

**Overcoming the Barriers to
Strategic HR Management.
Old Issues. New Solutions.**

March 2007



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Introduction

The subject sounds familiar because it is: Your business needs a strategic HR function, not one that's tied up with repetitious transactions.

For many companies, your most expensive and important resource is your workforce. Your HR professionals have been trained and generally hired to engage your workforce in ways that directly benefit the organization.

Much of the time, however, HR professionals are restrained from doing this important work by the rapidly increasing administrative requirements of their jobs. Through the application of the appropriate technology, companies are finding that these administrative complexities can be addressed and HR can return to being what it was meant to be: a strategic asset to your organization.

These are not “big company” issues. Organizations of all sizes are seeking to maximize their HR investment.

If you ask C-level executives, they will confirm the need for strategic HR management.

If you ask HR executives what they need in order to provide this strategic leadership, they will tell you that in addition to time and budget, they

need buy-in from their senior leadership. “Lack of involvement with setting corporate issues” was the number two barrier to having their HR departments be more strategic, according to a 2005 survey that was part of research sponsored by Employease, *Why HR/Benefits Should Be Any Company's Top Priority*.

“As human capital becomes more critical to firm success, the importance of strategic human resource management will continue to grow.”

John Dooney, Manager, Strategic Research, Society for Human Resource Management (SHRM),
The Look and Feel of Strategic Human Resource Management: Conversations with Senior HR Executives, 2006.

The survey also took a look from the perspective of the C-level executive. According to the survey, the HR activities perceived at the C-level as being the most important strategically were: “recruiting and hiring key employees, collaborating with top management on achieving company goals, and controlling healthcare costs.”

The issues are clear enough, but aligning the HR strategy with the overall business strategy requires tools, infrastructure and time, in addition to top management support. Effective, strategic HR management can support—and sometimes will drive—business objectives that lead to profitability and sustainability even as the competitive environment continues to change.

▶ What is Strategic HR Management?

“People people” and “numbers people” have struggled for years to speak in language that the other can readily understand. HR is one area of business that is particularly fraught with qualitative issues that can seem difficult to quantify.

In fact, there is a positive link between firm profits and effective human capital strategies. The key to effectiveness is to ensure that HR professionals are exerting their energy on strategic tasks that support and strengthen your workforce.

In the rush to achieve more strategic deployment of HR resources, it’s easy to describe transactional HR as routine, reactive and adding little business value—basically as being disconnected from business activities and operational priorities.

However, these same transactions often meet a need or solve—and in many cases, avoid—a problem. Transactions are how your people get paid, manage their work schedules, sign up for benefits and receive valuable company information.

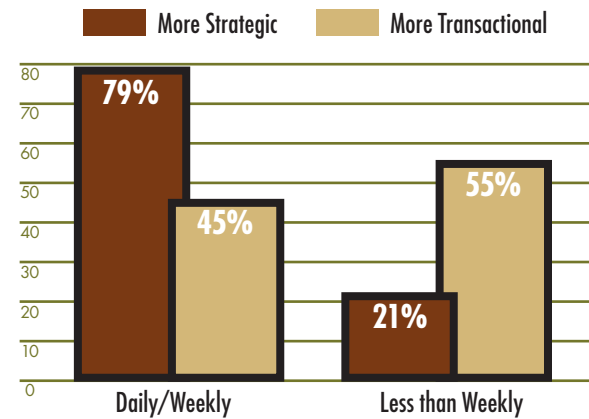
The issue is not about doing away with transactional HR. The issue is about leveraging both old and new technologies to help your company effectively execute those required transactions with the least time and effort so that your HR staff are freed up to help you meet the strategic needs of your business, whatever its size.

“An important lesson is that strategic HR is more about business than it is about HR.”

John Dooney, SHRM, *The Look and Feel of Strategic Human Resource Management.*

Research sponsored by Employease in 2005 found that strategic HR professionals “are closer to the CEO from an organizational structure perspective and interact with senior management more frequently” (see Figure 1).

Interaction with Top Management



Source: Employease-sponsored research, *Why HR/Benefits Should Be Any Company's Top Priority*, Phase III Results, 2005.

Exactly what constitutes strategic HR will vary, based upon your organization’s specific needs. A recent report from the Society for Human Resource Management (SHRM), *The Look and Feel of Strategic Human Resource Management*, explored these issues with six experienced HR executives.

