What keeps
Heads of HR
up at night?

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We undertook a survey of fourteen companies with Canadian head offices to understand the current best practices in HR organizational structures within Canada and specifically BC. We also wanted to determine if BC practitioners follow best practices, or modify them for our specific region and needs.

And how organizational structure affects HR's ability to deliver

We also wanted to determine if the Human Resources structures within organizations promote the acquisition, development and deployment of the emerging HR areas of expertise: social networking for branding and recruitment, knowledge management, project management of HR programs, data analysis.

The companies we spoke with ranged in size from 100 to 10,000 employees. Their industries included service, manufacturing, public and non-profit sectors. We asked them to complete a questionnaire and requested copies of their HR organizational charts. Our survey included interviews with key HR employees.

We focused our survey on organizational structure because it is a significant leading indicator of the health of the HR department. Organizational structures reflect business' desire to facilitate the "way things get done around here". Thus, although there are commonalities in organizational structures across companies, the differences highlight the unique nature of each company.

79% of organizations have restructured HR within the last three years and 64% indicate that their organization plans to restructure within the next year.

HR is strategically involved in business and is demonstrating leadership in a growing number of functional areas. HR must have the right structures in place to support business activities and to enable emerging areas of expertise. Effective structures allow innovation and increase both business activities and professional growth.

A 2008 Corporate Leadership Council Report states that "approximately 71% of organizations have restructured HR within the last three years and 60% of the survey respondents indicate that their organization plans to restructure within the next year."

When organizations make multiple changes to their organizational structure they are indicating that they feel a need to change the "way things get done around here". The number of previous and projected organizational changes in the companies we surveyed signify that many HR departments are not satisfied with the way things are getting done.

Major Challenges

Two major challenges were reported. The first is that the design of the HR department was aligned with programs and projects, which encourages the HR business clients to frame their operational problems with a solution in mind. This limits critical thinking and strategic interventions by HR.

In Dave Ulrich's 1997 groundbreaking book, "Human Resource Champions" he outlines three main building blocks to the HR organizational structure:

1. **HR Front Office**
2. **HR Back Office**
3. **HR Centers of Excellence**

The second problem is that the structures are proving inefficient at managing issues around the loss of knowledge. Many companies are experiencing their knowledge DNA being eroded by turnover and retirements.

Solutions Implemented

The organizational structure improvements that HR has implemented to date represent best practices. These developments include Transactional Back Office, Centers of Excellence, and Front Office.

These solutions have worked to a point. However, the Transactional Back Office improvements have been challenged by the cost of implementation, and employees' willingness to circumvent the new systems.

Centers of Excellence have been challenged by lack of sufficient resources to enable the managers to attain their strategic goals.

Front Office has been challenged by their inability to completely facilitate their clients' needs.

Proposed solutions include changing the structures of HR to be more representative of the collaboration required to fix today's complex business challenges, and HR practitioners increasing their project management skills.

Together, the changes made to date and considered for the future are hopefully signs of an active HR visionary population trying to best serve their client groups.

What keeps
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When probing this question, we get a sense of the enormity of what is being asked of HR:

1. We are worried about turnover (recruitment).
2. We are concerned with defining, keeping, and attracting our next leadership team (recruitment, retention).
3. We have too many people who are the only people in their areas who know how a specific process works. They are holders of our institutional knowledge and we can't afford to lose them (succession planning).
4. We need to recruit to bring in new talent but we are not entirely certain of exactly what roles and work we have for them (organizational design).
5. Our workplace is changing and not everyone is keeping up (training and workforce planning).

When each concern is explored, we find that there is a functional area within HR that is competent to address the issues. The HR division will stream the client, the problem, and the solution to the team who has the expertise to deal with it. Thus the functions within the HR department match the form of the question posed by their client.

Clients tend to come to HR with both a defined problem and a clear sense of what type of program or solution they are looking for. They might state for example, that they have a succession problem and that they would like assistance with recruitment, when HR might be more strategic to focus on organizational redesign.

Challenge 1
Organizational structure may impede optimum solutions

What we have been told in the survey is that the organizational functional chart of HR reinforces the client's understanding of their problem and potential solutions.

When clients come to HR with both a defined problem and a clear sense of what type of program or solution they are looking for, they limit themselves and the organization from finding truly strategic answers.

For example, the client might state that they have a succession problem where four of their key employees are eligible for retirement in the next two years, and that they would like assistance with recruitment. However, investigation might determine that if the workflows were better designed, they might not need to replace the retiring workers. Thus in this instance, HR would be more strategic to focus on organizational redesign rather than recruitment.

What is clear in talking to HR departments who are dissatisfied with their organizational structure is that although they have changed the structure in the

past and are considering changing the structure in the future, their changes are not working. Their clients are still predetermining their problems and solutions, and HR knowledge and skills are not being utilized strategically. The typical HR organizational structures are not breaking this pattern, or worse are reinforcing clients' limited definitions of their problems.

> **Effective collaboration and knowledge sharing and application of collective organizational knowledge and experience are essential to building an agile and responsive workforce. Yet many organizations lack the structure and resources to facilitate institutional knowledge sharing and collaboration.**

In IBM's CSeries 7 – CHRO paper, in which hundreds of CHROs were interviewed, the authors found that one of the greatest concerns for the CHROs was: "Effective collaboration and knowledge sharing and application of collective organizational knowledge and experience, are essential to building an agile and responsive workforce. Yet many organizations lack the structure and resources to facilitate institutional knowledge sharing and collaboration."

