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HR OUTSOURCING Accelerates

Departments shift focus toward strategic initiatives such as talent management.

By Paula Ketter

Inside **Intelligence**:

The trend to outsource HR functions is continuing, with no end in sight.

According to a Hewitt Associates study of nearly 100 large U.S. companies representing 2 million employees, 91 percent of the companies have taken steps in the past year to standardize HR processes in an effort to prepare for outsourcing implementation.

"Companies are realizing that they need to standardize HR processes and policies as a first step in their HR transformation," says Mark Oshima, director of HRO strategy at Hewitt Associates. "This is often a precursor to outsourcing, since outsourcing enables both HR and line management to focus on issues vital to the business's strategic initiatives, instead of being burdened with HR administration."

Hewitt's research found that organizations consider outsourcing primarily to improve service quality (rated four or higher on a six-point scale by 74 percent of respondents). Other key drivers include access to outside expertise, the opportunity for cost savings, and a desire to focus resources on core business (all ranked four or higher by 60 percent or more of respondents).

The top three issues facing HR executives are attracting, retaining, and growing talent (67 percent); being able to support the business by focusing HR on core capabilities (47 percent); and supporting business changes (41 percent), according to Hewitt.

These findings support the results of a Corporate Research Forum report, "Outsourcing the HR Function, Possibilities and Pitfalls," which included in-depth interviews with 28 global corporations.

That report concluded that more than 90 percent of Fortune 1,000 and Financial Times Stock Exchange 100 constituents outsource major parts of their HR functions. The primary reasons for outsourcing are to save money and to free up time to spend on strategic business issues.

Although outsourcing is not new, what is new is the scale of outsourcing being done by human resouces departments. The functions that are most susceptible to outsourcing include traditional HR department functions that are characterized as "administrative," including budgets and payroll, according to the report.

With this trend continuing, the question remains: What will the HR function look like? According to the CRF report, time will be spent shaping policy and influencing leadership. The companies interviewed stressed that several core HR functions should be retained, including human capital strategy, organizational policies, recruitment decisions, employee relations, pay and bargaining decisions, talent management, and exit decisions.

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TOP 10 Recommendations for HR Outsourcing

Before an organization embarks on outsourcing its HR function, it needs to:

- identify how outsourcing fits with strategic objectives
- agree which core strategic competencies must be kept in-house and what can safely be outsourced
- identify a complete view of internal HR service delivery costs, the main cost drivers, and the potential savings and investment
- assess internal outsourcing and explore how shared services might deliver the same benefits but with greater retained control
- identify the technological challenges and solutions around outsourcing—have the costs of running and retiring legacy systems been calculated accurately, for example?
- develop a clear view of the capabilities and reputation of each of the main outsourcing providers
- standardize and simplify processes and procedures prior to considering outsourcing
- discuss in detail the concept of outsourcing with customers (employees and business managers) and other key stakeholders in the organization
- define the key success measures that will be used to judge the performance of the outsource provider and the structure of the deal
- consider the history of the organization in terms of managing complex transition processes—is there a desire to see an outsourcing initiative through to completion?

Source: Orion Partners

Companies Not Integrating Managers Effectively

THE MAJORITY OF COMPANIES say they do less than a stellar job of integrating newly recruited managers and executives into their organizations, according to a survey by Salveson Stetson Group, a Pennsylvania-based executive search firm.

More than half of the companies said they do an average or poor job of assimilating new management employees: Forty-six percent rate their efforts as average and 17 percent as poor, according to the survey of about 100 companies. Twenty-five percent said their organizations do a good job, while only 10 percent categorized their integration efforts as excellent.

"Once the hiring process is complete, many companies fail to provide sufficient assistance to integrate newly recruited executives into their organizations, which can lead to poor performance and an early voluntary or involuntary exit," says John Salveson, co-founder and principal of Salveson Stetson Group.

