



FROM PERSONNEL MANAGER TO CHIEF HUMAN CAPITAL OFFICER:
THE TRANSFORMATION TO STRATEGIC HR

OCTOBER 2007

A Study Commissioned by ADP Identifying the
HR Needs of Companies with 50–999 Employees

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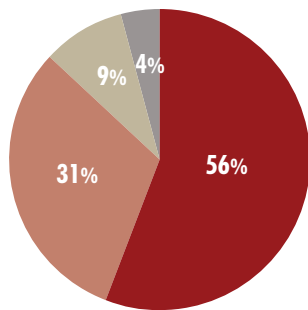
introduction

In 2006, ADP commissioned a study designed to provide an in-depth look at the Human Resources (HR) function in small to midsized U.S. companies. The intent of this study was to develop a detailed profile of HR professionals in this space: how they view themselves within their organizations, what they spend their time on, what causes them the most pain and where they would choose to focus their time if they could.

For the purposes of this study, “small to midsized” means companies that have between 50 and 999 employees. The study responses also were broken out by four size categories — 50-99 employees, 100-249 employees, 250-499 employees and 500-999 employees — to identify trends that emerged for each category.

A total of 1,267 respondents participated. Each respondent is the person within their organization who has the best overall view of how their company handles different HR functions, including what their future needs will be. In addition, the respondents are the people who would evaluate and make recommendations to senior management regarding a major new HR system or service. Eighty-nine percent of the respondents are the heads of their company’s HR function.