There is no functional department in HR that clearly owns this question. Many departments in HR own a piece of this question:

- Succession planning helps to find the next person to take the leaving employee's seat
- Retention helps to keep the employee
- Recruitment helps to find the most qualified replacement for the employee
- Training or Learning and Development helps to fill any gaps in knowledge transfer
- Organizational Design helps to ensure the most effective business process or systems

> **The very DNA of companies is increasingly being called into question.**

Challenge 2
Who holds the institutional knowledge?

The concerns indicate a paradigm shift in HR. They represent the operation asking itself - "Where does our institutional knowledge of who we are, how we approach problems, and how we resolve issues lie?" The very DNA of companies is increasingly being called into question with new pressures created by the movement of employees within and outside of the company.

Companies are increasingly finding it to be very expensive to relearn from past mistakes. According to a study by Yan Zhang and Nandini Rajagopalan, the best

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CEOs are those who have come up through the ranks or are at least knowledgeable about the company before taking the helm, as they can make better decisions faster.

Only one company that participated in our survey was not deeply worried about turnover, succession planning and knowledge transfer. This company has historically had low turnover and clear internal development steps for employees. However, their concerns rested around building the leadership capacity of their next generation of leaders.

Several companies talked about how their best salespeople have personal relationships with their clients that cannot be replaced by new customer relationship management (CRM) solutions. These employees have worked for the company for many years, have built long-term trusted relationship with their

clients, and have solutions to problems that have not yet been foreseen. When these salespeople leave the organization, the risk to the company is great, immediate and quantifiable.

Other companies discussed the same issues but focussed on key employees who worked on a piece of equipment, a process, or a system and who hold key knowledge. The cost of this employee leaving might not be felt immediately but eventually the impact would be clear.

All of these scenarios demonstrate concerns that there are not enough safeguards in place so that when a key employee leaves, the company's productivity and effectiveness will not be harmed. In effect, the question is – "How do we capture the company's core knowledge – its DNA – that is currently being held by individual employees or siloed work processes?" This concern is not unique to BC and the companies we surveyed.

> **Previously, the external brand was managed by the organization. Now it is being built outside of the traditional processes in a medium that is not within their control.**

Challenge 3
Social media – what are the best practices?

Collaboration and collaborative projects across divisions and departments and within teams often necessitate new software to facilitate the process. This raises the question in HR as to the role of social media; in fact, all of the HR practitioners involved in this survey shared common questions about HR's role in social media, and a lot of uncertainty regarding social media best practices.

Many of the HR practitioners we spoke with separated social media into two categories: internal to the organization and external.

Internally there was greater emphasis on items such as shared work sites, collaboration software, and communication-improving technologies.

Externally, HR practitioners understand that social media sites like Facebook and Twitter are being used by employees on a daily basis. While most HR departments have communication policies addressing social media, and the majority of HR professionals we spoke with were confident that these corporate policies are sufficient to cover any social media situations, there were concerns about social media as related to culture and employee brand.

Previously, the external brand was managed by the organization. Now it is being built outside of the traditional processes in a medium that is not within their control. HR professionals are concerned about social media's impact, manageability, long-term costs, and the value of defining and managing their culture on social media.

Satisfied, but….

It can be concluded that work performed by HR is being done by most organizations through a structure that is perceived to be the best practice as defined by the experts. Overall, there is a high level of satisfaction that HR is managing itself in an effective and efficient manner and that costs are reflective

of the true costs of delivering services to the company. Process improvements are being made in HR and will continue to be made.

There is however a deep underlying sense of dissatisfaction with HR's role in the strategic development of organizations, and a desire to change. This level of dissatisfaction is reflected in the number of projects that HR wishes to focus on in 2011.

The HR departments we spoke to all want to develop strategies that will fundamentally alter the way they deliver employee services, recruitment, succession planning, learning and development, Organizational design and other core programs. There is a sweeping program of change to the core function of HR that is being driven by the HR department itself in response to changing organizational needs.

What the
Heads of HR
told us about existing solutions

Existing Solution 1
Organizational redesign

The survey results indicate that HR professionals do not believe that their current HR organizational structures are meeting operational needs.

79% of companies interviewed in this survey have reorganized their department in the last 36 months, and 64% of the organizations interviewed have plans to, or are considering reorganizing their departments in the next 12 months.

Despite being structured, or working towards being structured according to best practices, HR leaders do not feel that their structures are meeting operational requirements.

79% of companies interviewed in this survey have reorganized their department in the last 36 months, and 64% of the organizations interviewed have plans to, or are considering reorganizing their departments in the next 12 months.

HR professionals also indicated that they are being required to take on more programs and projects while their budgets are remaining relatively stable. Although some HR budgets are increasing, the increases are minimal and mostly reflective of wage increases. Some HR departments are being cut back but generally few are seeing significant cuts.

Based on these findings, one should question if best practice literature and current organizational design of HR departments are meeting the needs of the fast changing operational worlds in which we work. The level of dissatisfaction with HR organizational structures indicates a discrepancy between the form of HR, the functions they are being asked to own, and what HR departments wish to do.

That is not to say that the organizational design is not doing what it is supposed to do. We note in almost every interview conducted that the heads of HR are satisfied that they are directionally moving towards a more effective and efficient system for managing the cornerstone transactional work of HR. They are satisfied that they have implemented significant process improvements and believe process improvements will continue to occur at a rapid pace.

Existing Solution 2
HR Back Office transactional changes

The organizational structures are designed to separate transactional HR from conceptual HR and front line deployment of HR practices.

Transactional HR work has been a strong focus for large HR departments for a number of years. According to HR transformation author William Rothwell, 95% of time spent in the HR function is transactional. With such a focus on processing paperwork, HR employees do not have the capacity to take on new functional areas of expertise.