According to participant Isaac Dixon, “...strategic HR is characterized by being forward-thinking, proactive and, most of all, creative...Strategic HR is also about thinking about possibilities and connecting those possibilities in concrete ways to the business that you support.” He continued,

“The end game is: do we have the best people, are we doing the right thing for them, and are we doing the right thing for our organization?”

Strategic HR takes the long view: “You’re really looking at what the company is doing and where the company is going,” said Cindy Koehn. “It’s not just in the next six months; you’re planning five years down the road...strategic HR often involves HR taking the lead in working with

other departments to help them be successful in achieving company objectives.”

“Strategic HR is the ability to be doing constant environmental scans, developing trends and concepts, and applying all of that in a business sense to create a competitive advantage for your enterprise,” said David Russo. “Being not just *ahead* of the curve but *on* the curve, having a good sense, a good feel of what’s happening, what’s about to happen, and then how it all interacts with the organization’s finances, organizational design and the economics of supply and demand.”

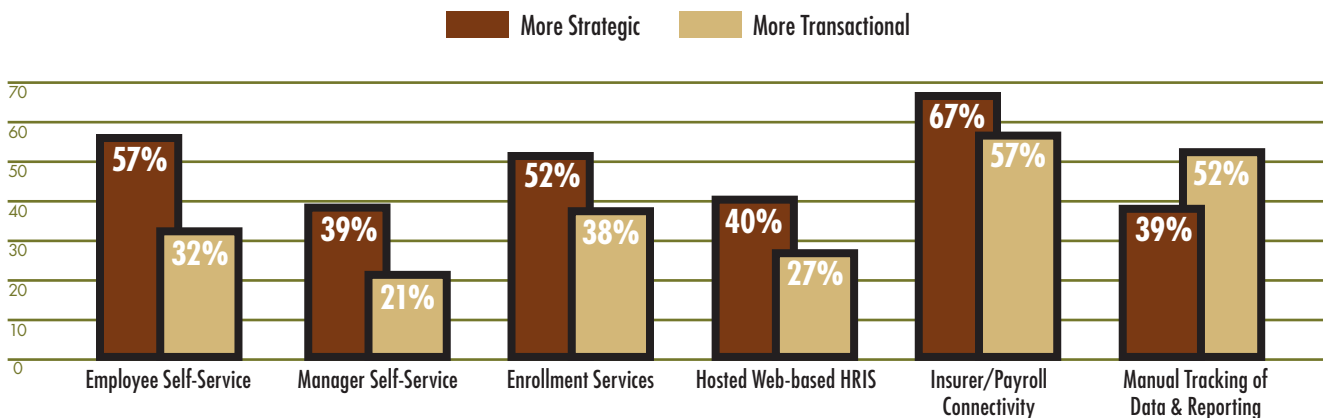
“HR is strategic when it is actually part of the executive planning team where decisions are being made regarding the direction of the company. It is being part of that team that is setting the goals for

the entire company that sets measurable results and outcomes,” said Mary Willoughby.

If these excerpts do *not* sound like conversations you’re currently having among your HR leadership and senior executives, it’s time to ask what’s standing in the way of your HR team’s taking a more strategic approach. Is it time? Budget? Lack of access to senior leadership? Is it the wrong infrastructure focused on administrative transactions? Is it a lack of tools that can address administrative hurdles and facilitate strategic innovation?

It’s not too late to let workforce technology help transform your HR function from one occupied with transactions to one occupying a leading role in your company’s strategy for success.

Resources Used by HR to Execute Its Duties



Source: Employee-sponsored research, *Why HR/Benefits Should Be Any Company's Top Priority*, Phase III Results, 2005.

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▶ Making the Business Case

We have established that these are not new issues. And, in fact, many of the solutions are not new.

The need to manage HR transactions effectively—in order to enable HR staff to contribute more strategically to the needs of your workforce—should be clear, and yet companies still wrestle over making the business case for strategic HR.

Examine your key business processes and the financial case will readily be made. Your competition is already addressing these issues. In the marketplace there is no shortage of benchmarks that recommend technological solutions to the fundamental transactional needs of your HR function.

Employee produced a white paper in 2001 that bears revisiting, *Talking to Your CFO About HR*. The goal of this paper was to provide HR managers with the tools they needed to effectively engage in strategic conversations with their C-level executives.