Study Universe, Total U.S. Employees



Percentage of Market

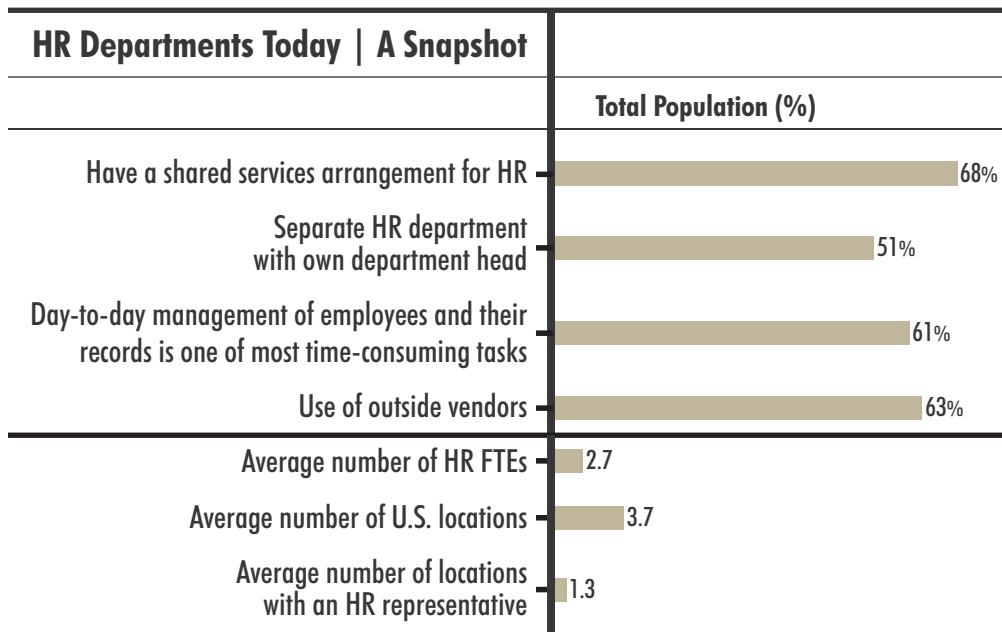
Number of Respondents

■ 50 – 99	525
■ 100 – 249	304
■ 250 – 499	232
■ 500 – 999	206

=1,267

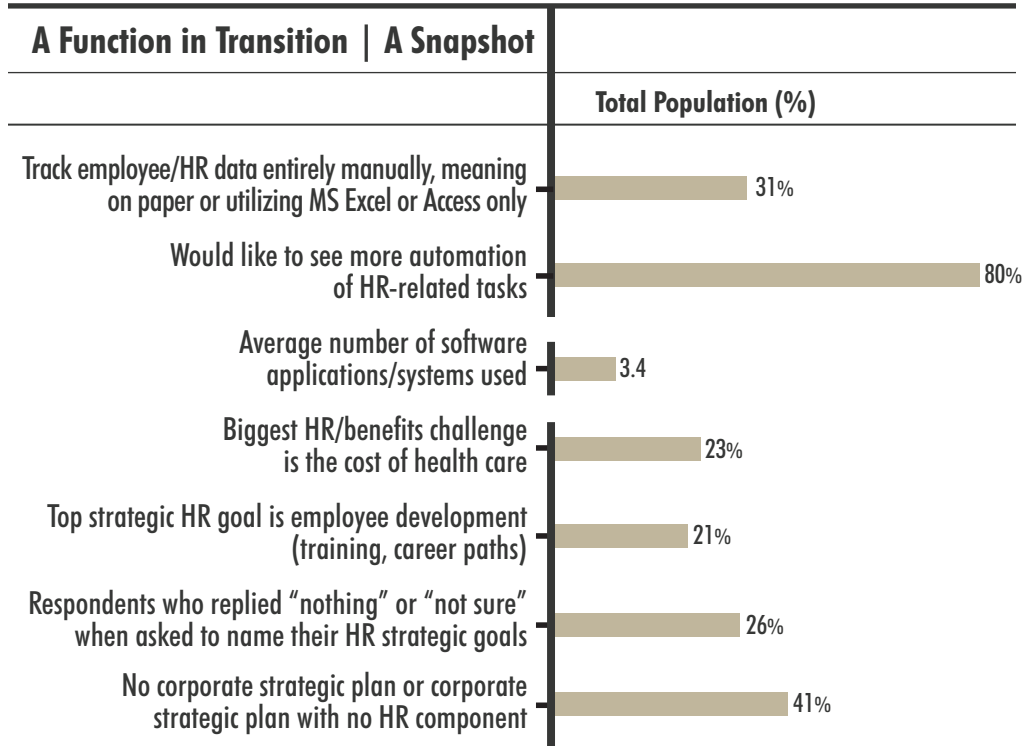
HR Departments Today

For the employer with 50-999 employees, we now have a clearer picture of how the HR function is configured, what HR professionals are doing and how they are doing it. With an average of 2.7 full-time equivalent employees (FTEs), HR teams are responding to their company's needs not only for HR and benefits administration, but also for recruiting, reporting, compliance and employee communications, among numerous other duties. In 63% of companies, outside vendors assist the core HR team in performing administrative and other tasks to some degree.



A Function in Transition

In addition to providing an in-depth look at the HR needs of small to mid-sized companies, this study shows an HR function in transition: Finding it no longer sufficient to be primarily processors of employee transactions, HR departments of all sizes are exploring better ways to manage their many responsibilities. This may include embracing the automation of appropriate tasks, learning what it means to provide strategic HR or working to maximize their HR team's resources to help their companies win the increasingly competitive battle for talent.



HR departments today

Because it supports every employee in an organization, the HR function reflects the growth stage of the enterprise as a whole. Across the universe of small to midsized companies, HR departments are configured to meet their individual company's needs — whether that company is just starting out, experiencing rapid growth or responding to competitive changes.

There is an increasing emphasis on the need for “strategic HR management” — a term whose definition will vary depending upon the needs of each company. What is viewed as strategic HR in one organization may not be in another. One goal of the study was to identify what HR professionals believe to be the important HR tasks within the context of their own organization.

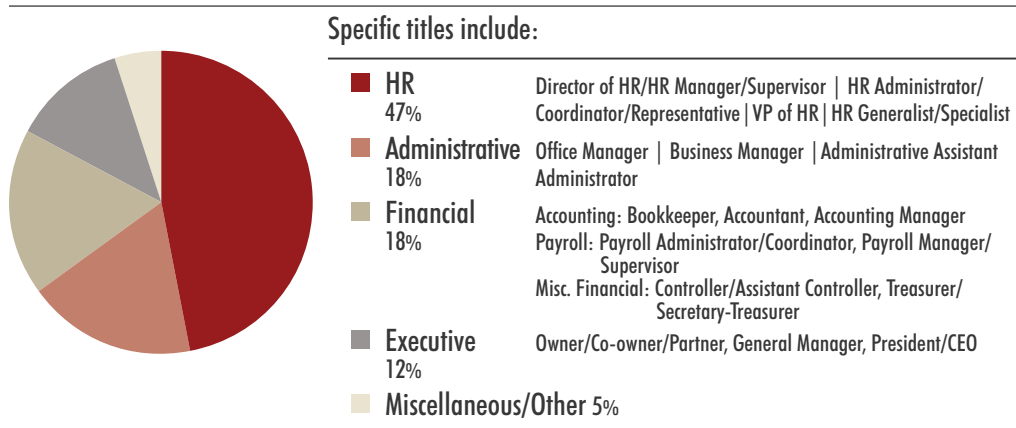
HR Titles and Reporting Relationships

With the current trend for HR departments to play a more strategic role, one way to assess how the HR function is viewed — and valued — is by looking at the titles of the head of HR and where HR reports within the organization.

