

The changing context

The human resource (HR) function has had a turbulent time over the last few years. In many organizations the pendulum has swung between downsizing and redundancy programmes and recruitment and retention difficulties. Organizations have increasingly paid attention to the customer, to the need for quality and cost improvement, to produce new products that stay one step ahead of the competition and so on. There have been new forms of service delivery. This may be a response to a more international operation or to a shift to the business unit as the primary organizational structure in place of the function. There may have been a tendency to decentralize responsibility for activities so that decisions are made closer to the customer or to re-centralize to emphasize the coherence of the organization. At an operational level, more and more work may be being completed in short-term project teams and less and less through traditional jobs.

The HR function has sought to respond and support this sort of organizational change, at the same time as finding its own role and contribution under scrutiny. Consequently, HR has spent considerable time examining itself, its role and its value in the light of the perceptions of it within the organization. This has led to changes in the way HR delivers its services. More work has been devolved to line managers. Activities previously carried out in house have been outsourced. The HR function has tried to become more customer friendly, more sensitive to quality and customer satisfaction. This may be reflected in opening hours, speed of response or the way technology has been harnessed. It has meant HR has had to spend more attention on the monitoring and evaluation of its performance.

Adding to the pressure on HR, whilst many businesses have claimed that people are their greatest asset, they have in practice often seen them as a source of cost not income generation. All too often this has meant that workforce numbers have been a soft target when cost reductions are required. This has placed demands on HR policies, practices and structures to react quickly to the changing business demands. It has made it more difficult for HR to pursue approaches that involve long-term investment in people and has encouraged a reactive response to problems that arise.

Cost reduction pressures have been at their greatest in what are deemed to be 'support' functions. As Alf Turner, then of BOC, said when explaining to a conference why shared services had been considered in his company: 'There is a relentless pressure on overhead costs that has consequential pressures on the cost of HR delivery' (Turner, 2000).

With increased devolution of people responsibilities to the line and administrative work outsourced or automated out, senior management in some organizations has started to question what value the function can add. If it cannot demonstrate its worth, then managers will wonder what the point of having an HR function is. Some leading HR managers believe

that the function is now at a crossroads: either it has to show that it has a worthwhile contribution to make (through maximizing productivity or attracting and retaining the best talent) or it will find itself merely a contract manager of activities done by others.

It is in this context that the concept of shared services has emerged.

The concept of shared services

Like so many ideas, the shared services concept came out of the USA. It has not been seen as something peculiar to HR, but applicable to any form of service delivery. It has tended, though, to apply to services that support the primary operational activity. Thus shared service models have been created for finance, information technology, procurement, etc. So what distinguishes *shared* services from other forms of service provision? It has three key dimensions that in combination distinguish it from other models:

- The nature of the services provided is determined primarily by the customer.
- There is a common provision of services.
- These are available to a number of users.

The most significant of these points is that the 'user is the chooser' (Ulrich, 1995, p. 13) so that, unlike conventional internal service provision, the customer defines the level of the service and decides which services to take up. Thus the balance in the shared services model is shifted from producer to consumer. These services are on offer to whoever wishes to take them up; they are not restricted to particular groups. This is achieved by pooling the services for general use. Activities are therefore usually transferred from operating units to the shared services centre. This has been described as 'internal outsourcing'. It is important to note that *shared* and *common* provision of the service is not supposed to mean that it is *centralized* in the traditional sense of that term, i.e. that it is corporately determined. Rather, customer choice drives the model, the corporate part of the organization facilitates the process.

In practice, life is not as simple as this theory. In particular, some organizations may use the concept of shared services deliberately to centralize for reasons of cost cutting without having much regard to the customer. Nevertheless, in its pure form, the attraction of shared services is both this shift to reflect customer choice in line with business trends and the efficiency benefits that can be derived from concentrating dispersed services. In this book, we will concentrate on shared services in its pure form.

What parts of HR go into shared services?

Before looking in more detail at why organizations have opted for shared services, we need to put more flesh on the bones of the concept so that you have more idea about what is involved. We will use examples from organizations operating the shared services concept to give you a sense of the choices open to you.