To improve the retention of newly recruited managers, the group recommends that organizations:

- Assimilate new hires into the organization's culture. "Lack of cultural fit is one of the biggest reasons why newly recruited employees fail," says Sally Stetson, co-founder and principal with the firm.

"A comprehensive onboarding process that identifies cultural values, introduces key internal stakeholders, and takes the pulse of the business units and departments that the new executives are inheriting, will significantly decrease ramp-up time. It also can turn potential hiring mistakes into key contributors to the leadership team."

- Clarify the most important critical objectives of the job. Employers need to help new hires determine the most important goals of these new roles and establish a time frame for achieving them.

"Both the employer and the new hire need to know what success looks like. A clear plan for the first year should include defined and measurable goals and facilitate a more successful integration. Without it, many new executives flounder a bit early on in their tenures while they attempt to identify key objectives," says Salveson. "Having an agreed-upon plan serves as a framework to measure the employee's performance and aligns expectations between him and his boss. During the first year, the new executive's performance will be judged primarily by how well he has attained these primary objectives."

- Build teamwork among subordinates and peers. "New management hires need to establish good working relationships not only with their bosses, but with their direct reports and peers, who will be crucial in assisting them to achieve their goals," says Stetson. She adds: "New management hires frequently overlook the importance of establishing a rapport with peers within their functional areas and departments and in other areas of their organizations."

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// EXECUTIVE UPDATE //

TALENT MANAGEMENT BARRIERS

McKinsey & Company asked senior executives of global companies to rank obstacles that prevent talent management programs from delivering business value. Here are the eight most critical barriers and the percentage of executives who ranked them:

54% Senior managers don't spend enough time on talent management

52% Line managers not sufficiently committed to people development

51% Silos discourage collaboration, resource sharing

50% Line managers unwilling to differentiate high, low performers

47% Senior leaders do not align talent management and business strategies

45% Line managers ignore chronic underperformance

39% Planning or allocation do not match right people to roles

38% CEO or senior team don't have shared view of pivotal roles

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// TRENDS //

No Silver Bullet for Performance Management

Organizations looking for a single solution to revitalize their performance management (PM) systems should forget about it, suggests a recent survey conducted by the Institute for Corporate Productivity (i4cp, formerly the Human Resource Institute) in conjunction with HR.com.

"That silver bullet doesn't exist," says Mark Vickers, senior analyst with i4cp. "There is no single PM practice that can transform an ineffective system into a good one. Performance management systems are just that—systems. They require the coordination of multiple key practices. The more of these practices that are in place, the more likely a performance management system is to be seen as effective."

The 2006 Performance Management Survey results are based on data collected from 1,031 respondents. The survey indicates that there's plenty of room for improvement in the performance management systems of many companies. When respondents were asked whether their PM process is contributing to individual performance, only 8 percent said that their process contributes in a significant way. Another 45 percent said that their PM process contributes but more improvements are required, while 47 percent were not sure if their PM process makes any contribution at all.

"Performance management tends to be a work in progress," says Kevin Oakes, i4cp's CEO. "PM technology is increasing in popularity, but it's not going to make a significant difference without a solid process already in place. The good news is that the data shows that many companies are getting more serious about implementing tighter performance management processes."

Work in progress

The survey results clearly reveal that most companies are facing some serious challenges with regard to their PM systems. On a positive note, companies seem to know which parts of their systems need fixing. An analysis of the survey that looked at the correlations between performance management processes and the overall perceived effectiveness of their systems produced a list of key practices. A PM system is more likely to be effective when it includes the following nine elements:

- plans for helping employees develop in the work period after the appraisal
- ongoing goal review and feedback from managers
- training for managers on how to conduct a performance appraisal meeting
- metrics of the quality of performance appraisals
- ways of addressing and resolving poor performance
- appraisal information that isn't limited to the judgment of supervisors
- consistency across the whole organization
- some form of multi-rater feedback
- performance feedback that occurs more than once a year.