In-house administration of payroll, workforce administration, time and attendance, and health and welfare requires a surprisingly large commitment of time and resources—typically over $1,400 per employee per year (PEPY) for large organizations and nearly $2,000 PEPY for mid-size organizations.

HR departments have spent considerable time reviewing their transactional services with an eye to improvement. A 2010 PricewaterhouseCoopers study, "The Total Cost of Ownership of HR Transactional Systems", supports this concern: "As a general rule, we have found that organizations tend to underestimate the true expense (the 'total cost of ownership' or TCO) of processing payroll, administering employee health and welfare benefits, and managing other key HR systems and functions."

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HR departments have either set up internal departments to handle the transactional work or outsourced it. For the most part there is a sense of satisfaction that they have accomplished what they wanted to or that there is a roadmap to help them reach their preferred destination.

There is a sense that the most significant changes in this area are completed or well underway. For smaller HR departments, the transactional improvements have been slower – in many cases due to the expense of setting up transactional systems – but as costs have declined and internal resources have been redeployed, the pace of change has increased.

Front line improvements have accompanied the transactional improvements. As more and more transactional work is being shifted to the intranet, outsourcers or in-sourced areas of speciality, less time of front line staff is being invested in transactional work. This transition has not been as quick and seamless for front line deployed HR professionals, but there is an acknowledged level of improvement.

The greatest area of concern has been centered on who the trusted providers of the transactional services are. The organizational design has typically been to create a methodology where employees can access either a database or internal website to add, delete or change their core information, or do the same actions utilizing an outside vendor.

Many companies have gone further, and expect their employees to answer their own questions by accessing resources provided either through internal systems or external vendors. This has not worked as smoothly as once perceived.

Software systems, common question databases, vendors and call centers are all able to answer straightforward questions such as does an employee have coverage for prescription glasses or how much money an employee might have remaining for massage therapy this year. There is a high degree of satisfaction that the structure supports these type of problem resolutions.

There is however, dissatisfaction related to how these resources handle more complex inquiries and problems. For example, a father inquires about his son who requires braces. The son is a dependent under each of his parents' and step parent's companies' benefits plans, and the father would like to know how much insurance coverage the son has, and how the father can negotiate this. Complex questions such as this, which require a more sophisticated level of understanding, are being asked more frequently.

The structural design of transactional departments points the employee to HR. Whether the provider of the transactional service is internal or external, the relationship goes to HR. The employee bypasses their manager and that relationship to go to HR and get their answer from the expert. Most managers encourage this. Thus, HR is frequently perceived to be the most credible source of information and answer to transactional questions. Therefore, these types of questions will continue to come to HR.

Where there has been outsourcing (and a decrease in HR full time equivalents internally), this direction of questions to HR has become a point of frustration for the HR department. HR departments have not been able to accomplish their desired results since their time has been consumed with transactional questions. The ideal of redirecting the relationship to the vendors has not occurred as promised.

> **Regardless of the vendor's skill in answering questions, it is very difficult to change employees' habits and shift them to have direct relationships with vendors. Vendors don't have the level of trust from employees that the HR professionals do. Employees are savvy enough to get around structure to find trusted information, and HR is trusted to know the answer.**

Regardless of the vendor's skill in answering questions, it is very difficult to change employees' habits and shift them to have direct relationships with vendors. Vendors don't have the level of trust from employees that the HR professionals do. Employees are savvy enough to get around structure to find trusted information, and HR is trusted to know the answer to complex questions. In many cases, even when the transactional department has been removed from the organizational structure of HR, the power of this trust is so great that the work then moves to the front line manager. In effect, the trust factor is more significant than any organizational structure.

It remains to be seen if external vendors can develop the trust of employees, and if moving this trust to vendors is actually a positive move for HR departments. Through building these trusted communication channels HR often learns critical information about the overall health of the company.

At least one of the companies surveyed that had outsourced all transactional work has brought back in-house the handling of more complicated queries. All simplistic or data-type questions are answered by the vendor, but more complicated questions are answered by the HR department. This partnership is working effectively for the organization. They believe that they are acknowledging what was actually happening in their workforce and are properly resourcing and designing their organization for what they perceive to be their unique reality.

In summary, the work to move to transactional systems has been accomplished or is well underway, but success has been difficult to achieve.

Existing Solution 3
Centers of Excellence – renewed strategies

The survey results confirm that many companies are focusing on renewing strategies held by their Centers of Excellence. These strategies include recruitment, succession planning, training (especially leadership training), retention and key performers. New strategies like metrics, social media and project management are being considered or developed.

Centers of Excellence have been built on two main principles: functional areas of expertise in HR, and client-defined needs. HR departments cover a variety of programs and projects, and have a broad spectrum of required skills that align to clear functional roles. Although there are generalists, many HR professionals have career specialization in one functional area. For many of these areas, there are certification programs, development courses and clear hierarchies of skills and their development.

A specialist in one area of HR may have a cursory understanding of another functional area, but not the depth and breadth of knowledge of someone who has specialized in that area for a period of time.

Centers of Excellence have seen an increase in the number of programs and projects they have been requested to work on. For most companies, the Centers of Excellence are still closely tied to transactional work. Many of the organizations surveyed stated that their transactional personnel were the same HR professionals who work on their Centers of Excellence strategy. In effect they are "working managers". This is the area where there has been the least amount of change and the most new demands being placed on the HR professionals. This was evident in both small and large organizations.

"I come to work to deliver a service and I go home to think of the strategy of how to improve, change, and create my services"

Centers of Excellence typically have a manager of an area. For example, a Manager, Learning and Development would be responsible for developing strategies, as well as managing the creation and delivery of content. Advantages to this system include feedback being quick, effective and easily implemented. A drawback is the lack of time that these managers have to develop strategy. A concern frequently expressed during the surveys was "I come to work to deliver a service and I go home to think of the strategy of how to improve, change, and create my services".