Those organizations that have introduced shared services have included a variety of activities. To understand the options, we have categorized HR activity as shown in Figure 1.1. Organizations commonly distinguish between strategic, operational and administrative activities.

Strategic work generally includes setting the broad HR policy direction, aligning HR

Strategic	Policy Governance
Operational	Centres of excellence Relationship management Project work Consultancy
Support	Information and advice Administrative Record keeping

activities with the business strategy and performing a governance function, i.e. ensuring that people in the organization abide by the rules of the game (e.g. in living the values). In our experience, such strategy work is always excluded from shared services model, as it is seen as a corporate responsibility and not to be shared with or determined by customers. This means that standards-setting and determining the values, mission and vision remain part of the corporate role to ensure that the organization follows the same broad approach to people management. The strategic role may well become the unique selling point (USP) of the internal HR function

Figure 1.1 Categories of HR activity

Source: Reilly (1999)

in the future – the area where it can add most value. Given its prime importance to the future of the function, it is right for you to keep control of this role and locate it at the centre of your activities. This is particularly true where substantial parts of HR have been outsourced, where employees are responsible for data-loading in e-HR systems or where devolvement to the line has removed much traditional HR work from the hands of the function.

Senior management issues (reward, development and succession) are also often treated as the preserve of the corporate centre. This is because of the sensitivity of the issues at stake and the need for high-level support. Moreover, dealing with external affairs, such as lobbying and participating in external bodies, is frequently kept as the responsibility of the corporate office. This combines well with the strategic work, emphasizing as it does the long-term and broader picture.

EXAMPLE 1.1

In one energy company, the corporate centre is very small and concentrates on HR strategy, management succession planning, external contacts and corporate governance.



At the other end of the spectrum, administrative and record-keeping tasks are the commonest elements to be included in the shared services function. The following items are often involved:

- recruitment administration
- relocation services
- payroll changes (on/off/variation – especially maternity leave)
- benefits administration (including flexible systems and share schemes)
- company car provision
- pensions administration
- employee welfare support
- training support and administration
- absence monitoring
- management information.

Not all these services are included in every shared service centre. Some are frequently outsourced (e.g. relocation services, pensions administration, training support and payroll particularly). This is where the work is deemed to be straightforward and where cost is a primary concern. Sometimes though, for example in training, external expertise is sought either because it is absent internally or too costly to maintain in house. Other services are not centrally located in a shared service, but placed closer to the activity they support. For example, recruitment administration is sometimes put with the recruitment team rather than with other administrative activities. The debate here is whether the benefit of economies of scale (by bringing things together in one place) outweigh or not the benefit of being aligned with those that are being supported (i.e. close to the action).

EXAMPLE 1.2

In 1995 a financial services company started their approach to shared services by combining the administrative support for one particular division. In 1996 they added the administration of recruitment services. In 1998, further divisions were added. This coincided with a major recruitment drive which, despite the throwing in of extra resources, compromised the performance of the personnel administration – recruitment work could not wait. So they decided to split recruitment out and return it to local HR units, since when the recruitment team has widened its service to include placing adverts and doing the first interview sift.

The provision of information and advice is another common feature of HR shared services provision. This can be provided via:

- written guidelines and procedures
- face-to-face contact
- an intranet to give details of personnel policies and procedures
- an email question and answer facility
- a telephone customer helpline to advise on the interpretation of these policies and procedures.

These sources of information serve different audiences and satisfy different needs. Some services (personnel guides in written form or accessible via the intranet) are offered to line managers so that they do not need to bother their HR colleagues with trivial or straightforward questions. Employees, too, can make use of these services for similar reasons. The helpline can also provide simple information or data, but it can go further. It can give line managers advice on the interpretation of HR policies. This might, for example, be on how to handle a particular disciplinary case or compassionate leave in unusual circumstances. HR colleagues may also use the helpline if there is particular expertise available.

EXAMPLE 1.3

BOC has a free phone line and anyone, managers or employees, can ask what they like. Pre-set options on the telephone system are:

- 1 pensions
- 2 payroll
- 3 share save
- 4 other HR query.