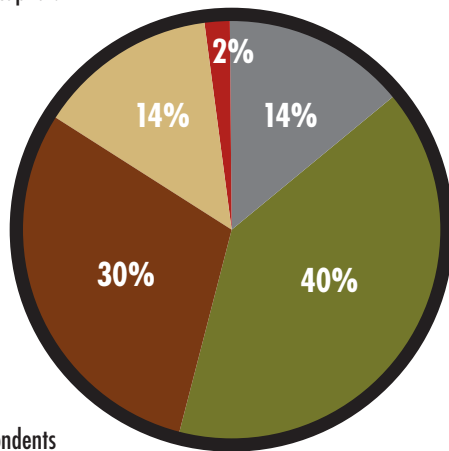
“HR technology...can put vital information in the hands of executives about strategic workforces and their performance to support effective decision making.”

Glenn Davidson and Matt Deluca, *HR Outsourcing That Delivers Improved Business Performance*, Montgomery Research, Inc., People Project Volume 1, April 20, 2005.

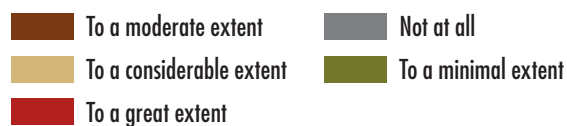
In the six years since that paper was published, the details may have changed, but the crucial issues remain the same. The paper identified five subjects under the heading, “What CFOs say keep them awake at night,” that could easily have been written today. They were:

Investments in Human Capital

To what extent do you know the return on your aggregate investments in human capital?



% of respondents



Source: *Human capital management: The CFO's perspective*, CFO Research Services in collaboration with Mercer Human Resource Consulting, CFO Publishing Corp., 2003.

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1. Payroll and Compensation
2. Managing Costs
3. Recruiting/Retaining Good Employees
4. Increasing Efficiencies
5. Effective Reporting.

Are these not still your top concerns?

Payroll and Compensation. It has to be accurate. Every time. Again and again. Plus, payroll involves myriad third parties to whom information must be transferred accurately and efficiently. Every time. Again and again. How well is your staff managing the complexity? How do you know you're not overpaying your insurance carriers? How much time is spent in reconciliation tasks? How do you get your questions answered?

Managing Costs. The cost of managing HR transactions continues to rise. If you do the work in-house, there's the expense of maintaining your

network, funding your IT staff and dealing with necessary upgrades. Consulting and legal fees add to the hard costs. And what about the soft costs—are you getting the maximum value from your investment in your HR professionals?

Recruiting/Retaining Good Employees. As the war for talent rages on, are you able to recruit the right employees in a cost-effective fashion? Once you manage to attract these employees, how effective are your training and retention efforts? Do you have the data you need to make the tough decisions, as the boomers continue to age and the talent pool shrinks? Do your managers?

Increasing Efficiencies. As the 2001 paper stated, “A more efficient workplace correlates not only to a more productive workforce but also [one] that maximizes the return on the organization’s valuable resources.” Employees who have access to the basic information they need can get on with the core business of the day. Is your HR function being overwhelmed by administrivia?

Effective Reporting. Speaking of your data, how accessible is it? And how do you know the information you’re using to forecast your company’s short- and long-term needs is accurate? Your reports are only as sound as the integrity of the data on which they’re based. Do you ever get the feeling that you keep reinventing the wheel when it comes to management reporting?

Don’t let your HR staff continue to be controlled by the transactional requirements of their

Quantitative Results Achieved from Workforce Technologies—Worldwide

Category	Results	Technologies
Headcount	18% average reduction	Self service Call center HRMS
Transaction costs	25% average reduction	Self service
Cycle time	66% average time reduction	Self service
Time to hire	38% average reduction	Recruiting solutions
Compliance	75% to 100% cost reductions	HRMS
Service center inquiries	20% reduction in specialist time	Self service Call center

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Source: CedarCrestone 2006 Workforce Technologies and Service Delivery Approaches Survey, Ninth Annual Edition.

function. You need them doing the work they were hired to do: to ensure that your workforce is an engaged one that delivers the maximum benefit to your organization.

Analyze your critical business processes and then address the increasing administrative requirements with the right workforce technologies, so that your HR function can return to being what it was meant to be—a strategic asset and a valued partner to senior management.

▶ Letting Technology Help You

The application of technology to HR transactions such as record keeping and payroll—whether performed in-house or in conjunction with one or more *outsourcing vendors*—is well established. Advances in technology make sophisticated solutions available to smaller organizations. Newly emerging technologies are addressing additional challenges such as talent and performance management.