Some Heads of HR voiced concern that their team is seen as "doers" because the strategic work that they do is performed behind closed doors, often offsite, and frequently at home. Their teams are seen as busy, helpful and competent but not as drivers of the business agenda.

This perception is deeply ingrained and very difficult to change. Thus, the work designed to be done in the Centers of Excellence is being performed, but often the client groups are not aware of it.

What do the
Heads of HR
vision for the future?

The IBM CSeries 7 survey indicated that "Less than one-third of companies are regularly applying collaborative tools and techniques to drive knowledge sharing and innovation."

There does not appear to be an existing best practice solution, but different companies are trying various methods.

Collaboration and project management – HR's strategic role

One approach that a number of BC companies are taking is making HR more visible with a clear role in senior decision-making committees. For example, there is a sense that to be strategic, HR needs to take a seat at the table at the Project Management Office (PMO). Priorities, budgets and resource allocation for projects that will drive the future direction of the company are set at the PMO. This is the space where strategy is executed.

> **HR needs to take a seat at the table at the Project Management Office.**

HR has a strategic role to play on this committee in connecting the right people and resources to the right project. For example, a role on the project may help retain a key employee, fill an organizational gap, or transfer knowledge to an employee slotted for increasingly important roles.

It might also be possible that a present key role could, in the future, be addressed through a team rather than an individual. The nature and movements of teams through project and organizational design is often structured through the PMO.

HR is regularly invited to the project table but usually to address a specific project need such as change management or training. HR needs to be at the strategic project level where decisions to prioritize projects are made. The impact of a project proceeding (or not proceeding) may have significant impact on an organization's ability to handle that particular area of work.

For example, one company made the decision to replace an expensive piece of software because the skills that ran that software were not common in the marketplace. The role was difficult and expensive to recruit, retain, and train. The company believed that production was at risk due to the people resourcing challenges, more than the technological challenges. HR clearly had a critical role in the selection and validation of this project for the company. This is high level strategic decision making.

The critical HR skills required to be a player at the PMO table are all the normal business skills an executive should have, as well as the ability to reach into HR

and tap the strategic knowledge of the recruitment team, the retention team, and information on turnover and other metrics.

Project teams

There is movement within HR to set up project teams, and a sense in HR that project management is becoming an increasingly important skill set.

According to HR departments that work more effectively, they take on fewer projects but with more efficacy. Project teams across functional areas in HR effectively tap the knowledge in key individuals and areas of expertise for cross-functional problems. The HR structure becomes three-dimensional: Front Office, Centers of Excellence and Back Office overlap and constantly evolve. In project teams, broader questions and concerns are addressed and everyone in HR is aligned, so HR professionals need to be better skilled in managing projects. The HR leaders we interviewed for this survey agreed that this skill set in HR needs to continue to develop and grow.

Another outcome of the increased use of project teams is that HR is becoming more effective at tapping resources within the company, but not necessarily within the HR department. For example, financial departments are very skilled in creating data sets on costs and revenue, but HR departments are bringing financial analysts into their projects to assist in creating information on the costs-benefits associated with HR programs.

HR as a key contributor

The size and scope of the survey we performed as part of this white paper are not sufficient to provide scientific evidence of the organizational direction of HR within BC. However, the results are sufficient to point to trends and areas of commonalities in how HR is being structured now and into the future. They also highlight common concerns and guides to the next steps.

We can determine that most HR organizations are either structured according to best practices or as a derivative of best practices. The modifications to best practices are based on organizations' attempts to replicate best practices structures within the constraints of the size of the HR department or the nature of the company. HR professionals who participated in the study see the value of the HR organizational structures as outlined as best practices for traditional HR work.

In our study we found that there is dissatisfaction with the structure as it relates to dealing with many of the current business challenges HR is addressing. New research indicates that these challenges are being acknowledged worldwide. These challenges are cross-functional, cross-divisional, and require new approaches. The organizational structure of HR, as outlined in the best practices literature, does not effectively address these current challenges.

Albert Einstein said that "You cannot solve a problem from the same consciousness that created it. You must learn to see the world anew." This is true of the issues facing HR and our business partners. The same thinking that created silos, hierarchies, and single points of contact cannot solve the problems of a socially networked, digital and constantly changing organization.

> **Maintain the best practices HR organizational structure, which includes the division of duties among Front Office, Center of Excellence and Back Office. The HR departments are modifying the structure by overlaying it with cross-functional work teams both internal and external to HR. This overlay is becoming institutionalized.**

HR organizational structure, as outlined by Urlich, and improved on by many other authors, has proven to be a viable method for HR to reduce costs, decrease transactional work, and streamline the HR Back Office. However, they have not been effective at finding methodologies, processes and procedures for handling the challenges of succession planning, knowledge transfer, and preservation of institutional knowledge by the business rather than individuals (which are critical issues for organizations that have either a highly mobile or more mature workforce).

The solution that companies who participated in our survey are working towards is to maintain the best practices HR organizational structure, which includes the division of duties among Front Office, Center of Excellence and Back Office. The HR departments are modifying the structure by overlaying it with cross-functional work teams both internal and external to HR. This overlay is becoming institutionalized within the companies by HR, in committees such as:

- The project management offices
- Project prioritization groups
- Cross-divisional think tanks
- Other committees that bring together senior level employees to support the company's strategies

HR is a key contributor to these committees since they are skilled and bring important information to the table. For example, HR knows which employees have skill gaps, are retention risks, ready for new challenges, or have the capability to be groomed for succession seats. HR also has insight into whether a seat needs to be replaced or if the work can be redesigned as part of a new project.