Calls are logged so that issues can be monitored; past history can be tracked and it allows charging on an itemized basis, if appropriate. One thousand two hundred calls were made in first month of operation.

EXAMPLE 1.4

Compaq's intranet is organized under the headings of:

- compensation and benefits – profit sharing, share purchase, flexible benefits, pensions
- payroll – tax and bank information
- training and development – including performance management
- employment – leave, equal opportunities, flexible working, maternity
- health, safety and security – accident report and occupational health
- resourcing – job opportunities, graduate recruitment.

The site contains 600 pages of information and is supported by a specialist adviser who looks for ways of improving the site.

Source: IDS, 2001.

Which of these options an organization chooses to offer depends upon cost (naturally the more channels the more expensive, but also inanimate methods are cheaper than those involving labour) and technological capability. More and more organizations are investing in computer systems and telephony to reduce the dependence on the more expensive human interaction. Some organizations though recognize that customers want different means of contact with HR so they offer the full range of communication channels. The expectation is that the intranet or written material will be scanned for factual information, that helplines or email will be used for giving advice or interpretation and that face-to-face meetings will be limited to the most sensitive or complex of situations.

EXAMPLE 1.5

An insurance company took the view when introducing shared services that they would offer multiple channels through which employees or managers could access HR. Thus people could

contact by phone or email. They could look up a physical manual or surf their intranet. They could arrange to see HR staff face to face. The company did this despite realizing that having so many contact points was more expensive than having only electronic interaction. They hoped to wean colleagues off face-to-face meetings and off the phone and towards email and the intranet, but they recognized that not all staff would (yet) be comfortable with such an approach. Savings were made by aggregating disparate services. They did not need to make further savings by pushing people only to use computer-based interaction, especially if this risked giving shared services a bad name.

The greatest variation between organizations in defining the boundaries of shared services occurs in the operational middle of Figure 1.1. Nearly all large organizations have an HR person in a customer-facing role, variously described as a business partner or adviser, or relationship manager. They either report to a business unit line manager or to a senior HR manager, usually, but not always, separately from the shared services organization. This individual, or at most small team, is expected to support their line clients in terms of strategic development, organizational development and change management. This can be described as the transformational activities, to be contrasted with transactional administrative services undertaken by the shared service centre. Often they are expected to call upon the services of others. Administrative support comes from the shared service centre, project support from a consultancy pool and policy direction from the corporate centre. Business relationship managers then act as brokers, contracting these services in what in some organizations is a purchaser/provider demarcation.

EXAMPLE 1.6

The HR partners at BOC (IDS, 2001) are responsible for:

- giving direction on 'organizational issues, structure and strategy'
- providing leadership in implementation of HR policies and processes
- developing and managing service level agreements (SLAs) with the service provider
- work with corporate and other HR colleagues on developing HR solutions.

Many shared services operations have a project or consultancy pool. This provides a group of HR staff to tackle a wide variety of problems. These problems may be characterized by their complexity or time needed to deal with them over an extended period. So the consultants might tackle the design and introduction of a new performance management system. They might provide help in a downsizing and restructuring project. In some companies, customers 'hire' their consultant as they would a taxi – hailing the first available person. In others, consultants are grouped by business unit (so they have specific knowledge of its problems and people) or by professional subject area (e.g. reward or development). Having a segmented pool of consultants is less efficient in resourcing terms than having one group, but does allow individuals to build up knowledge of a particular field (necessary if they are expected to carry out complex assignments without internal or external support) or business activity (more essential in a heterogeneous type of organization).

EXAMPLE 1.7

In Shell UK Exploration and Production consultancy services are grouped around:

- reward systems
- resourcing and recruitment
- employee relations (including advice on employment legislation)
- learning and development (advice to managers and employees on learning strategies and methods)
- organization development
- business support (including process improvement and benchmarking support).

The consultants work in multidisciplinary groups appropriate to the assignment. They work in close co-operation with the HR 'Business Partners'.

