

In this month's article, John Murphy takes a look at the increasing trend of companies outsourcing the administrative aspects of HR work and asks the question, "Does it make business sense?"

What is the point of having an HR Department?

It is a worthwhile question to ask and one that comes with a wide variety of responses. When meeting with senior business management it is one of the questions I am most interested in hearing the answer to because, invariably, that answer provides the context for all subsequent discussion.

It is my firm belief that the point of having an HR department is to ensure that the business can attract, develop and retain high performing, high potential staff.

If an HR department's activities and resources are not primarily focused on attracting, developing and retaining high performing people, senior management should be asking themselves, and their HR director, "why?"

The attractiveness of a company is determined by, amongst other things:

- Pay
- Benefits
- Location
- Facilities
- Job Content
- Career Prospects
- Company Reputation

Last month I met with the VP of Recruitment for one of Thailand's largest conglomerates. It is a highly successful, highly visible, business and we were discussing ways to resolve a real business problem. The VP said to

me "Even though we are offering competitive compensation & benefits packages, I am having to phone people and beg them to come and work for us – and even then a significant number of the people refuse. The problem is our reputation as an employer."

The solution to that problem requires the attention of senior management and a coordinated HR response. It is not a problem that can be solved by an expensive advertising campaign and above average salary offers.

Develop

In business, the primary asset of the firm has traditionally been recognized as money. There is, however, a growing – if sometime grudging – acceptance of the notion that people are critical assets and, unlike plant and equipment that depreciate over time, managed and developed properly, the value of employees and their contributions to the business appreciate in value.

Developing people involves far more than simply recording how many training hours are spent per employee per year. The objective of development is to ensure that management and employees have the right skills, knowledge and competencies to successfully and confidently identify and address business issues and opportunities.

The range of development methods and means is vast and includes:

- Objective performance appraisal/assessment
- Cross-functional/business unit assignments
- Coaching
- Targeted needs based training
- Mentoring
- Secondments
- Projects
- Individual Development Plans
- Organizational Succession Plan process

Now, attracting, developing and retaining high performing people is easier said than done. To take "attract high performing people" as an example, what are the elements that need to be in place?

Attract

In this day and age of a severe skills shortage, increasing demands for competent people and increasing expectations of job seekers, a good salary and benefits package simply isn't enough.

In order to be able to attract the right kind of people, businesses need to have the reputation as a good employer, to be an "employer of choice".



The purpose of developing people is, simply stated, to ensure the business has high performing people equipped with the clarity, competence and confidence to manage their responsibilities and the changes to those responsibilities over time.

Retain

The current unemployment rate in Thailand is 1.4%. On the face of it that is an encouraging figure. Yet it obscures more than it reveals. Many companies in Thailand are experiencing employee turnover rates (or “churn” rates) in excess of 20%. There is, in other words, a lot of ‘job-hopping’ going on.

Having attracted and developed high performing, high potential people, the last thing a business needs is for a significant number of those people to leave. It is absolutely essential that HR departments work with their business colleagues to ensure that the business remains an attractive place for its people to work and develop.

The good news is that many of the elements necessary to be an attractive employer, an employer of choice, are the same elements that contribute to high employee retention rates. So, in addition to remaining competitive in the compensation & benefits market, businesses that wish to reduce labour turnover need to focus on ensuring that employees:

- Feel engaged in their work
- Feel recognized as an individual
- Value and enjoy the relationships with leaders and peers at work
- Continue to see opportunities to develop

This last point, “continue to see opportunities to develop”, does not relate to developing a career as a so-called high-flyer. Many employees do not seek such career paths. They want to have a job they can do well, have a supportive and friendly work environment, and have the chance to continue to contribute.

If a business has the right balance of high performing and high potential staff, (and the ratios will vary by business and circumstance), and has the appropriate reward, recognition and development processes and practices in place, the issues of attracting and retaining staff will look after themselves.

Does Outsourcing Make Sense?

Now I haven’t forgotten that the lead-in to this article declares that I will be asking – and perhaps assumes that I will be answering – the question, does outsourcing HR administrative tasks make business sense?

To get to the answer, we first have to cross somewhat rocky terrain.

The Winds of Change...

After 20 years or so of saying “People are our greatest asset”, companies are beginning to realize that it is true, and are beginning to grapple with the implications of what that means for the way they manage their people and the way they organize their HR departments.

This change in perception has occurred largely as a result of recognizing the serious negative business implications of continuing with inappropriate and ineffective HR practices.

Nowadays it is the CEO’s, Managing Director’s, Financial Controllers, Regional Presidents and Vice-Presidents who are extremely engaged by the subject; in a practical, pressing, commercial sense.

When it comes to discussing the challenges and opportunities facing their operations, they almost all will start raising concerns they have about business performance and the critical influence their people, and people management practices, have in meeting business objectives.

Human resource management practices are no longer being seen by senior management as ‘warm and fuzzy’ welfare activities to keep employees reasonably content, but potentially the key differentiator for the business.

So, as General Managers along with Finance and other senior management are now seeing the “mission critical” importance of how they manage and organize their human resources, where does that leave the HR department?

What does HR do?

Perhaps it is no coincidence that the past 20 years or so have also seen an explosion of research, debate and discussion about the role of HR as a function. In that time a number of key concepts have been developed, tested and refined, most notably by Dave Ulrich, who published the seminal “Human Resource Champions” (Harvard Business School Press) in 1997

Ulrich offered a fresh insight into what HR departments usually do, should do and could do to contribute to business success. He stated that “to create value and deliver results, HR professionals must begin not by focusing on the activities or work of HR but by defining the deliverables of that work.”