> **HR is the institutional memory of the employees**

In this role HR is the institutional memory of the employees – who may have had a number of bosses over the years while working on a number of projects. This unique set of skills truly makes HR a strategic partner.

In order to achieve this partnership, HR must understand the organization's operational needs, have skills in defining processes and projects, and be able to adjust and react as the business' needs change.

In order to accomplish this, HR practitioners need to have significant HR knowledge to have credibility in addressing HR related issues. HR professionals also need to have operational knowledge, project knowledge and technology skills. The breadth and depth of the required knowledge truly makes HR practitioners well rounded business professionals.
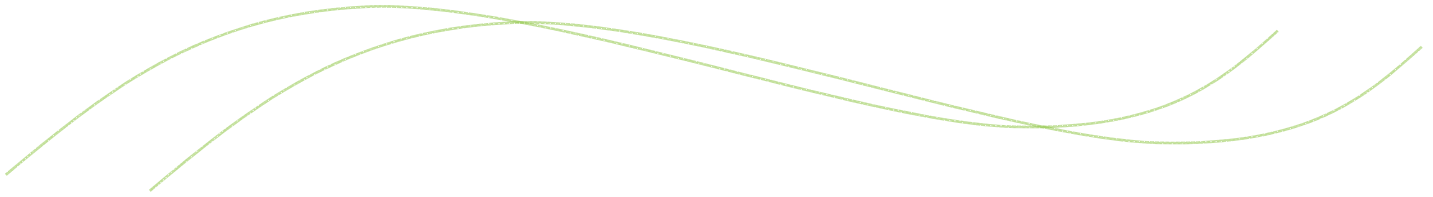
Appendix 1
Best Practices – HR Organizational Structure

In Dave Ulrich's 1997 groundbreaking book, "Human Resource Champions" he outlines three main building blocks to the HR organizational structure:

1. HR Front Office
2. HR Back Office
3. HR Centers of Excellence

Over time these three building blocks have been described and applied in various ways by organizations, yet the basic principles remain the same. Thus, 14 years later, there is widespread agreement amongst HR professionals that HR departments are most effective when structured in the following manner.

HR Roles and Functions as Outlined by Dave Ulrich

Summary of main roles of the functional areas of HR
All areas Manage Risks, Support Organizations, Strengthen Employee Brand and Maintain Standards and Quality

The **Front Office** is the relationship builder within organizations. Its customer is Management with some employee involvement. Its goal is the implementation of the right HR programs to address business needs.

Front Office focus:
- Implement HR programs
- Focus on applying HR solutions to business problems
- Bring business problems back to HR for either a transactional fix or development of an HR program or policy

HR Centers of Excellence are the Developers of specific strategies, programs and policies. Their customer is HR Front Office and the programs that reach out to the management of the organization. Their goal is to create the best Human Resources practices to meet business operational needs.

HR Centers of Excellence focus is to investigate business problems and focus on creating effective solutions that can be applied to a specific area of the company, or shared across the entire company

HR Back Office are the Executors of programs and policies, and transaction at the individual employee level. Their customer is usually employees and HR Front Office. Their goal is cost savings and standardization while delivering high quality HR programs, and their focus is to execute on broad programs and manage the exceptions to the rules.

As illustrated in the above summary, the development of the organizational structure of HR using Ulrich's principles occurred at the same time as the general movement of HR from a transactional "personnel" function to a strategic function.

Changes in HR organizational structures and HR functions developed alongside the changes in who HR perceives to be its customers. The customers of most of the structural areas of HR are the managers of the organization. Both Front Office and HR Centers of Excellence may have some contact with the employee population, but their main driver or influencer is the business manager. It is only in the HR Back Office where the main customer is the employee. It is in

dealing with the individual employee transactions that HR Back Office creates the employee experience.

It's not that HR no longer wants to be involved with employees and their individual needs and expectations, but HR's role in interacting with employees has changed alongside the structure of the HR department.

As stated by Amy Kates and Downey Kates in their paper, "(Re)designing the HR Organization", there is a "shifting definition of the HR 'customer' from the traditional focus on the employee to an almost total focus on the management ranks. The goal has been to create an organization that can deliver the necessary, daily (but low value-added) transactional work of HR consistently and efficiently while at the same time undertaking complex consulting and project based work that is intended to further strategic business initiatives".

For example, HR Front Office staff will support an employee in crisis, but their strategic efforts are focused on advising the business leaders in the area of human capital development and the development of management skills in leaders, as well as the management of employees. HR Front Office efforts are directed to the application of the scarce resources embodied by employees to achieve the business goals of the organization. The structure of the HR department reflects the strategic imperative to be proactive in the management of the people and resources rather than focused on the reactive issues.

Being proactive requires HR Front Offices to have a deep understanding of business issues that their customers face. With this deep understanding of the business they can then apply their equally deep understanding of HR Policies, procedures, programs and projects to add value into the planning and achieve the best outcome for the organization's people and resources.

A corporate leadership study, "Analysis of HR Business Partner Capabilities", stated that regardless of the organizational model used by the business, the HR Front Office "is the biggest driver of HR-line support effectiveness".