The *CedarCrestone 2006 Workforce Technologies and Service Delivery Approaches Survey, Ninth Annual Edition* (the *CedarCrestone 2006 HCM Survey*) includes data from 324 respondents representing organizations with close to seven million employees.

Key Findings of the *CedarCrestone 2006 HCM Survey* support the premise that appropriate workforce technologies enable strategic deployment of HR

staff and resources. The *CedarCrestone 2006 HCM Survey* distinguishes among three phases of technology adoption, those that lead to:

1. Administrative Excellence
2. Service Delivery Excellence
3. Performance Excellence.

A company's first experience with workforce technology typically begins with its core data systems: HRMS, along with payroll and some aspects of benefits administration. These form the "Core HRMS/ERP foundation" shown in CedarCrestone's Human Capital Application Blueprint™ (see Figure 5). Implementing and maintaining (through upgrades and new releases) these core systems enable the organization to achieve *Administrative Excellence*.

The next phase, to achieve *Service Delivery Excellence*, includes the deployment of self service applications, often with unifying portal access. In this second phase, companies may adopt "a centralized service center approach, augmented by call center technology and in some cases by a knowledge base that provides policies, procedures, and person-based choices to accompany self service transactional services."

In the third phase, *Performance Excellence*, companies implement strategic HCM applications or talent management, including workforce planning, competency management and learning management solutions. "Further, they are bringing data and information from multiple sources into a data warehouse and some form of analytics or tools to enable measurement and reporting of workforce performance."

Where is your organization along this spectrum? Are you leveraging all the technological support options available to you?