HR Titles. Position titles offer one clue to the state of the HR function. The exact title of the head of HR varies across the study's respondents, with 47% of the total population reporting HR titles, along the full range from VP or Director of HR to HR Generalist. In larger companies, the 500-999 group, 79% of the heads of HR have an HR title; however, in the 50-99 group, HR titles equal only 34%.

The second and third most prevalent types of titles for the head of HR (both at 18% of the total population) are administrative titles, such as Office Manager or Business Manager, and financial titles, including both Accounting and Payroll professionals. In 12% of the total population, the head of HR is an executive — the Owner, Co-owner, Partner or General Manager.

Exact Title of Head of HR – Whether Respondent or Someone Else

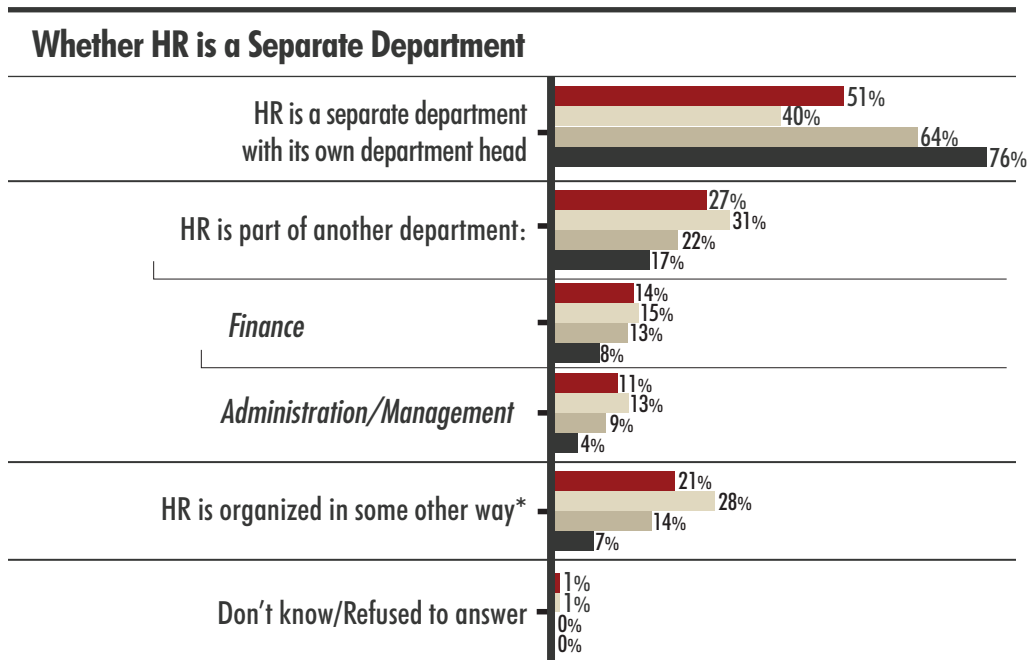


Reporting Relationships. In most cases, 64% of the total population, the head of HR reports directly to the executive level — to the President/CEO, Owner/Co-owner or Partner. Thus, HR has at least one person within reach of that elusive “seat at the [executive] table” that affects whether HR is involved in shaping strategy at the highest levels of the organization. Thirteen percent of the heads of HR report through finance, to the CFO/VP of Finance or Controller; 10% report to an Administrator or Business Manager. Another 13% report variously to themselves, to no one, to a COO/VP of Operations or to someone outside the above-referenced areas.

It should be no surprise that a significant percentage report through finance, given the increasing pressure on companies to maximize their investment in their employees. High employee turnover and/or low productivity can have a major negative effect on a company’s bottom line.