HR Front Office

This study also states that to be effective the HR Front Office must perform these four functions:

1. "Operations Manager
    a. Measures and monitors existing policies and procedures
        i. Assess employee attitudes
        ii. Communicating organizational culture to employees
        iii. Communicating policies and procedures to employees
        iv. Ensuring HR programs are aligned to culture
        v. Keeping the line updated on HR initiatives
    b. Tracking trends in employee behaviours

2. Strategic Partner
    a. Crafts and implements enterprise (business) strategies to chronic challenges
    b. Adjusts HR strategies to respond to changing needs
        i. Developing the next generation of leaders
        ii. Identifying critical HR metrics
        iii. Identifying new business strategies
        iv. Identifying talent issues before they affect the business
        v. Prioritizing across HR needs
        vi. Redesigning structure around strategic objectives
        vii. Understanding the talent needs of the business

3. Employee Mediator
    a. Creates sustained solutions to individual employee challenges
        i. Managing competing personalities in the organization
        ii. Managing conflict between employees
        iii. Managing conflict between managers
        iv. Responding to organizational changes
        v. Resolving political problems in the execution of the business plans

4. Emergency responder
    a. Provides immediate fixes to acute emergencies
    b. Preparing for different situations
        i. Quickly responding to complaints
        ii. Quickly responding to line manager questions
        iii. Responding to employee needs
        iv. Responding to manager needs"

According to the Corporate Leadership Council, the average HR organizational structure is correct but HR Front Offices are providing only one third of the strategic partner role they could be playing. This gap is a source of frustration to both the business and the HR professional.

HR Centers of Excellence

HR Centers of Excellence are the hub of the HR Organizational function. HR Centers of Excellence take in information from the HR Front Office, the external community, best practice research, and business strategy to create processes and programs that are executed and implemented by the HR Front Office and the HR Back Office.

Jon Strickler defines Centers of Excellence as a "A team of people that promote collaboration and using best practices around a specific focus area to drive business results". This team could be staffed with full time or part time members.

Centers of Excellence should serve five basic needs: support, guidance, shared learning, measurements and governance.

Support: For their area of focus, Centers of Excellence should offer support to business lines. This may be done through services or by providing subject matter experts.

Guidance: Standards, methodologies, tools and knowledge repositories are typical approaches to filling this need.

Shared Learning: Training and certification, skill assessments, team building and formalized roles are all ways to encourage shared learning.

Measurements: Through the use of output metrics, Centers of Excellence should be able to demonstrate the delivery of valued results that justify their creation.

Governance: Allocating limited resources (money, people, etc.) across all their possible uses is an important function of Centers of Excellence. Centers of Excellence should ensure that organizations invest in the most valuable projects and create economies of scale for their service offering. In addition, coordination across other corporate interests is required to enable the Center of Excellence to deliver value.

The Instituto de Empresa's Center of Excellence's mission statement defines their role as "providing support for HR directors and specialists that enable them to update their professional

skills. The main objective is to provide a platform for the generation and exchange of knowledge in different areas of human resources, with particular emphasis on emerging issues that may have a marked impact on management capacities in the near future."

John Borgerding, President of SumTotal Systems, defined their Centers of Excellence mission statement as "With an evolving workforce and ever-changing HR needs, product innovation remains a priority, and the Centers of Excellence will enable SumTotal to continue building best-in-class offerings for today's HR technology market."

Centers of Excellence provide a platform for continued growth in the talent management space, bringing together key functions within SumTotal and promoting collaboration and best practices in order to drive pioneering product developments while also bringing a higher personal touch to all customers.

The concept of these Centers of Excellence blends well with both Six Sigma and Kaizen methodologies. In particular, using metrics supports this process. It is no wonder that often the first Centers of Excellence built are those that bring in process improvement methodologies.

One of the greatest challenges for Centers of Excellence is managing their relationships. Centers of Excellence manage relationships with the HR Front Office by ensuring that the HR Front Office is the primary point of contact for customers. Centers of Excellence manage their relationship with the HR Back Office by ensuring that the HR Back Office is fully informed of any proposed changes to processes and programs, and that their needs are taken into consideration when designing and developing new programs.

Centralizing knowledge in Centers of Excellence has three main outcomes.
- It ensures successions and knowledge transfer because knowledge is maintained in a structured and organised manner.
- It ensures that specialist knowledge is available when needed to address unique problems in the business.
- It supports the HR Front Office in their focus on the business.

The HR Front Office can be a true generalist. HR Front Office is able to understand the business issues and the HR issues, and define a problem in a manner that can be quickly and effectively solved by the knowledge in the Center of Excellence. This will increase the speed to implementation of new practices and ensures communities of knowledge are built and maintained.

HR Back Office

The Back Office function of HR is strategically designed to maximize an organization's efficiency. As HR compliance becomes more costly to achieve, and failure to deliver required programs to employees can decrease retention, there is an increasing demand for transactional specialists who perform highly skilled HR programs.

Centralization in the Back Office calls for consistency, which enables companies to create and process to a set of standards that are agreed upon with the business. Standardization increases efficiency by reducing duplication of efforts, and provides a method to retain knowledge of process. Standardization of process also leads to cost containment and the ability to reduce costs per individual transaction. The desired outcome of standardization is efficiency, which frees HR Front Office resources to perform more strategic work.

What gets sent to the HR Back Office tends to be limited to functions such as payroll, benefits administration, HRIS management, and reoccurring recruitment. Because centralization, efficiency, and lack of duplication of effort decrease connection to the individual needs of the

business units, the HR Back Office employees are experts in what they do but are not necessarily experts in how what they do affects the business. This weakness can be overcome through the appropriate use of metrics, surveys, feedback, and realistic agreements between HR and the business units on what levels of service they are willing to pay for, and how much they are willing to pay for those services.

The main organizational needs of the HR Back Office function are:
- Cost savings
- Control and standardization
- Allocation of HR resources to allow for both the transactional and the strategic HR function

Connections

For all the differences between the various structural areas in HR, we cannot forget that there are some very significant commonalities. Some of these include managing risks, supporting the organization, strengthening employee brand, and maintaining standards and quality.

