Phil began his career at IT analyst IDC across its European and Asia/Pacific operations.

Fersht is a frequent author and speaker on global shared services and outsourcing trends and issues across IT, finance, and Human Resources. He was named both an "FAO" and "HRO Superstar" by *FAO Today* and *HRO Today* magazines for 2005, 2006, 2007, 2008, 2009, and 2010 and was featured as the cover story for the December 2006 issue of *FAO Today* as one of the outsourcing industry's most prominent advisors. He was also nominated for "Advisor of the Year" at the FAO Summit 2008. He was also recognized in 2011 by *Globalization Today* (the official magazine of the International Association of Outsourcing Professionals) in their first ever "Powerhouse 25" list.

He speaks regularly at many leading industry conferences, which have included The Conference Board, NASSCOM, IDC Directions, the Sourcing Interests Group, the Shared Services & Outsourcing Network, and the Council of Supply Chain Management Professionals. He is also a regular columnist for several industry publications, including Global Services Media, SSON, FAO Today, and Finance Director Europe.

He received a Bachelor of Science, with Honors in European Business & Technology, from Coventry University, United Kingdom, and a Diplôme Universitaire de Technologie in Business & Technology from the University of Grenoble, France.

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About HfS Research

HfS Research is the leading analyst authority and knowledge community for the global services industry. In addition to researching business services and technology services strategies, HfS educates and facilitates discussion among the world's largest knowledge community of services professionals, currently comprising 120,000 subscribers. HfS provides a collaborative platform for the largest, highest impact, and most frequently visited professional community in the global services industry, offering rapid and insightful commentary on, analysis of, and debate about enterprise shared services, outsourcing, and global operations dynamics.

In 2011, HfS was awarded Outsourcing, BPO and Services Analyst Firm of the Year by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and runner-up for overall Analyst Firm of the Year. Led by recognized industry expert Phil Fersht, HfS Research differentiates itself with its global team of expert services analysts with real industry experience, provocative and opinionated research, unrivalled market analytics, and a view of technology as an enabler for business process improvement. Its on-demand expertise relationship model helps clients leverage HfS knowledge and strategic insight in a rapid, responsive and engaging manner.

HfS Research also manages the HfS 50 Sourcing Executive Council, the premier peer discussion group for enterprise outsourcing and business services executives. This by-invitation-only program fosters networking, debate and best-practices sharing among the most senior sourcing executives of large global enterprises. This powerful forum is shaping the strategic direction of the sourcing industry, influencing other buyers, service providers and intermediaries across BPO, ITO and shared services domains. HfS hosts and facilitates regular meetings, webinars, introductions and peer networking opportunities for HfS 50 members, and its analysts contribute to these interactions with candid, unbiased opinions based on current, relevant research, benchmarking data and deep sourcing governance expertise.

Now in its sixth year of publication, HfS Research's acclaimed blog "Horses for Sources" is widely recognized as the leading destination for collective insight, research and open debate of sourcing industry issues and developments. The thriving HfS LinkedIn community includes over 17,000 industry professionals who share views and information daily. More information about HfS Research can be accessed at www.HfSResearch.com. The company can be followed on Twitter at www.twitter.com/horses4sources and LinkedIn by joining The BPO and Offshoring Best Practices forum.

To learn more about HfS Research, please email research@HfSResearch.com.

About PwC

PwC firms help organizations and individuals create the value they're looking for. We're a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax, and advisory services. PwC's Advisory professionals help organizations improve business performance, respond quickly and effectively to crisis, and extract value from transactions. We understand our clients' industries and unique business challenges, and look across the entire organization—focusing on strategy, structure, people, process, and technology—to help clients build their next competitive advantage from strategy through execution.

Our Advisory, People and Change professionals help clients execute their strategies through their people and organizations. We do this by helping them develop the right: talent strategy, organizational design and operating model, support functions such as HR, IT and finance; change and communications strategies; and leadership.

See www.pwc.com/us/peopleandchange for more information.