



THE NEXT GENERATION OF HR SHARED SERVICES



It's no secret that implementing HR shared services can help organizations generate significant value through cost savings and increased effectiveness. Two recent benchmarking studies conducted by the Americas' SAP Users' Group (ASUG) and SAP show that performance can be improved by 20% to 30% across HR as a whole. Beyond these impressive numbers, some high-performing organizations even achieve improvements in the 40% to 50% range. But if this is the silver lining, the cloudy reality is that many companies are not able to realize optimal gains in this area and attain only marginal cost reductions and effectiveness improvements.

Why should so many companies fail to meet their own expectations? The answer varies according to the maturity level of shared-services adoption. Fully realizing the potential of shared services requires the following imperatives:

- Established shared-services organizations must continue to innovate organizational, process, and technology models.
- New and less mature shared-services organizations must continuously evaluate their operations and implement best practices.

This *SAP Executive Insight* will focus on best practices that help companies realize the value of HR shared services, highlighting key areas and addressing three questions:

- How can underperforming organizations close the gap with top performers?
- What business practices can companies leverage to improve performance?
- What is the role of technology for leading-edge performance?

EXECUTIVE AGENDA

AT A GLANCE

The HR Shared-Services Model: Creating Value

The shared-services model is a long-standing and widely accepted means for driving business value – particularly in the area of human capital management (HCM). In addition to reducing transaction costs, companies implementing a shared-services approach can gain a range of benefits including enterprise-wide talent management, flexible workforce planning, support for organizational changes, and higher HR operational flexibility – especially beneficial for mergers and acquisitions and when entering new markets.

A 2007 benchmarking study on human capital management practices and a 2006 benchmarking study on shared-services practices, each conducted by the Americas' SAP Users' Group

(ASUG) and SAP, substantiate what many companies have learned first-hand: that performance can be improved 20% to 30% across HR as a whole. And high-performing organizations can even achieve improvements in the 40% to 50% range.

The studies show that shared-services adoption drives improvements in efficiency and effectiveness – and that the maturity of shared-services organizations correlates with improvements in efficiency and effectiveness. Key drivers of shared-services maturity are process standardization, degree of global coordination, adoption of self-service, and technology integration. The studies make clear that the more mature the level of adoption of self-services, the more improvements in performance and efficiency can be made (see Figure 1).

The numerous successes with HR shared services, however, do not tell the whole story. Many organizations fail to realize the full return value on their shared-services investments. Some fall short of expectations during the initial implementation period, while others are unable to sustain gains made for an extended period. And many long-standing shared-services organizations, established as the model bloomed in the 1990s, have failed to adopt newer technology and business processes and now lag behind, their cutting-edge status lost.

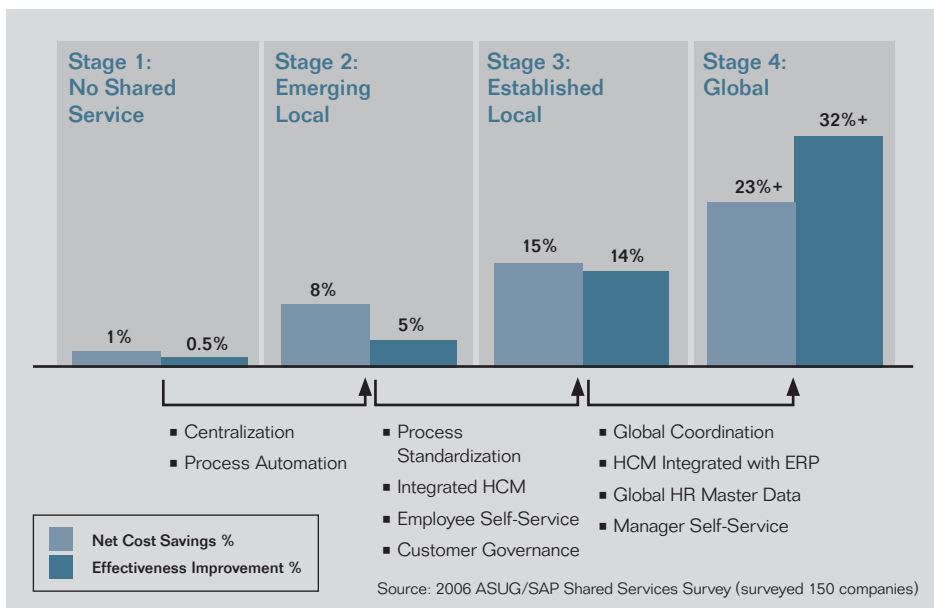


Figure 1: How Shared-Services Adoption Drives Improvements in Efficiency and Effectiveness