How does this function of HR work with many of the common organizational structures today?

Shared Services
Shared Services is the centralization of high volume administrative activities within the organization. HR functions that are shared services tend to have few interfaces with other processes, a high degree of standardization, low financial or business risk, and are transactional in nature.

HR Back Office functions are often shared services since they include high volume activities. Common HR Back Office shared services include benefits administration, compensation administration, employee inquiries, staffing analysis and reporting, payroll, time and attendance.

HR Centers of Excellence shared services tend to focus on the planning and design of programs such as benefits, compensation, HRIS, training program design and labour negotiation.

HR Front Office shared services concentrate on organizational development and data analysis.

Outsourcing
Outsourcing is the centralization of high volume administrative activities outside of the organization.

Over the past decade, the trend of HR outsourcing could not have occurred without the shift in HR structure as outlined above. If all HR practitioners did all three roles in an organization and there was no clear differentiation of a transactional role, outsourcing would not have been a possible solution.

When the Back Office functions are clearly differentiated from the HR Front Office and the Center of Excellence, they can exist either within the organization or outside the business, within organizations that specialize in transactional effectiveness. Outsourcing works only when the rules are clearly established by the Centers of Excellence, and when there is a clear process in place to allow the HR Front Office to influence acceptable levels of variations to provide the business the flexibility and adaptability that it requires.

The need to manage exceptions occur in either in-house or outsourced situations. The HR Front Office and the Centers of Excellence must come to agreement with their customer groups (the

business) as to what levels of exceptions provide a return on investment to the business. All exceptions cost the organization in terms of time and resources. There must be a clear process to address the return on investment.

Appendix 2
Survey of BC HRMA Members

Demographic Information
For use in follow up questions only – not for publication.

Name of Organization
Name of Responder to Survey
Contact Information for Responder
Name of Company
Number of FTE Employees
Number of HR Practitioners

General Questions

- Has your HR Budget (2009 to 2010)…?
- Do you expect your budget to change next year (2011)?   Increased
- Has your mandate (number of programs and projects you deliver)   Decreased
  changed over 2009?   Same
- Do you expect your mandate to change in 2011?

	Yes	No
Have you restructured your HR department in the last 36 months?		
Do you expect to restructure your department in the next 12 months?		

Functions

Definitions
Competency: When HR activities are performed by the HR department for the company.

Shared Services: Shared Services is the centralization of high volume administrative activities within the organization.

Outsourced: Outsourcing is the centralization of high volume administrative activities outside of the organization.

	2010			2011			
		Is your Delivery Model?				Is your Delivery Model?	
	Competency	Shared Services	Outsourced	Competency	2011 Focus Area for Improvement	Shared Services	Outsourced
HR Front Office							
Employee Relations							
Labour Relations Execution							
Consulting							
Training Delivery							
Health and Safety Delivery							

	2010			2011			
		Is your Delivery Model?				Is your Delivery Model?	
	Competency	Shared Services	Outsourced	Competency	2011 Focus Area for Improvement	Shared Services	Outsourced
Centers of Excellence							
Compensation Strategy							
Benefits Strategy							
Pension Strategy							
Labour Strategy							
Recruitment Management							
OHS Strategy							
Succession Strategy							
Training Strategy							
Recruitment Strategy							
OD Strategy							
Social Media Strategy							
Project Management							

| | 2010 | | | 2011 | | |
| | | Is your Delivery Model? | | | Is your Delivery Model? | |
	Competency	Shared Services	Outsourced	2011 Focus Area for Improvement Competency	Shared Services	Outsourced
HR Back Office						
Payroll Administration						
Benefits Administration						
Pension						
HRIS						
Data Analysis (Labour, Pensions, Payroll etc.)						
Compensation Administration						
Recruitment Administration						
Social Media Administration						
Other						

Survey Results

The 14 different BC companies we spoke with employed 2-31 full time HR practitioners with 90-30,000 employees in their respective organizations. Their industries included service, manufacturing, public and non-profit sectors. We asked them to complete a questionnaire and requested copies of their HR organizational charts. Our survey included interviews with key HR employees. The graphic results from the surveys have been summarized and are highlighted below.
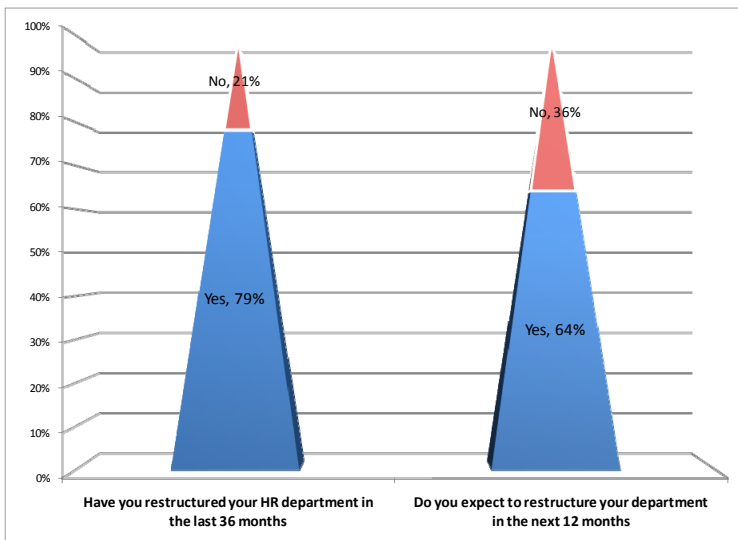
The greatest re-occurring theme that emerged throughout the survey analysis is change, and how dramatic HR structures have been changing within local organizations in recent years. Consequently, this quickly became the focal point of the analysis.
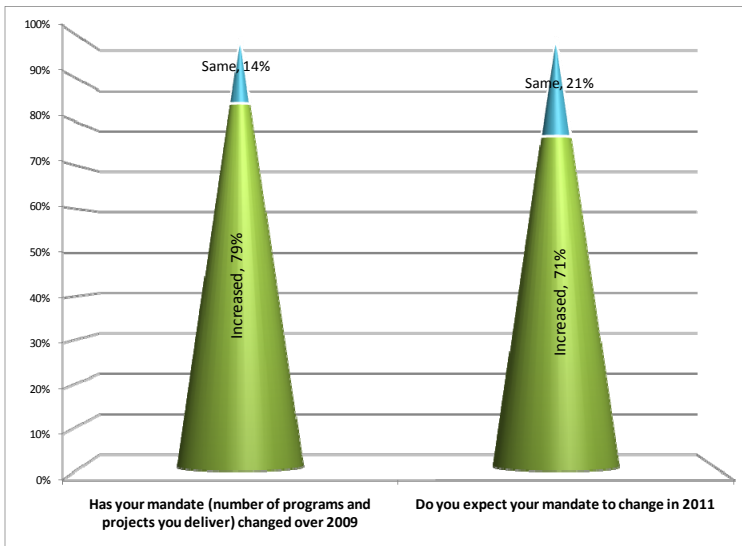
Over 79% of organizations surveyed stated their mandate has changed over 2009, while 71% also stated they also expect their mandate to change in 2011. To cope with an increased and ever changing mandate, 79% of organizations have restructured in the last 3 years, and an additional 64% plan to in the coming year. Interestingly enough, only 43% of companies expect to see an increased budget.

