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Departmental Spring Cleaning: Reviewing and Restructuring an HRDepartment to Eliminate the Clutter

Michelle A. Lewis-Blossman, Principal, US HR Restructuring Leader, Mercer

Some people clean house and organize regularly because it is a small thing they can control, in an otherwise sometimes uncontrollable world. Others "spring clean" once or twice a year, dealing with larger chunks at a time. "I'll just clean out all of the kids clothes that don't fit anymore" or "I'll just go through the garage and get rid of the starter golf clubs and random gifts that have accumulated this year." Whatever their schedule, most people recognize the value of cleaning and getting their house in order. Given the current tentative economy, now is a perfect time to get the proverbial house in order and begin preparing for next season.

Whether evaluating the department to identify immediate cost savings or assessing the current state of a department in preparation for more positive economic times, there is a productive way to "spring clean". The following outlines a plan to review and restructure an HR department to eliminate the clutter and make room for the next season's "big hits".

Plan
As Eisenhower said, **…. "plans are useless, but planning is indispensable".** So, first and foremost, is **understanding the business rationale for needing to identify cost savings** and identify increased efficiencies. Understanding isn't so that you can avoid it, as much as to allow you to be more strategic about your approach. With clarity on the business rationale, or at minimum the target percentage to reduce, you need to **understand the HR department budget**. This may seem like an obvious statement, but my experience has shown that a departmental understanding requires a deeper dive into the budget than the roll up we see at "corporate" or in finance. Using an activity based costing model allows you to see how the department is using their dollars. By digging into the revenue and expenses within the department by function, by activity and even by role and then comparing those same functions, activities and roles against benchmarks of similar sized organizations, you will **gain an understanding of the efficiency of the function**. Taking it to another level and gathering additional data from the department's internal customers, you can quantitatively **compare the functional efficiency with the internal customers' perception of the functions value and effectiveness**. It is not uncommon to see a gap between what the internal HR customer values and what HR believes their customer values. HR may believe recruiting is the most important HR function, while their customers view "business understanding" as more valuable than a particular function.

With a deeper understanding of the labor and non-labor costs (what functions cost the most in terms of the number of hours being spent, the dollars being spent, and the number of people that it takes to conduct those activities) and an understanding of the perceived effectiveness of the HR function, you can rebuild the budget from the bottom up, focusing on the areas that provide the greatest value and contribute most to supporting the organizations strategy.

Building the budget from the bottom up dynamically improves how the function allocates the budget, to execute on the HR strategy, which supports the company business strategy. A bottom up budget also better delineates the type of return that can be expected from organizational investments in HR. As you build the budget, align it with the prior year's budget and spend, and compare the two. Ask yourself why they vary and begin to challenge the historical assumptions that have traditionally been built into those numbers. For example, if the training budget for the HR department was $220,000 last year, but it spent $368,000, why did they overspend that significantly? What were the results of the programs that they offered? Which of those programs had the greatest ROI? Which had very little? Do they have the metrics in place to even measure them?

Once you know how and where the budget is being spent, you can **determine which services are core and non-core.** Core services are the services that the HR department must provide in order to ensure alignment and support of the business strategy. How do you know which services are core? If the organization would put itself at strategic, regulatory or legal risk by not providing the service, it is core. For example, the quality and quantity of teachers is crucial to the success of a school system. Could the school system save money by outsourcing those services? Maybe. Would they lose control of one of one their core resources? Definitely.

When comparing budgets:
Pay close attention to potential redundancies across departments. Are any lines of business (LOBs) providing some of the same services as HR? If so, they may be paying two different providers, internally or externally, to provide the same service. If this appears to be the case, you might be able to decrease the costs associated with that service by bundling with that LOB or eliminating the need for one of the providers. If you choose the latter, in addition to evaluating both providers to determine which is producing the greatest ROI in support of the HR strategy, but also, it is important to provide guarantees that the same level of service will continue. Without this evaluation, you could end up like one public sector organization, which paid another city agency $1.2 million to perform the same tasks it was doing internally because "it had always been that way." Should more than one internal group be performing the same task, **look for opportunities to consolidate**.

Review contracts. Evaluate each contract, not only ROI, but also the potential leverage points in the clauses. Public sector organizations may include a "most favored customer" clause, which guarantees the organization the lowest rate that the vendor has offered its most favored customer. If so, performing an audit/review to ascertain whether or not you have received the rate, as guaranteed by the contract, may allow you to seek retroactive adjustments if you have not received the most favored rates. What leverage do you have as a purveyor of a large contract to decrease your cost with your existing vendor or by changing vendors? Can you cancel non-core contracts, renegotiate others? Or consolidate the vendor management under an outsourced provider to monitor and maintain the service level agreements?