ORGANIZATIONAL, BUSINESS PROCESS, AND TECHNOLOGY ENABLERS

Globally Integrated Enterprise Software Enables Shared Services

A global chemicals company established HR shared services in 1996 and presently serves the administrative and payroll needs of 8,000 employees in the United States. Beyond its U.S. operations, a global workforce of 18,000 has access to employee self-service through the company portal. The company uses a single global instance of enterprise resource planning (ERP) software and has fully leveraged its functionality to enable all aspects of the enterprise to share in common processes and capabilities.

Shared-services business benefits:

- Reduced transactional costs by more than 60%
- Established “single version of the truth” with master data
- Standardized process controls

Companies that aspire to become – and remain – leading shared-services organizations must establish an environment and culture of continuous improvement, constantly adopting best practices in three areas: organization, business process, and technology. The study shows that the best practices discussed below help companies realize the value of HR shared services.

Differentiate Shared Services with Employee Interaction Center, Transaction Back Office, and Center of Expertise

Top-performing HR organizations do more than just implement HR shared

services; they make distinct units within HR responsible for providing different kinds of service. Instead of a generic model with an undifferentiated organization and staff tasked to handle all HR service requests, dividing responsibilities allows for maximum specialization of resources, takes advantage of economies of scale, and helps optimize service levels and reduce costs. This approach enables HR to focus on providing a higher level of service, thus increasing internal customer satisfaction. The differentiated units within the shared-services organization are the employee interaction center, the transaction back office, and the center of expertise.

Clearly defined roles and responsibilities govern how these units perform and interact with one another and the rest of the company. A tiered approach defines how requests for services are handled (see Figure 2). In this approach at least 80% of all employee and manager requests not addressed through self-service are handled by an employee interaction center. The employee interac-

tion center, staffed by generalists with a broad knowledge base covering most HR topics, serves as a single point of contact, streamlining HR service delivery and focusing on improving the quality and level of service provided to the customer – the employees and managers of the company.

Requests that cannot be taken care of by self-service or the employee interaction center are passed along to the transaction back office and centers of expertise. Payroll, employee data management, benefits and pension plan administration, and employee relocation transactions are typical back-office transactions. Centers of expertise are responsible for planning and strategic activities such as compensation or benefits planning, training, and recruiting and workforce planning – activities that especially benefit from economies of scale. With a focus on adding value and informing strategic decisions, centers of expertise can enable HR to align services with the business to support change efforts, resource planning, employee relations, and organizational development.