The survey results show that the majority of the mandate changes will create an increased focus over 2010-2011 on HR Centres of Excellence (average 1% increase), HR Back Office Services (average 5% increase), and away from HR Front Office (average 6% decrease). The greatest focus shift, overall, is happening in the HR Back Office Services, specifically in shared services (12% increase).

The charts in the appendix further illustrate the magnitude of change that

has been happening in HR Departments across organizations. Furthermore, most organizations are experiencing the same types of challenges and consequently focusing their change initiates in the same areas.

Changes over 2010 - 2011

HR Front Office Focus: Competency -11%, Shared Service -6%, Outsourced -1%
HR Centers of Excellence Focus: Competency 2%, Shared Service 2%, Outsourced 0%
HR Back Office Focus: Competency 3%, Shared Service 12%, Outsourced 0%

Has your HR Budget (2009 to 2010): Increased, 43%; Decreased, 7%; Same, 43%
Do you expect your budget to change next year (2011): Increased, 43%; Same, 50%

2011 Focus Area for Improvement Highlights

- ■ 2011 Focus Area for Improvement (Highs)
- ■ 2011 Focus Area for Improvement (Lows)

Training Delivery: 64%
Benefits Strategy: 50%
Succession strategy: 50%
Consulting: 7%
Recruitment Strategy: 7%
Pension: 7%

Survey of BC HRMA Members

Questions	Increased	Decreased	Same	Blank	Total
Has your HR Budget (2009 to 2010)	43%	7%	43%	7%	100%
Do you expect your budget to change next year (2011)	43%	0%	50%	7%	100%
Has your mandate (number of programs and projects you deliver) changed over 2009	79%	0%	14%	7%	100%
Do you expect your mandate to change in 2011	71%	0%	21%	7%	100%

Questions	Yes	No	Total
Have you restructured your HR department in the last 36 months	79%	21%	100%
Do you expect to restructure your department in the next 12 months	64%	36%	100%

| | 2010 | | | 2011 | | | |
	Competency	Shared Services	Outsourced	Competency	2011 Focus area for Improvement	Shared Services	Outsourced
HR Front Office							
Employee relations	100%	7%	0%	86%	14%	0%	0%
Labour Relations Execution	50%	7%	7%	50%	14%	7%	0%
Consulting	79%	14%	14%	64%	7%	0%	14%
Training Delivery	79%	21%	7%	64%	64%	29%	7%
Health and Safety Delivery	79%	29%	0%	64%	29%	14%	0%
HR Centers of Excellence							
Compensation Strategy	86%	14%	0%	86%	36%	21%	0%
Benefits Strategy	71%	14%	7%	71%	50%	36%	7%
Pension Strategy	64%	14%	7%	57%	14%	14%	7%
Labour Strategy	43%	29%	7%	50%	29%	29%	0%
Recruitment Management	86%	7%	7%	86%	14%	7%	7%
OHS Strategy	71%	14%	0%	86%	36%	14%	0%
Succession strategy	64%	21%	0%	64%	50%	21%	0%
Training Strategy	86%	36%	0%	79%	43%	36%	0%
Recruitment Strategy	86%	7%	0%	93%	7%	14%	0%
OD Strategy	79%	14%	0%	71%	21%	0%	7%
Social Media Strategy	7%	29%	7%	21%	14%	29%	7%
Project Management	29%	21%	0%	29%	14%	21%	0%
HR Back Office							
Payroll Administration	79%	14%	7%	86%	21%	21%	14%
Benefits Administration	86%	7%	7%	86%	21%	21%	14%
Pension	79%	7%	14%	71%	7%	21%	7%
HRIS	79%	7%	7%	86%	36%	21%	7%
Data Analysis (labour, Pensions, payroll etc.)	79%	14%	0%	79%	36%	29%	0%
Compensation Administration	79%	7%	7%	86%	29%	21%	7%
Recruitment administration	79%	0%	14%	79%	29%	7%	14%
Social Media Administration	7%	14%	14%	14%	14%	21%	7%

Appendix 3
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