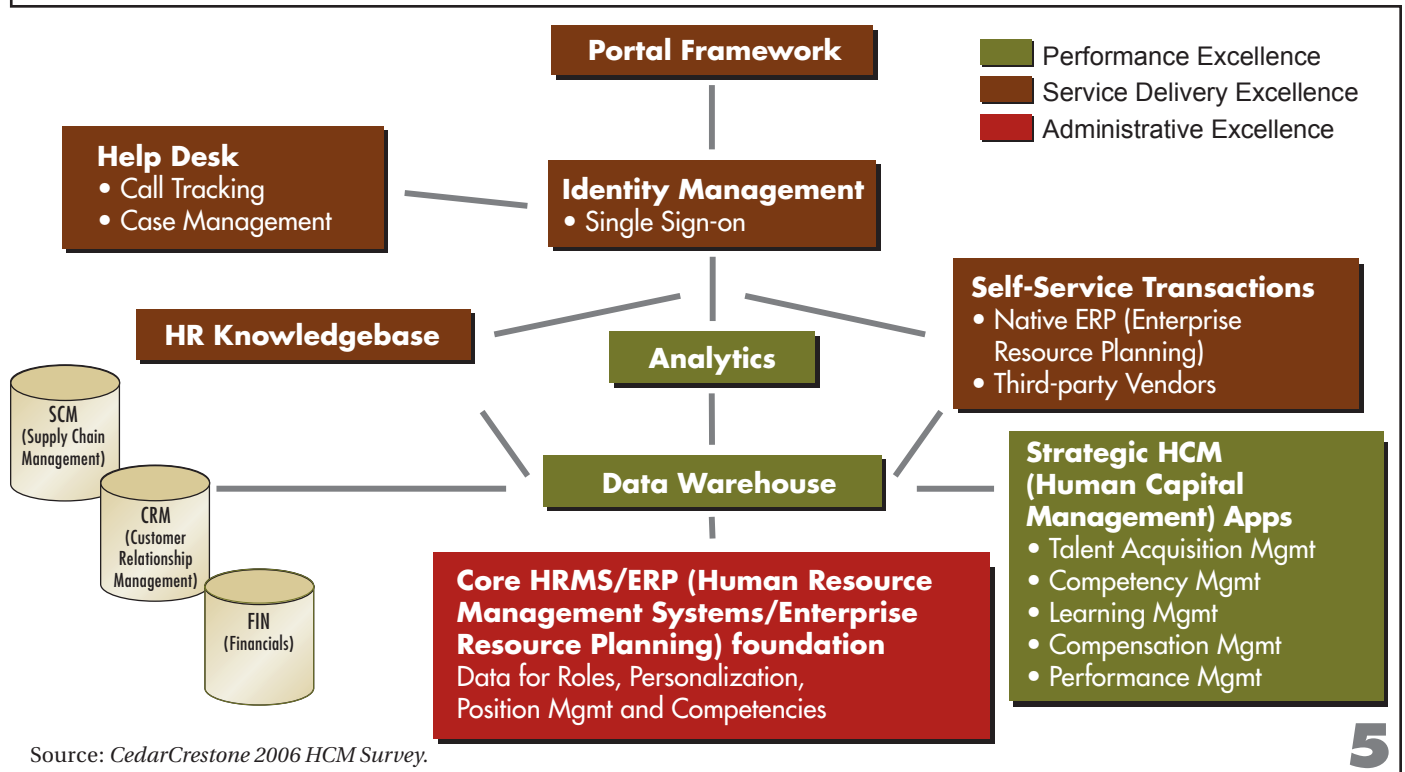
Meeting Employee Demand

Something that *has* changed is the degree to which your employees demand 24/7 access to valuable HR information, including benefits detail. The ease with which individuals can access information online in their personal lives has changed their expectations of the world of work.

Especially where they have Internet access in the workplace, many employees seek instant access to HR information (including benefits, time off and other policies), as well as the ability to complete required transactions online. Why should requesting a day off at work not be as simple as placing an online order at home? Where employees do not have Internet access as part of their jobs, the employer may seek creative ways to give them that access—whether through kiosks, mobile devices or other means.

Not *all* employees seek to live their HR life online, but increasing numbers of employees do. As do their spouses and dependents, who are also part of your HR equation.

CedarCrestone Human Capital Application Blueprint™



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Among the CedarCrestone 2006 HCM Survey's Key Findings, "Five applications cause operating income growth among publicly traded respondent organizations (manager self service, career development, workforce measurement, talent acquisition, and performance management solutions). ROI and other quantitative benefits such as reduction in transaction costs, administrative headcount, cycle time and penalties and fines are also significant."

The rate of technology adoption varies by industry, according to the CedarCrestone 2006 HCM Survey (see Figure 6): "The overall worldwide numbers for 2006 show a mature market with administrative applications. For employee and manager productivity applications, the market is moving into a late majority adoption phase with activity in primarily Health Care, Public Administration, and Higher Education organizations."

"With the strategic HCM applications, overall, the market is still in an early majority phase of adoption but with lots of activity in talent management and performance management, particularly in Financial Services, High-tech Manufacturing, Other Manufacturing, and Other Services industries. The measure/plan talent applications, made up of data warehouse, workforce analytics, and workforce planning are still in an early adopter stage with Financial Services, High-tech Manufacturing and the very large Retail organizations...at the forefront and reaping benefits."

No matter what industry, the companies that compete successfully—both against their competition and in the marketplace for qualified employees—will be those that take the time to assess their business processes and determine which technology applications will enable their people to concentrate their efforts on driving long-term value.

Take Open Enrollment Online to Increase Participation

The annual benefits open enrollment period presents your HR team with some of its biggest transactional challenges.

One of the underlying dangers of open enrollment is that a percentage of your workforce will basically ignore the information provided and default to their current coverage, or elect coverage without giving it much thought.

You should be concerned about such employees.