The BBC's new corporate consultancy pool has 14 consultants available to the organization. They work on projects commissioned mainly by HR Business Partners where there is an identified business critical need or insufficient resource from within their HR operational team. This means they may have to handle high-priority work or projects that need especially sensitive handling. All are generalists, though with preferences or skills in particular areas. They are expected to be able to work in any business area and on any topic, but in practice, allocation of work is likely to be based on best fit in terms of skills/knowledge and the assignment, and on availability. Thought is being given to supplementing this internal resource with external associate consultants who might have specific expertise or could provide additional resource at peak times.

British Airways opted to have a general pool of consultants but then decided that their service would be improved if consultants were dedicated to particular businesses. The knowledge of individual businesses was found to be helpful.

BOC has what they call a 'professional services' group organized into four streams. These cover resourcing, training and development, employee relations and compensation and benefits.

Abbey National has a small team of senior HR Relationship Managers who work as strategic business partners with the business Executive Management teams. These relationship managers participate in the business planning processes and develop HR plans to deliver the business plans. They deliver the HR requirements by accessing the services of an HR Consultancy team and other functional specialists such as recruitment and training. The HR consultants typically manage business change projects working with cross-functional business teams and the HR functional experts. The HR consultants may also work as key contact for a business area supporting managers with smaller change projects and more complex individual employee issues such as long-term absence management and grievance and disciplinary cases.

Finally, there are the so called centres of excellence that give expert help in specialist areas. Commonly this would include reward and training and development, but might encompass organizational design or resourcing. In some organizations this expertise is located in the corporate office along with the work undertaken on policy direction. In other companies, it is part of shared services. The location of the activity depends upon the extent to which the organization sees it necessary to be customer responsive (and place it in the shared service centre) or more corporately integrative.

EXAMPLE 1.8

Unilever is about to launch HR shared services in the UK. It has three dimensions, as shown in Figure 1.2:

- self-service
- customer service
- centres of expertise,

all under the ‘peoplelink’ branding.

Its centre of expertise provides expert help and service to Business Unit HR managers. Its role is to:

- be accountable to clients for peoplelink service/delivery
- adapt service in line with business need
- share know-how and market best practice.

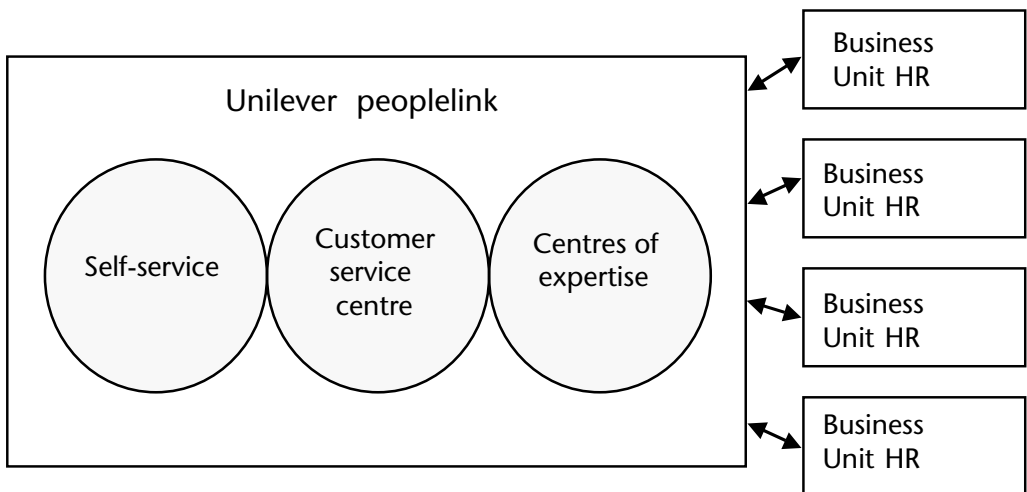


Figure 1.2 Unilever peoplelink: how the service will work

EXAMPLE 1.9

The Prudential Insurance company has eschewed the term ‘centres of excellence’ to avoid creating unhealthy expectations. Instead it has ‘single provision centres’ in its HR model. These are the owners of HR policies and processes. They employ specialists who are ‘responsible for developing, enhancing and helping to execute business unit HR initiatives’. They act as consultants, advisers, coaches and troubleshooters for business unit HR staff.



