

**A recent survey of HR leaders found that talent management is seen as the key to making HR more strategic. It also found that leaders at large organizations were more apt to use recruitment-process outsourcing than at smaller ones.**

BY STAN LEPEAK

# Talent and Transformation



**M**aking the human resource function more strategic is a perennial goal in most organizations. “HR transformation” is commonly identified as a key means to make HR more strategic. The challenge, however, is defining what transformation really is and then determining how to successfully undertake it.

EquaTerra and *Human Resource Executive*<sup>®</sup> together conducted a market study in late 2007 to explore the HR transformation topic. The study, based on an earlier one conducted by both organizations in 2005, assessed the realities of HR transformation, how organizations were pursuing it and the role that alternative service-delivery models, such as shared services and outsourcing, played in enabling it. It surveyed approximately 450 HR leaders based primarily in North America, 29 percent of whom were vice presidents of HR and 53 percent who were HR directors or managers.

The latest study, similar to the earlier one, found that while the majority of respondents felt their organizations viewed HR as a strategic asset, there was still a strong desire to further transform the function to improve its efficiency and effectiveness.

Many barriers were identified, however, including how to define, fund and gain executive support for transformation efforts. There were also differences of opinion as to how much transformation was about truly improving strategic capabilities versus just cutting costs.

These findings demonstrate that one of the key challenges HR organizations face in trying to become more strategic is defining exactly what “strategic” means. This definition will obviously depend on the organization, its size and its industry, as well as its current business and operating environment.

What makes HR strategic also depends on whose opinion is being asked. Some stakeholders view operational excellence as the key to being strategic. Their focus is on keeping costs down while increasing process efficiencies. Others view the key to becoming more strategic as expanding the role of HR beyond operational activities to better support strategic business initiatives. To them, routine HR operational activities

should take a back seat to more strategic work around talent and organizational effectiveness. The challenge for HR leaders, therefore, is to define what “becoming more strategic” means in the context of their department’s current situation and in the eyes of the key stakeholders and decision makers within their organization as a whole.

Even when HR leaders define the “what” of being strategic, they continue to struggle with the “how” of enabling it. HR departments have many tools and options at their disposal to transform and improve their processes. These run the gamut from process redesign and reorganization to investing in more (and hopefully, better) information technology to support the deployment or expansion of service-delivery models such as outsourcing. The challenge lies in defining the right tools for the job and deploying them successfully while recognizing that most organizations have already tried many of these options with mixed results.

With these questions and issues in mind, EquaTerra and *HRE* launched the updated market study to determine how leading HR organizations today are addressing the what and how of making HR more strategic. The study assessed the importance of “total

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talent management” as a key enabler of strategic HR and the role of alternative-service-delivery models in improving organizations’ talent-management capabilities.

## HR Performance

The market study first assessed respondents’ opinions regarding the performance of their HR operations from the perspectives of HR people and processes as well as HR/IT applications and systems. Respondents were consistently more satisfied with HR people and processes than with HR/IT. The mean score for people and processes was 3.19 on a 1-to-5 scale where one represents not at all satisfied and five represents extremely satisfied. On that same scale, HR/IT had an overall score of just 2.59.

These responses represent a decline from the 2005 study, wherein people and processes scored 3.41 and HR/IT scored 2.83. While some of this variation between the two studies is attributable to different samples, the decline also highlights that, overall, little progress has been made in many organizations over the past three years in improving HR performance.

HR groups in general fared well relative to their strategic importance to the organization, with the majority of respondents indicating HR is viewed as a strategic asset in their organizations. These response levels were little changed, however, from the 2005 study, which suggests that, while progress has been made, HR still has a way to go before it’s considered truly “strategic.” Indeed, many respondents who selected “other” as a response indicated that HR was “emerging,”

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“evolving” and “progressing” as a strategic asset, but was not fully there yet.

## Defining “Strategic” HR

While HR groups must clearly define what strategic means in their own organizations, the study’s findings point toward a growing consensus about what “strategic HR” is. When questioned on what would make HR more strategic to their organization, more than 70 percent (see Figure 1) of respondents indicated it meant becoming a leader in total talent management (e.g., recruiting, performance, learning and succession planning). Respondents from larger organizations (more than 5,000 employees) placed even more emphasis on talent management than smaller organizations.

Tactical proficiency and effectiveness in managing core HR processes—typically where the bulk of daily HR activity is spent—ranked fourth.

Respondents were also queried on which core HR processes and activities contributed most to making HR strategic. Talent management again came out on top (see Figure 2), cited by more than 70 percent of respondents, as did organizational effectiveness (e.g., workforce and performance management). Playing an advisory role for executives also scored well, while more routine HR tasks scored much lower.

Drilling further into the total talent-management theme, respondents were asked to rank the importance of talent-related issues and challenges in making HR more strategic and improving overall organizational competitiveness. On a 1-to-5 scale, with one being not at all important and five very important, talent scored 4.39 overall, which points to improving total talent-management capabilities as a top opportunity to make HR more strategic. The question then becomes, “How to do so?”

## Of Talent Management and RPO

HR organizations face many challenges in improving efficiency and effectiveness in any core area, especially something as diverse and complex as talent management. When asked what the key barriers to HR transformation were, survey respondents cited a lack of resources and funding, inadequate supporting HR/IT systems and a lack of executive support and sponsorship. These were similar to barriers cited in the 2005 study, underlining the ongoing nature of these challenges.

So if these challenges are recurring and formidable, how can HR groups overcome them? One approach is to look at the different means available for delivering core HR services. Ideally, these different models can not only improve process efficiency and effectiveness, but also free up HR resources to focus more strategically on critical topics such as talent management.