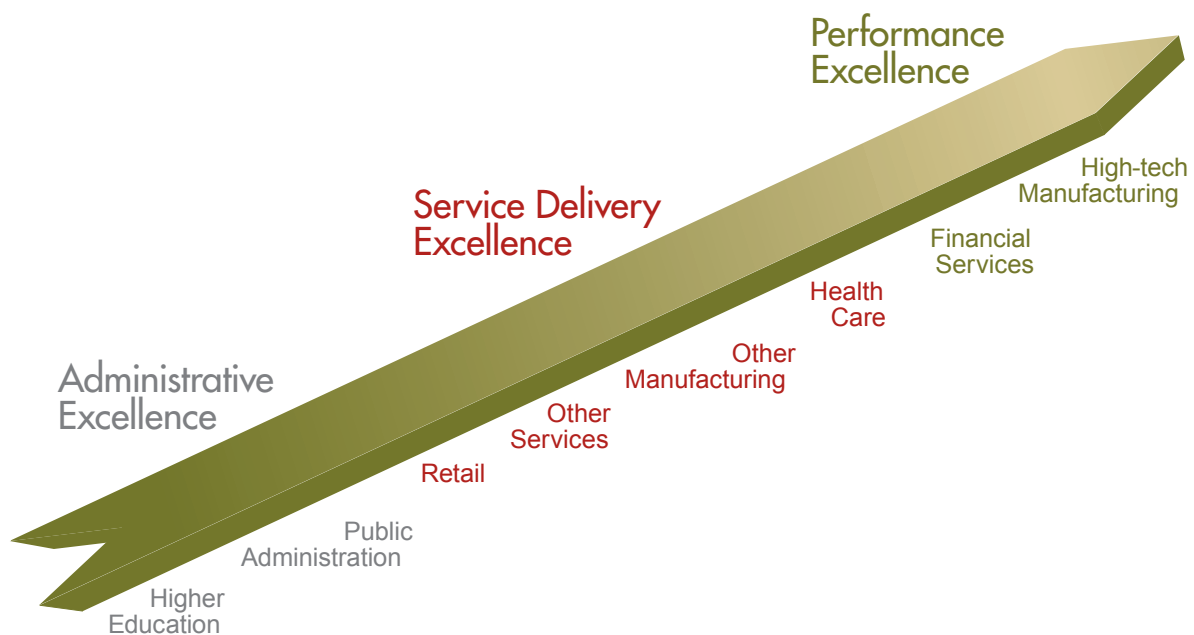
They may end up with a program that leaves them under-insured (e.g., without spouse coverage, which means you unnecessarily expose your employee to added distraction/lesser productivity) or over-insured (e.g., with dependent health coverage they no longer need, which means they are unnecessarily reducing the value of their total compensation package). They also may overlook options, like a Flexible

Spending Account (FSA), that could save them money at tax time—again, not maximizing the total compensation package you have created.

A proven way to increase interest and participation in open enrollment is to make the process easier. An online enrollment system can give your employees 24/7 access, from their home or office, to check eligibility status and review or change benefit elections. They can point and click to view plan comparisons, or use an online calculator to evaluate their options.

Open enrollment will go more smoothly for your HR staff as well, because online systems reduce the paperwork and help manage the flow of data to relevant carriers and benefit providers, as well as the flow of benefit deduction information to your payroll system(s).

Adoption Stage by Industry



Source: CedarCrestone 2006 HCM Survey.



▶ Moving Forward Together

Both C-level executives and HR executives recognize the importance of attracting and retaining a qualified workforce, and of linking HR objectives to business objectives:

- When senior financial executives were asked to identify the three most significant HR challenges they faced, the top five responses were:¹
 - Building leadership capabilities
 - Raising workforce productivity
 - Acquiring key talent
 - Retaining key talent
 - Measuring human capital's contribution to business performance.
- When HR professionals were asked to identify the most important strategic HR issues as viewed by their senior management, the top five responses were:²
 - Identifying, recruiting and hiring key employees
 - Collaborating with top management on achieving goals of the company
 - Controlling and/or minimizing the costs of employee benefits
 - Collaborating with top management on setting the goals of the company
 - Training and development of talent.

So, if both agree that strategic HR management is a good goal, then why isn't it already happening?

For starters, one reason is that, up to now, small to midsized companies have not had access to the robust business process outsourcing services available to larger companies. Most large companies already enjoy outsourcing that frees their HR staff from day-to-day transactional burdens and enables HR to function strategically in support of changing business objectives.

Now, with ADP, you have new options to meet these same needs—from the technological applications in ADP's HR/Benefits Solution to the full range of services provided by ADP's Benefit BPO, which is built upon the industry-recognized Employeease services and technology.

By utilizing ADP's proven and innovative mix of Web-based solutions and outsourcing options, you can harness the power of the ADP applications, services and network to manage work in-house or turn certain activities over to an outsourcing service center. ADP can manage processes on your behalf while you maintain control.

The issue here is not only technology. Getting control of your transactions starts with technology,

"As outsourcing becomes more popular, the question is no longer 'Should I outsource?' but rather 'What should I outsource, and to whom?'"

So You Want to Outsource: Navigating The Journey, From Provider Selection to Implementation, Hewitt Associates LLC, 2007.

but there also are services—such as call centers and invoice reconciliation—that can be vastly improved by using ADP's outsourcing model. The ADP technology is supported by experienced HR and benefits professionals—not college students or newly-trained operators—who can act as a valuable extension of your HR function.