The HR Department — Locations and Staffing

In approximately half (51%) of the companies studied, HR is a separate department with its own department head. In companies with 500-999 employees, 76% have separate HR departments, while only 40% of the 50-99 employee group do. Where HR is not a separate department, it may be part of another department (27% of the total population) — finance, administration, management — or it may be organized in some other way (21%).



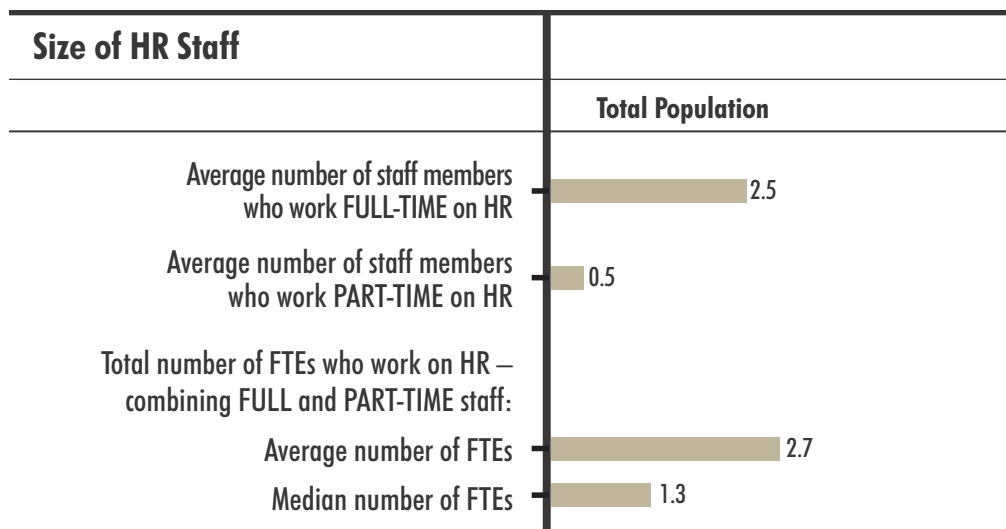
* Examples: There is only one person responsible; We don't have departments; Everyone pitches in; It is handled by two departments; HR reports to an individual.

■ Total Population (%) ■ 50-99 Employees (%) ■ 100-499 Employees (%) ■ 500-999 Employees (%)

Two-thirds (68%) of the studied companies have a shared services arrangement for HR. The company’s HR team is serving an average of 3.7 U.S. locations and has an HR representative present in an average of 1.3 of those locations. In the largest companies studied (500-999 employees), both the number of company locations (11.6) and the locations at which HR representatives work (2.4) is greater. The average number of operating units/divisions very nearly matches the number of company locations (3.4 across the total population), as does the number of HR representatives serving those operating units/divisions (an average of 1.3).

The average number of full-time HR staff ranges from 1.8 full-time employees in the 50-99 group to 4.3 full-time employees in the 500-999 group, with an average of 2.5 across the total population. An average of 0.5 part-time employees, across the total population, also works on HR tasks. The average total number of FTEs who work on HR — combining both full-time and part-time staff — is 2.7 across the total population. For the largest companies (500-999), this average is 4.6.

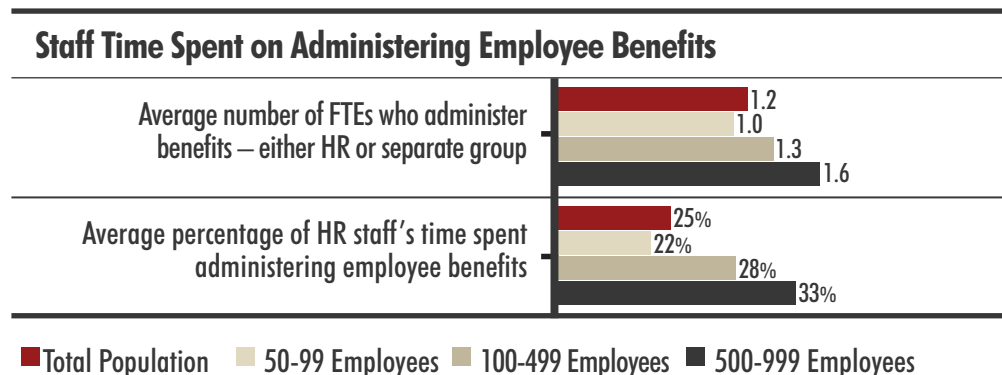
As companies grow, the HR staff grows, but not in proportion to the employee population’s growth. The HR team is expected to become more efficient, with each person supporting larger numbers of employees in potentially more remote locations. This adds to the existing pressure for HR departments to increase efficiency — through streamlining and automating HR processes as appropriate.