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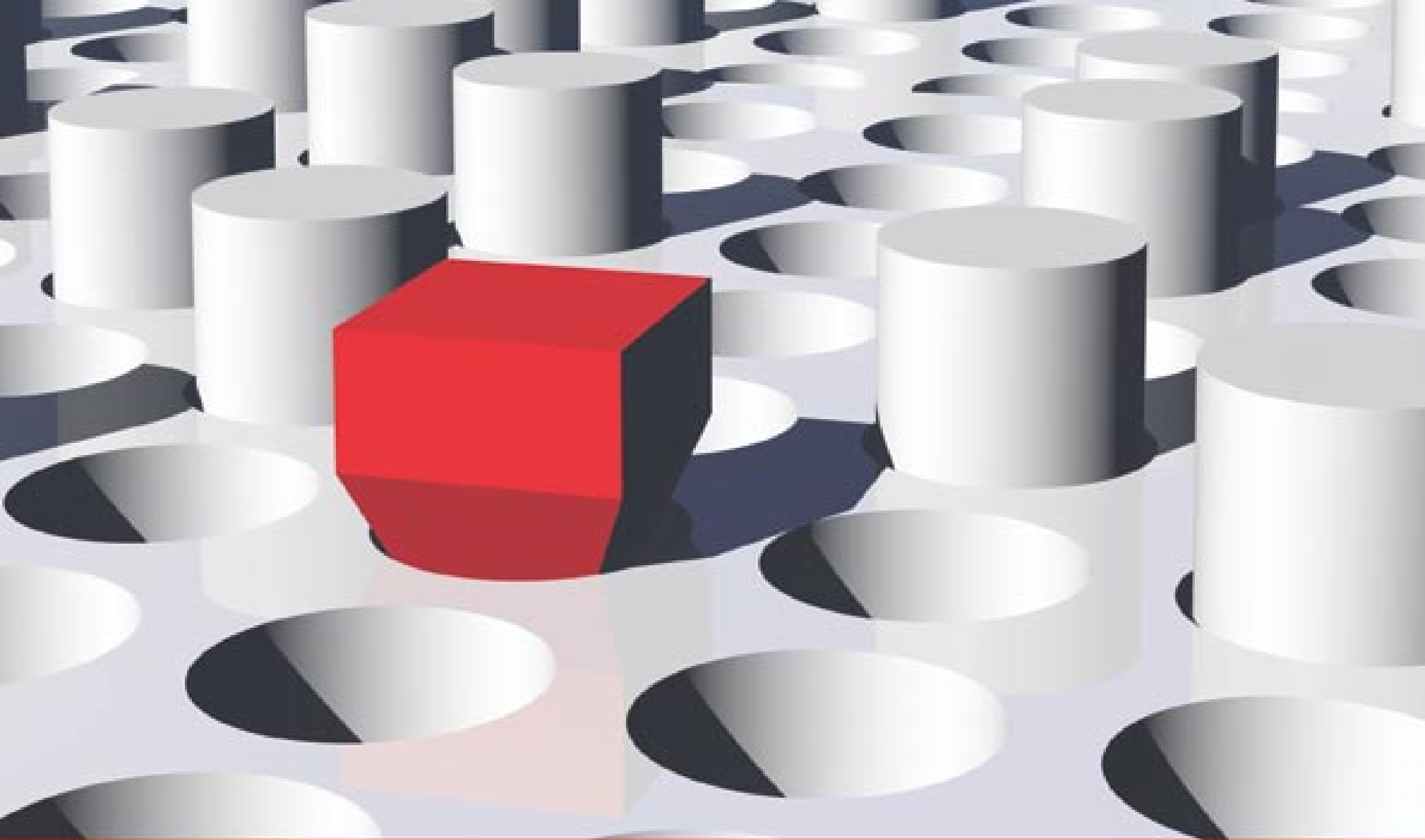
Photos by Corbis



Successful Outsourcing Doesn't Look Like This.