For both the consultancy pool and the centres of excellence, in some organizations, guidance is provided to line managers directly; in others, these services are accessible by HR alone that contracts or uses them on behalf of their business partner.

The interrelation between the various elements of HR's activities is shown graphically in Figure 1.3 This is loosely based on the Prudential approach. It is generic in the sense that most of the elements are present in some form in big organizations, but the linkages may vary.

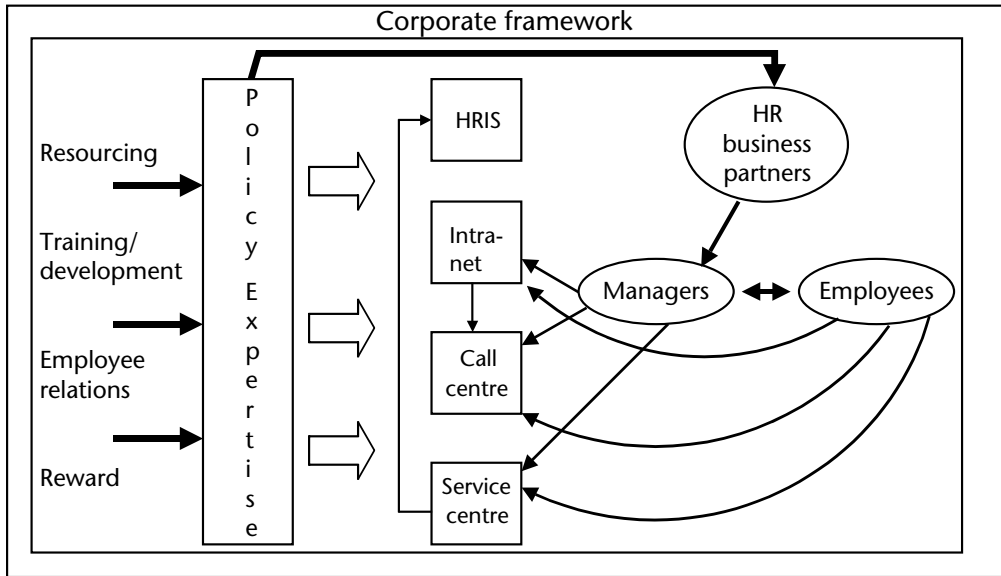


Figure 1.3 A model HR operation

Source: adapted from Prudential

To summarize, the experience of other organizations that have introduced shared services is that:

- Strategic work is kept at the corporate centre.
- Business relationships are best managed close to their business customers.
- Organizations can opt to have a pool of consultants or project staff in shared services operation to provide efficient resourcing. These people can act as a ‘fire brigade’ to deal with problems, can offer specialist expertise either on a business-specific basis or subject-expertise basis or to provide longer-term support to specific change programmes.
- Centres of excellence, defined by HR specialism, can be found in either the corporate centre or in a shared services model. Where they are located depends on the emphasis given to corporate cohesion or to customers, and upon the presence and role of the consultancy pool.
- Information and advice is usually a key element of shared services and can be delivered in a number of ways (personally, by telephone, by computer or through the written documents).
- Administrative tasks form the major part of any shared services model. However, parts may be outsourced or located with the activity they support.

Figure 1.1 can thus be annotated (see Figure 1.4) such that the location of the work can be specified on the basis of common practice. But how it would best look in your organization depends upon your needs and context. As the manager of HR shared services in one company put it:

We are pragmatic about what is included in shared services. We do not make rigid distinctions between transactional and other work. We take an incremental approach, an organic approach, to the development of our services. This is especially true because we recognize that technological change will facilitate future options such that some solutions that look attractive now might look unnecessary later.

<i>Nature of activity</i>	<i>Element of activity</i>	<i>Most common location</i>
Strategic	Policy Governance	Corporate centre
Operational	Centres of excellence Relationship management Project work Consultancy	Corporate centre Business unit Shared services
Support	Information and advice Administrative Record keeping	Shared services

Figure 1.4 Categories of HR activity on the basis of common practice