Benefits Administration

To meet increasing competition for top employees, companies must offer attractive — and varied — benefits programs, while managing these programs' escalating costs. An average of 97% of the companies studied here offer some employee benefits to their employees. (For companies with 100 or more employees, this percentage is 100%.) The HR staff is primarily responsible for benefits administration: 86% across the total population, with a separate group handling benefits in only 12% of companies.

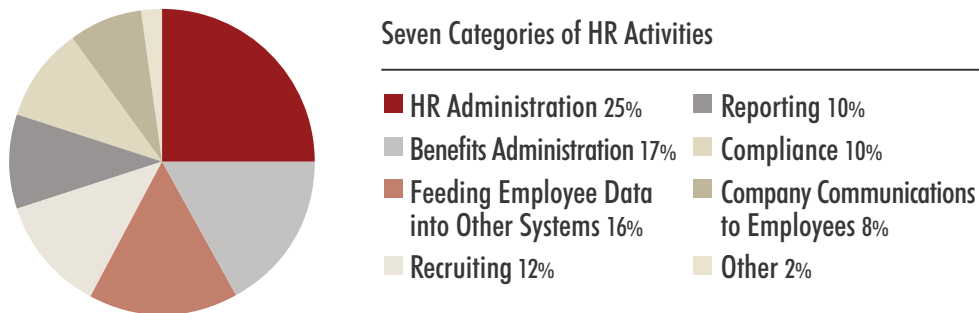
Among those companies that offer benefits, the administration of benefits is time-consuming, as the study shows: Whether benefits administration is handled by HR or by a separate group, an average of 1.2 FTEs is required (for the 500-999 group, this FTE average number is 1.6). When respondents were asked to estimate the percentage of time that benefits administration takes their staff (as a stand-alone question, not as compared to other HR tasks, as shown later), they reported an average of 25% of their HR staff's time. The larger companies (500-999) reported an average of 33%.



How the HR Staff Spends Its Time

Study respondents were asked to allocate how their HR staffs spend their time across seven categories: HR administration, benefits administration, feeding employee data into other systems, recruiting, reporting, compliance and company communications to employees (2% of respondents added other categories). This task required that they allocate 100% of their time to the specified categories and thus provides a true relative effort for each.

Where HR Staff Members Spend Their Time

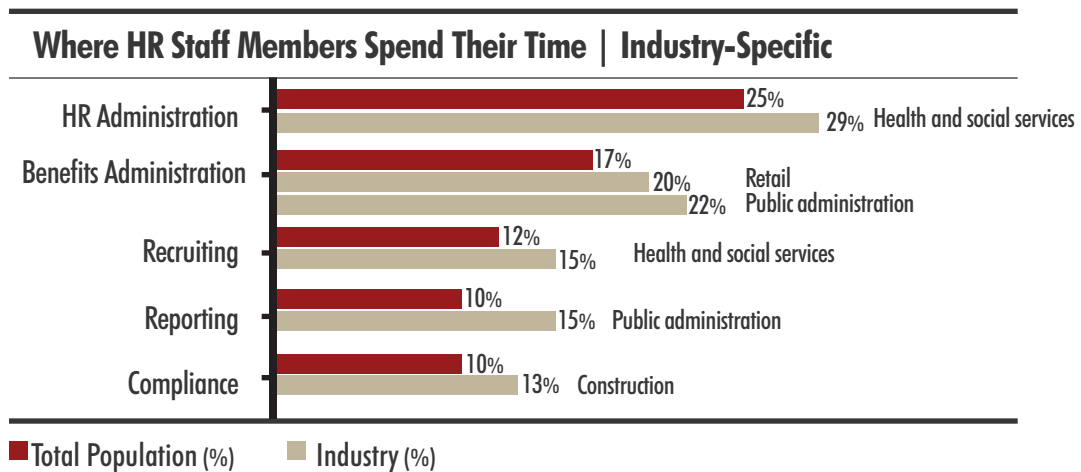


Respondents also volunteered activities that they perceived as being outside the seven provided categories, including: employee relations, payroll processing, safety and risk management, company-sponsored family events, workers' compensation, strategic planning, dealing with unions, and employee recognition/morale boosting.