Ulrich offers a model that suggests four main spheres of responsibility for HR and Table 1. illustrates that these responsibilities typically vary from being process oriented to people oriented and from day-to-day, operational to long-term, strategic in focus.



■ Strategic Partner

This role focuses on aligning HR strategies and practices with business strategy. The deliverable from the management of strategic human resources is strategy execution.

■ Administrative Expert

This role demands that HR act as caretaker of the corporate infrastructure; ensuring that organizational processes are designed and delivered efficiently. In many companies that caretaker role has led to the creation of shared service centers and the outsourcing of processes such as payroll.

■ Employee Champion

This role focuses on managing the contribution of employees; listening and responding to employees and “providing resources to employees. The deliverables from management of employee contribution are employee commitment and competence.

■ Change Agent

The fourth key role through which HR can add value is to manage transformation and change. Change refers to the ability of organizations to improve the design and implementation of initiatives and to reduce cycle times in all activities. The deliverable from management of change and transformation is the organizations’ renewed capacity for change.

Unfortunately, the reality for the majority of businesses is that their HR departments spend 80% or more of their time attending to administrative chores and the rest of their time ‘fire-fighting’ on employee relations issues.

Far from “Administrative Expertise” being just one element of the HR contribution, the department occasionally is more accurately described as an “Administrative Dinosaur”, with not much else being done.

Little or no time, or thought, is given to the issues of linking HR processes with business results or in addressing the real challenges of attracting, developing and retaining high performing people.

Outsourcing Issues and Opportunities

The trend toward outsourcing HR administrative processes and payroll is partly explained by the need to focus HR's attention and the department's resources on the business' priorities and problems that require HR solutions.

Anthony Petraco, President & CEO of USA based company Valiant states, "When assessing the need for outsourced workforce management solutions, cost and ROI are always primary concerns. While it can be difficult to quantify the true value your organization gains by improving business efficiency, if your company upgrades from a manual in-house payroll system to a fully hosted and web-based system built on a centralized



employee database, you'll dramatically improve your business processes, reduce payroll errors and save significant money over time."

This point reinforces that made by many commentators concerning some HR leaders tendency to talk a lot about being business partners and strategic thinkers, while failing to deliver on the talk. A prominent writer in the field, Nicholas Burkholder, has observed that "No matter how illustrious the strategic thinking, unless the basic needs of the organization are satisfied, HR professionals will not be viewed as competent members of the organizational team."

In other words; HR needs to get the administrative 'burden' under control and focus on those activities that can build the business.

A well thought out, professionally managed and client focused outsourcing strategy can dramatically improve HR departmental performance and create real value for line management and employees alike. These benefits include:

- Real-time access to actionable employee related information
- On-line transactions for management & employees
- Enhanced management of information
- Elimination of 'time theft' and payroll fraud
- Accurate job costing and budgeting
- Consistent application of quality standards across business units and groups of Businesses
 - Maximized administrative efficiency
 - Integrated linking of HR information spanning, recruitment, development, training and succession planning as well as compensation and benefits administration.

Outsourcing Trends in Thailand

More and more companies within Thailand, including SME's and Conglomerates as well as Thai and Multinational owned enterprises, are opting for outsourcing of payroll and the provision of web-based HRIS services.

They are doing so because they appreciate the business benefits that accrue from having clarity, competence and professionalism in the outsourced administration of HR services. This allows them to channel their

HR departments' resources toward developing their capabilities in attracting, developing and retaining high performing people.

The trend in HR Outsourcing is upward.

Is Outsourcing Right For Your Business?

It has been argued that while many of the early HR outsourcing agreements were based solely on the projected cost savings for the client, today's outsourcing contracts should be based on the strategic value of the outsourcing relationship.

For some companies outsourcing might not fit with strategic goals.

There are two main steps in evaluating the operational and strategic fit of the outsourcing option with your business needs.

■ Businesses should evaluate the current state of HR in their organization.

- Where is HR allocating its resources in terms of people, processes and technology

■ There should be an examination of the HR department's business objectives and a decision made on the best way to fulfill those objectives, either by outsourcing all or some of the HR components, or by not outsourcing anything.

Nicholas C. Burkholder, in his excellent recent book "Ultimate Performance – measuring Human Resources at Work" makes this compelling case: He states that outsourcing HR "is not a choice that should be made purely on grounds of short-term costs. To make the right long term decision, management must know what the organization needs from HR, how HRO works and what will happen when these two elements are fused together. Costs matter – but so do service quality, management, and culture."

What Should HR Do?

Quite honestly, the answer is often at odds with what it is actually doing. HR should be focusing on securing the work climate, ensuring HR practices and development processes are in line with and contributing to the achievement of operational and strategic business goals.

Outsourcing a process such as payroll, while utilizing a web-based HRIS application such as "Peopleserve" – which has been developed specifically for the Thai market, enables HR departments to simultaneously:

- improve administrative effectiveness,
- provide valuable on-line transactions for management and staff,
- enhance management information and cost control
- release HR departmental resources to address important talent management priorities

What is the point of having an HR department?

The point of having an HR department is to ensure that your business has the right people, with the right skills, experience and competence, in the right place, at the right time and at the right cost.

To do so requires a thorough understanding of the issues and opportunities involved in attracting, developing and retaining high performing, high potential staff. That should be HR's "reason for being".

Outsourcing the weight of administrative task that so often burdens the effectiveness, efficiency and focus of the HR department, is one step in the process of aligning HR activities with the operational needs and strategic goals of your business.



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