The market study assessed the role and value of alternative HR service delivery models—shared services, HR/IT and HR business-process outsourcing—in transforming HR to make it more strategic. Adoption rates for shared services and outsourcing varied significantly depending on the HR process addressed, and the size and industry of the organization. Overall, benefits administration was the process most frequently supported through shared services, identified as deployed by 35 percent of respondents and planned by an additional 8 percent. Payroll was the process most frequently outsourced (24 percent deployed, 8 percent planned). The rates were higher, often significantly, for larger organizations and for commercial/non-public-sector organizations.

When asked to rank the importance of these alternative-delivery models in making HR more strategic, respondents scored them in the mid to lower end of the five-point scale. Respondents were also specifically asked about the importance of recruitment-process outsourcing to improving total talent-management capabilities. Figure 3 illustrates the perceived importance of each of the service-delivery models. Larger organizations and those in commercial industries again placed more positive emphasis on these models than did smaller ones and those in the public sector.

Relative to RPO, 19 percent of all respondents said their organizations had outsourced much or most of their recruiting-related activities. Thirty percent of respondents from organizations with more than 5,000 employees and 35 percent with more than 20,000 employees noted they had undertaken RPO. The two key reasons cited by respondents whose organizations had not undertaken RPO were “not needed” (48 percent)

and “too expensive” (34 percent). When the respondents who had undertaken RPO were asked to identify the benefits they sought from it, the majority (64 percent) cited “accelerate the recruiting and hiring process,” while 58 percent chose “focus on more strategic aspects of recruiting” and 46

percent chose “improve service.”

These respondents were also asked to list the specific hiring processes they’d outsourced to an RPO provider and rate (on a scale of 1 to 5) the results achieved by the vendor. All of the



processes (which included sourcing, hiring, executive recruiting, staffing,

contingent labor, drug testing/background checking and pre-employment testing) received average ratings of 3 or higher. So, while a large number of respondents have not undertaken significant levels of RPO, those that have done so have experienced fairly positive results.

Relative to future RPO plans, the majority (53 percent) of organizations that have undertaken RPO intend to maintain their current levels of investments for the foreseeable future. Eighteen percent planned to maintain current levels, but renegotiate deals with their current RPO service providers or possibly switch to a different provider. Twenty-seven percent planned to expand RPO efforts into new areas) and less than 2 percent planned to curtail their RPO effort and bring the work back in-house.

Given that RPO usage was defined for the study as encompassing much

of the recruiting process, it’s not surprising that the expected expansion levels are lower than those for other types of outsourcing.

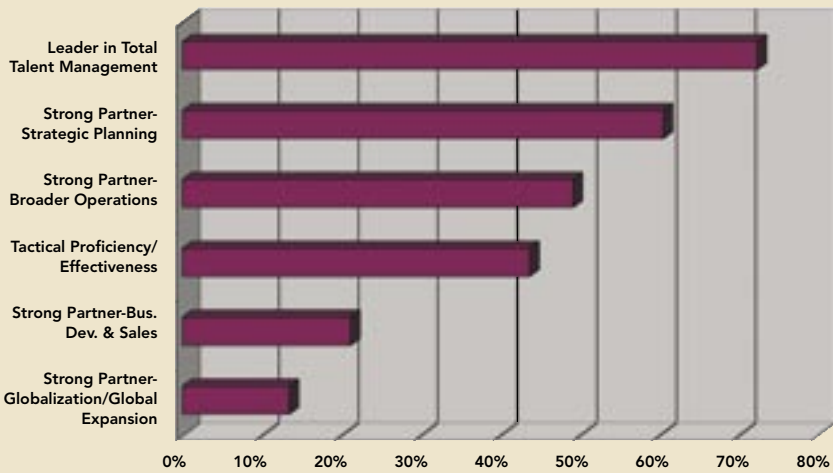
The role and importance of talent management in making HR more strategic is not surprising in today’s market. Finding, attracting and keeping good people have always been of paramount importance to companies across all industries, and are even more important today, given the fact that competitive differentiation depends on the quality of an organization’s talent.

Improving total talent management will be key for organizations during the next five years. HR groups that excel at this will be viewed as strategic, and alternative service-delivery models have the potential to be an important element of an improved talent-management capability.

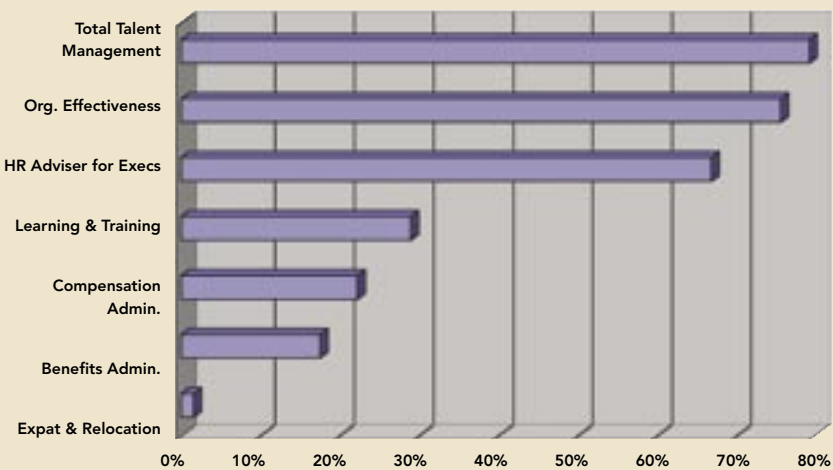
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## EquaTerra & Human Resource Executive® Study Results

**Figure 1: What Makes HR Strategic?**



**Figure 2: Key Strategic HR Activities**



**Figure 3: Importance of HR Alternative Service Delivery Models**