More than half of the time (58%) is spent on HR administration (25%), benefits administration (17%) and feeding employee data into other systems (16%). Across the total population, an average of 0.61 FTEs is devoted to HR administration, 0.44 FTEs to benefits administration and 0.37 FTEs to feeding employee data into other systems.

On average, the 250-999 employers spend more time on benefits administration (20%) than smaller companies (16%), while feeding employee data into other systems is less time-consuming (11%) for the 250-999 employers. Larger companies (500-999), which employ more automation and are perhaps better resourced, are able to focus on strategic needs: The larger companies devote 17% of their time to recruiting tasks.

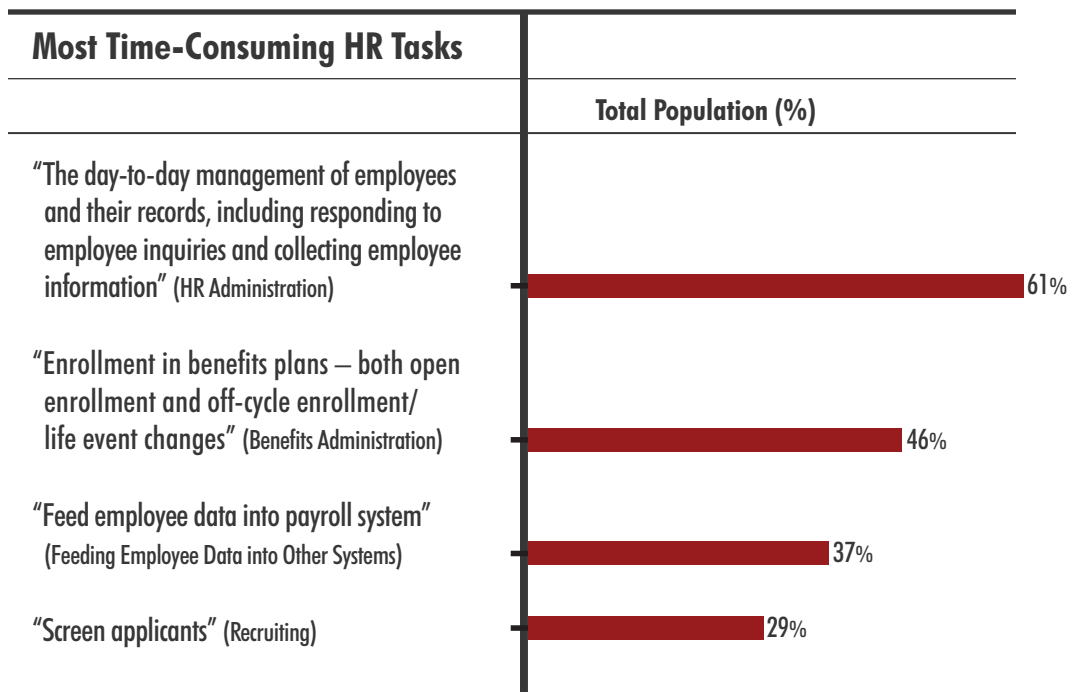
The allocation of HR staff time also shows industry-specific differences. In each of the cases below, the industries named reported a higher percentage of time than that of the total population:



Specific Tasks HR Professionals Do

Having ranked the seven categories of HR activities by the amount of time their HR staffs spend on each, respondents were then asked to consider specific tasks within each category. For each respondent, the study administrator took the top four categories — on which their staff spend at least 10% of their time — and provided the respondent with a list of activities from which the respondent named the activities within that category that were the most time-consuming. The specific tasks were rank-ordered by the percentage of respondents who said that task was one of their most time-consuming tasks.

Leading the way, at 61% across the total population, was an HR administration task: “The day-to-day management of employees and their records, including responding to employee inquiries and collecting employee information.” Number two, from benefits administration, was “Enrollment in benefits plans — both open enrollment and off-cycle enrollment/life event changes” at 46%.