With the knowledge of which functions, and related activities, are integral to the departments success, **benchmark the HR functions performance against competitors** to see how it compares to the same HR functions in companies HR departments in the same industry, region and size – which may or may not reflect optimal efficiency or effectiveness. Does this organization have a larger or smaller HR staff? Is it getting half of the work done with twice as many people? How does it compare to the national average in comparing the function to a competitor? Look at why a given target benchmark is appropriate, and develop a hard business case to justify the similarities or variances. If benchmarking ratios suggest that the function is not performing core tasks satisfactorily, ranking the organization against other organizations provides you with an excellent platform to **review processes** and see where hidden, indirect labor and non-labor costs exist. Are there key departmental processes and controls that are undefined, limited or missing altogether and have indirect costs associated with them? Is there a lengthy termination process that encourages workarounds? Are there manual processes that could easily be automated and increase efficiency? One global organization relied on separate data systems for employee data. Leveraging technological solutions, including a Human Resource Information System, improved the Human Resource Director and CEO's visibility into HR information and metrics across the organization. This is essential to make strategic, data driven decisions about human capital in any organization.

With a firm grasp of how the department and its functions work, it is now time to **increase the involvement of the HR department.** People who work "in the trenches" can save the organization limitless time and money by identifying potential pitfalls and process issues or by uncovering "dead bodies" that you might not be able to see. A staffing manager at a New Orleans company not only helped identify a list of employees on undocumented leave for several years, but also helped redesign the leave of absence policies and procedures to decrease the number of employees on unnecessary or unapproved leaves, when she realized the cost to the company. Moreover, without contribution and buy-

in from HR staff, the knowledge and skill transfers necessary to make a restructuring successful will be much harder to implement.

Do
No matter how close or far a department appears to be from its financial goal, it may require assisting them with **connecting the dots.** The question to ask is, "Given where the function is today, and where it needs to be tomorrow, what steps are required to accomplish the desired results?" The following steps will help ensure they have a solid plan on which to execute:

1. **Strategy**

With a solid understanding of the budget and functionality of the department, the first decision to make is whether the current HR strategy supports and positively impacts the business strategy? Does the HR strategy make the best use of the core resources and assets that, or are they trying to force a square peg into a round hole? If there is a gap between present and needed resources, how can they develop or acquire them? Consider future business needs, as well. For example, if the business strategy is to double in revenue in three years, the organization will also be increasing the number of staff. Does the current HR strategy place the same emphasis on the ability to support this increased growth in head count on a global basis?

2. **Structure**

Does the departmental structure support the new departmental strategy and the overall operating model? Is the governance between the functional and corporate/overhead functions clear and harmonious? If the organization is moving to a customer-facing strategy, does a hierarchical functional structure help or hinder them in providing service to that customer? Do the regions and corporate agree with the division of roles and responsibilities for key functions? The best structural results come from when there is a shared understanding and agreement for the supporting structure. The difficulty is getting everyone to not only understand, but also to agree. Most of the time, the lack of understanding and agreement occurs through organic growth and division that builds over time. There is frequently a lack of conversation and rationale for the existing HR governance model and a lack of patience for taking the time to review it.

3. **Systems and processes**

This is where the rubber hits the road. The strategy is formed and the structure to support it has been put in place, so now it is time to see what results the systems and processes deliver. Does the HRIS support the revised strategy and structure? Is this a global organization without a global human resources system? Is the CEO still having to ask geographical leaders to send employee counts on an excel spreadsheet? How aligned is the compensation and incentive-based pay structure to support the use of the new systems and processes? Did they change the expectations when they implemented a new system, but not change the incentives?
If there are gaps, then how could they use the systems and processes differently to have a greater impact? What kinds of revisions and investments are in order? Will the cost of improvements amount to more or less than the potential time and/or cost savings generated from implementing them?

4. **People**

The process comes full circle with a final assessment of the people. Does the department have the right people, with the right skills, in the right roles? Some questions to consider:
• To what degree are the current personnel professionally and technically proficient?
• What is the gap between where the staff is today and where they need to be?
• What kind of training is in order to not only keep pace with the market, but to become leaders in it?
• How many people are in positions that fill a gap instead of ones that maximize their abilities or the potential for the role?
Once the required talent level matches the needs, consider the next level of employee engagement.
• What succession and replacement plans are in place in anticipation of staff transitions in turbulent times?
• What formal or informal retention plans are in place to retain key staff in key roles when and if the market changes?

Review
The point of this exercise is to conduct a departmental restructure as a stand-alone or part of a financial restructuring so that the ongoing concern is better prepared throughout the organization, to support the new business strategy and operating model that comes out of the turnaround. To make sure that the newly streamlined HR department does not fall back into the same old problems, incorporate the process into the annual budget cycle and use quarterly reviews of core services and processes as regular checks along the way.