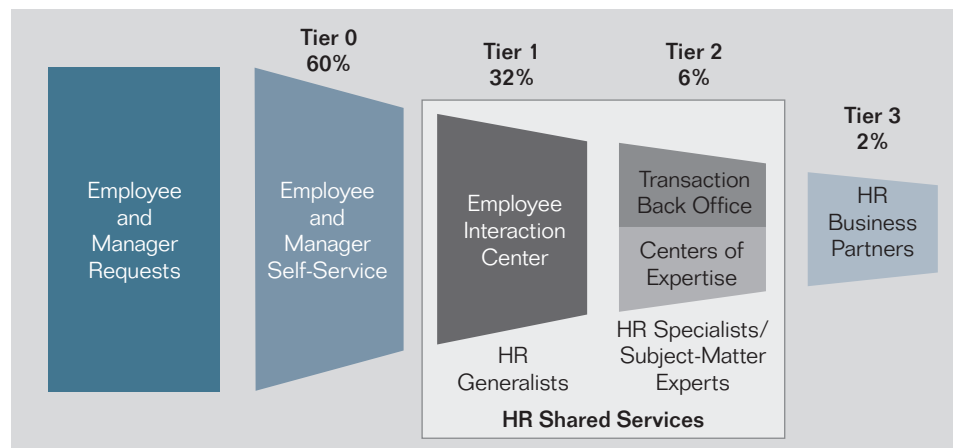


Figure 2: Tiered Shared-Services Approach for HR

ORGANIZATIONAL AND PROCESS BEST PRACTICES

Select the Right Location

According to the studies, few companies practice the offshoring of shared services, despite significant potential for cost savings. For many companies, the complicated logistics and inherent risks involved are simply too daunting. Each company must assess for itself the potential risks and rewards, and there are many alternatives worth exploring. For example, companies based in the United States can effect a compromise of sorts, outsourcing from a high-cost location (East or West Coast) to a low-cost location (Midwest or South), achieving significant cost benefits while mitigating the risks of moving critical business processes out of the country. The studies also show, however, that some organizations are successful without focusing on location, instead leveraging technology to automate processes and eliminate differences in factor costs.

Globally Standardize and Coordinate Shared-Services Processes

More and more companies are using shared services throughout the enterprise – but few of these organizations have truly global shared services, with fully standardized and coordinated service delivery. In the ASUG/SAP studies, 15% of participants indicated that they had global or globally coordinated shared services in place, and an additional 25% had globalization efforts or efforts to standardize globally underway.

Globally coordinating shared services offers significant value through

increased efficiency and economies of scale – but the benefits go much further. With HR shared services standardized across the organization, companies enable a holistic approach to talent management, with a single set of talent and workforce data available enterprise-wide. Global shared services, based on standardized, integrated processes and systems, also speed and facilitate the integration of large, complex mergers and acquisitions that can span multiple regions and even countries.

Establish Transparent Governance Processes

Effective governance is crucial to the success of shared services. Transparent operations provide executive oversight and visibility into data to measure and track processes. Stakeholders across the company, from HR business partners to finance, can use metrics such as service-level agreements and key performance indicators to capture and communicate data on performance against targets, service levels, project status and progress, and future plans. The key to effective governance is simplicity, so that value is not lost through additional administrative burdens and costs.

Maximize Self-Service Adoption

The numbers clearly add up when it comes to the benefits of maximizing self-service adoption. A typical 10,000-employee company generates more than 200,000 employee requests annually, so organizations handling the maximum amount of requests through

a self-service portal – a standard role-based interface – can gain great efficiencies. The studies show that leading organizations address 60% or more requests with self-service functionality. And since self-service transactions are about 80% less expensive than manual transactions, companies can reduce transaction costs by almost 50%.

Document Management Company Realizes Value with Cutting-Edge Best Practices

A global document management company with 35,000 employees worldwide transformed its HR organization to support its growth strategy and improve overall HR service delivery. The company reorganized HR functions to eliminate redundancies and duplication of effort, and put in place a new organizational structure with a global orientation. The new structure leverages centers of expertise in the areas of strategic leadership management, talent management, total rewards, accelerated growth, workforce relations, and expanded services. In addition, the company implemented core human capital management technology and eliminated overly complex, highly customized, and poorly integrated systems.

Shared-services business benefits:

- Enhanced focus on mission-critical work such as acquiring, developing, and retaining top talent
- Reached targeted goals for ratio of HR professionals to employees and HR services costs per employee
- Shared knowledge and processes and leveraged expertise

Global Business Services for a Multinational Consumer Products Company – Catalyst for Growth and Innovation

The company was one of the first multinationals to establish a large-scale network of shared services in support of its 140,000 employees. From the beginning, the company aimed at strategic goals as well as cost reductions. Its global business services (GBS) was organized with three service centers around the world to support the company as it shifted toward a global business approach in marketing its brands in over 80 countries. GBS was a difference maker for the company. Beyond cost reductions, global business services helped make real-time business decisions, accelerated the speed to market, and became a catalyst for growth and innovation.

Previously, internal subsidiaries had designed and operated their own processes, leading to redundancies and inefficiencies.