The ADP outsourcing model is built on a technology platform but is differentiated by the quality of service—far beyond that to which you and your employees are now accustomed. You will improve the quality of service your employees receive by outsourcing with ADP. And you can monitor it as it happens.

¹ *Human capital management: The CFO's perspective*, CFO Research Services in collaboration with Mercer Human Resource Consulting, CFO Publishing Corp., 2003.

² Employeease-sponsored research, *Why HR/Benefits Should Be Any Company's Top Priority*, Phase III Results, 2005 at <http://www.hr-research.com/research/survey6.php>.

With the many options offered by ADP, you no longer have to sacrifice control and visibility in order to address your need for technologically supported benefits administration outsourcing solutions. An experienced partner like ADP is uniquely positioned to help you restore your HR team's strategic role.

**The ADP HR/Benefits Solution:
Full-featured, Flexible, Secure**

ADP's HR/Benefits Solution combines a full-featured Human Resource Management System and Benefits Administration into an integrated, robust solution that complies with applicable government regulations, reduces benefits costs and adds to employee satisfaction.

With the ongoing expense of IT support, maintenance and upgrades built into the cost of

ADP's HR/Benefits Solution, employers typically realize rapid ROI—both hard- and soft-dollar savings—almost immediately.

“Our decision to go with ADP allows us to focus on growth initiatives, invest in innovation, and invest in our employees.”

William M. Schult, Chief Financial Officer, Pro Mach, Inc., Loveland, Ohio

Flexibility is the norm with ADP. You retain control through real-time, hosted, Internet access—and ADP's HR/Benefits Solution includes a seamless interface with payroll to ensure timely and accurate deductions.

By combining and integrating full-featured Human Resource Management with robust Benefits Administration through a centralized database, ADP's HR/Benefits Solution lets you manage current and historical HR and benefits information across all of your locations, divisions, insurance carriers and benefit plans.

Your managers and employees get secure and convenient access to the specific HR and benefits information they need—at the speed of the Internet. Best yet, because the solution is hosted by ADP, you don't have to worry about software support, upgrades, maintenance or the risk of work rules, pay policies and benefits eligibility rules being applied inconsistently or incorrectly.

You also reduce the risk of fines and penalties from the Internal Revenue Service, Department of Labor and other government agencies with a solution that guarantees the accuracy and timeliness of benefits, payroll and HR-related compliance liabilities.

**Flexible, Hosted HRMS and
Benefits Administration**

Full-featured HRMS, including:

- Core HR Capabilities
- Performance and Leave Management
- Recruitment
- Manager and Employee Self Service

Robust Benefits Administration, including:

- Open Enrollment
- Insurance Carrier Connectivity
- Call Center Supported by Experienced HR Professionals
- Seamless Access to Benefits/Enrollment Information
- Dynamic Rules Engine

Seamless Connection to Payroll:

- Web and XML Services

▶ Summary

Your workforce is critical to the success of your organization—and strategic HR management is critical to the success of your workforce.

The issues are well established. What's new are the options available to you for ensuring that your HR function supports your business units in ways that drive growth.

It's not enough to talk about the need for strategic HR, or about the differences between transactional and strategic HR. Smart companies are creating an environment—one that starts with senior management—in which strategic HR can occur.



What's required is action that enables your HR staff to get back to the work for which they were trained and hired: helping ensure that your employees can meet your organization's changing objectives.

When you outsource with the right partner, you gain access to valuable expertise and technology solutions that will positively affect your bottom line. ADP, with its record of client success, can help you achieve strategic HR management. And do it sooner, rather than later.

“Since every organization has different goals, what is strategic HR in one organization may not be considered strategic in another.”

*John Dooney, SHRM, *The Look and Feel of Strategic Human Resource Management.**

About ADP

ADP has more than 50 years of experience providing employers with business solutions such as Payroll, HR and Benefits Administration. ADP solutions focus on making businesses more productive by reducing costs, increasing productivity and, most importantly, standing ready to grow with your business. With the widest range of powerful, cost-effective solutions, only ADP can offer your business the flexibility it demands to grow and prosper—whether you have one employee or hundreds of thousands.

About the Author

Daphne Foreman is a communications consultant who focuses on helping companies achieve their business objectives. She has researched, written, edited, and project-managed HR communications specific to employee benefits, compensation, training and development, and executive policy. Daphne earned two Masters degrees from Yale University, including an MBA. Since 2002, she has served as a consultant to ADP on numerous projects.