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U.S. Commission Calls for Drastic Action to ENHANCE COMPETITIVENESS

By Kermit Kaleba

In December, The National Center on Education and the Economy's Commission on the Skills of the American Workforce released a report, "Tough Choices or Tough Times," designed to enhance United States workforce competitiveness. Developed by a bipartisan commission of experts, including several former cabinet officials, the paper calls for sweeping changes to the nation's educational and workforce development systems.

This new report is a sequel to NCEE's 1990 report "America's Choice: High Skills or Low Wages!," which argued that U.S. competitiveness could be maintained by allowing other countries to provide low-skill labor while training Americans to shift into high-skill jobs.

The new report observes that a generation of globalization has introduced a new dynamic: Many countries, most notably India and China, are now producing large numbers of highly skilled workers, and advances in information technology make it easier for these individuals to participate in the global economy at lower wages than U.S. workers. To remain competitive in this environment, the United States must ensure that more training and educational opportunities are available to greater numbers of Americans.

While most of the report's recommendations focus on overhauling education for the next generation of workers, the report also suggests that federal and state governments invest in educating the current workforce. Primary suggestions include

- passing federal legislation that would entitle all adult workers to receive a free education to the level required to enter college without remediation
- creating "personal competitiveness accounts" that could be applied to tuition, books, and fees for continuing education and training at accredited institutions. These individual accounts would be created and funded by the federal government, and both employees and employers could contribute to them tax free.
- creating "regional competitiveness authorities." These economic development entities comprise key business and education leaders that would develop and implement plans to align workforce and educational policies for regional labor markets. The authorities would be empowered to raise and invest funds to support workforce and economic development initiatives, and would be responsible for coordinating the education and training needed to ensure economic growth.

In addition, the commission recommends significant restructuring to the nation's educational system, including establishing standard examinations that measure the skills needed by employers, increasing compensation for teachers, shifting funding of schools from the local to the state level, and increasing investments in early childhood education.

While "Tough Choices or Tough Times" does a fine job of exploring the challenges facing the United States in the new global economy, and provides some bold and thought-provoking ideas, it is unclear how many of its proposals will be considered in their current form. With numerous competing priorities on both the federal and state levels, coupled with increasing financial burdens, it seems unlikely that legislators will be willing to implement such broad changes.

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Photos by Getty Images

// INFO GRAPH //

Effectiveness and Use of

Work-Life Programs 2006

WORK-LIFE PROGRAM	EFFECTIVENESS RATING*	PERCENTAGE USE
Alternative work arrangements	3.4	63%
Leave for school functions	3.4	65%
Telecommuting	3.4	59%
Compressed work week	3.4	58%
Emergency childcare	3.3	44%
Employee assistance plans	3.1	76%
Flu shot programs	3.1	64%
On-site child care	3.1	42%
Wellness programs	3.0	67%
Job sharing	3.0	51%
Satellite workplaces	3.0	49%

*1: Not Very Effective to 5: Very Effective

Source: CCH

// FAST FACT//

Few Turn to Boss for Advice

Most employees don't ask their supervisors for advice on problems at work, according to an Internet survey of more than 3,000 employees (nearly 90 percent of whom are middle to senior-level managers).

In fact, a supervisor was cited as a source for workplace advice by only 11 percent of employees surveyed. More workers rely on a peer (24 percent), another senior-level employee (15 percent), a friend outside the company (14 percent), and a mentor or coach (13 percent).

Source :CO2 Partners

Photo by Corbis

// COOL TOOL //

FREE Online iPod Training

Still fumbling through the features on that new iPod you got over the holidays? If so, check out a free online training session offered by Makau Corporation.

Hosted by Geoff and Nani, the short video teaches participants iPod basics. The course covers how to install iTunes; transfer music, photos, and video clips; download content; and customize iPod's settings.

But the free course does come with a string attached: Dan Smith, president of Makau, says that the company is offering the course free of charge to introduce people to its upcoming courses that are available for purchase and playback via iPod with video.

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