Shared-services business benefits:

- Enabled faster integration of acquisitions
- Increased data and process transparency through globally standardized reporting
- Facilitated better business decision making

Enable Employee Interaction Center with Customer Relationship Management Technology

Leading-edge companies leverage customer relationship management technology in conjunction with HCM technology (such as that offered through the SAP Customer Relationship Management application) to optimize their employee interaction centers. With streamlined information and order management as well as workflow control functions, expert teams can process employee inquiries faster and more efficiently, decreasing costs and simultaneously improving service levels.

Integrate HCM and ERP Software

Integrating HCM software and enterprise software solutions enables strategic decision making with a single set of critical employee and talent data. Companies can reduce compliance-related and other enterprise risks thanks to built-in process controls and up-to-date employee certification information. Companies can also lower HR transaction costs by decreasing the time spent on data audits and reconciliations. And they can reduce total cost of ownership by eliminating the need for costly interfaces to build and maintain and by enabling centers of excellence for support staff.

Companies can save more time and reduce costs further by minimizing the number of instances of ERP software, or even moving to a single global instance – standardizing processes worldwide and significantly reducing the overall cost of transaction processing.

Leverage Localized HCM Applications

Global companies face many challenges in performing crucial business processes in multiple countries. Leading global shared-services organizations leverage HCM technology with localized country-specific software versions to address language, payroll, legal reporting, taxation, and so forth. Localized HCM applications allow a company to operate shared services in a low-cost and compliant environment while serving other regions and countries.

Establish Global HR Master Data

Global HR master data is key to an effective global talent strategy. With a “single version of the truth,” companies can implement and enable truly global workforce strategies, combining performance feedback with training data, development plans, succession plans, skill-set data, and compensation information. HR organizations can thus make a valuable contribution to strategic business decisions concerning what many CEOs feel is a company’s most valuable asset – its employee talent.

TAKE YOUR SHARED SERVICES TO THE NEXT LEVEL

Realizing the Benefits of Next-Generation HR Shared Services

Companies striving to achieve value through HR shared services can elevate their current performance through these key best practices – enabled by a sophisticated, integrated HCM application with a self-service portal, employee interaction center technology, and functionality localized for sites around the world. With next-generation shared services, HR organizations can focus less on transactional processes and more on supporting talent management and strategic, value-added activities.

Implementing Shared Services with SAP

The Value Engineering (VE) team at SAP can help you define how to leverage SAP software to capture the value of your shared-services organization. The VE team provides support throughout the value life cycle, from developing the business case to sharing knowledge on how to maximize the value of your investment in SAP software. For more information, contact value.engineering@sap.com.

About ASUG/SAP Benchmarking and Best Practices

The ASUG/SAP Benchmarking and Best Practices program is open to participants on an ongoing basis. Companies are encouraged to participate annually to track trends, share best practices, and measure value realization. In addition to human capital management, benchmarking programs are also offered in several additional areas including finance; supplier relationship management and procurement; governance, risk, and compliance; supply chain planning; manufacturing; new-product development and introduction; customer contact centers; warehouse management; transportation management; business intelligence and analytics; and total cost of ownership. If you are interested in participating in any of these programs, please e-mail the ASUG/SAP Benchmarking and Best Practices program at benchmarking@asug.com.



Further Reading

To learn more, please visit www.sap.com/usa or contact your SAP representative about the following:

- **SAP Executive Insight Series on Growth:** Read SAP's complete series on growth, including growth through merger and acquisitions and organic growth
- **ASUG/SAP Benchmarking:** Aggregate reports on key findings for HR and total cost of ownership
- **ASUG/SAP Best Practices reports:** Survey-based reports on topics such as ERP upgrades, master data management, and shared services
- **New Era for HR Shared Services White Paper**

50 088 779 (08/03)

©2008 by SAP AG. All rights reserved. SAP, R/3, mySAP, mySAP.com, xApps, xApp, SAP NetWeaver, Duet, Business ByDesign, ByDesign, PartnerEdge, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world. All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.

www.sap.com/contactsap

THE BEST-RUN BUSINESSES RUN SAP™