After the top four tasks named above, between 11% and 19% of the total population added 12 more tasks to the ranking:

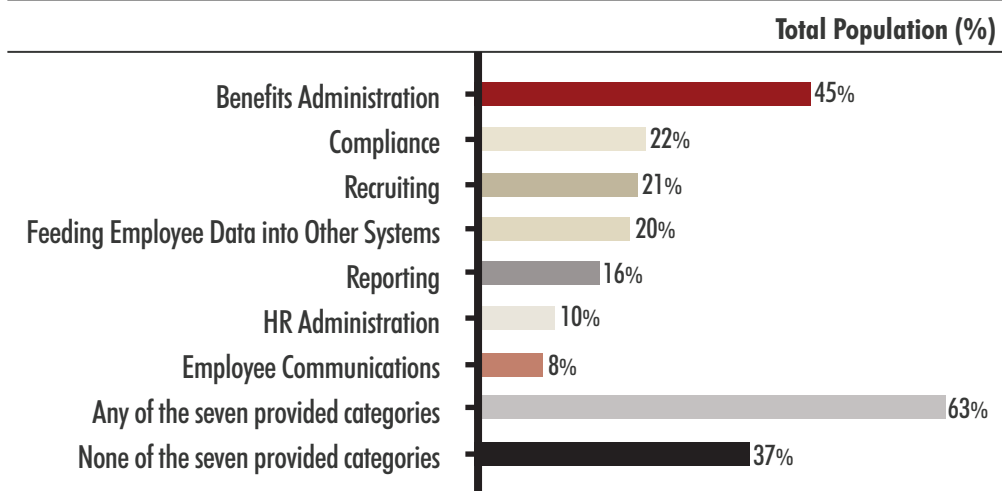
Additional Time-Consuming HR Tasks Named by Respondents			
19%	Employee training (enroll, track, set requirements, etc.)	14%	OSHA injury/illness tracking
17%	Feed employee data into time and labor tracking systems	14%	Disciplinary actions and grievance tracking
17%	Provide employees with benefits summaries, summary plan descriptions, HIPAA certificates	14%	Reconcile benefits premiums and track over-age dependents
15%	Compensation management (calculate performance increases, evaluate company pay grades compared to market, etc.)	13%	Performance reviews
14%	Communicate company policies to employees	12%	Time off (process requests, calculate balances, respond to balance inquiries)
		12%	Input changes in benefits costs into employee records/company systems
		11%	New Hire Reporting

Speaking to the many responsibilities placed upon HR staffs, 10% or fewer of the respondents added 24 more specific tasks performed by their HR teams to the ranking, including absence and time-off reporting, tracking applicants through the hiring process, COBRA processing and EEO and other required reporting.

Use of Outside Vendors

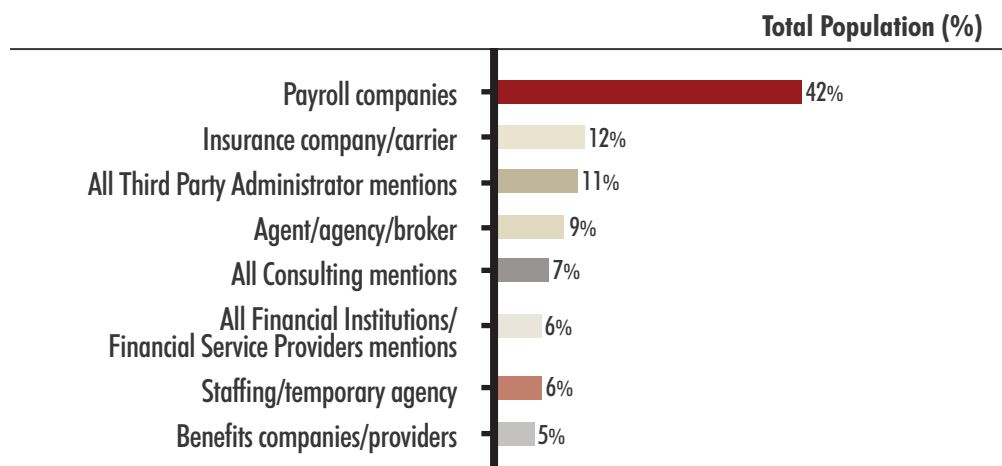
To accomplish their many tasks, 63% of the studied companies utilize outside vendors. Using the same seven categories identified earlier, benefits administration (at 45% of the total population and 55% of the 250-499 group) is the most likely to involve outside vendor(s). This is consistent with other ADP research that shows that FSA, COBRA, 401(k) record keeping and defined benefit record keeping are the HR/benefits tasks that companies are most likely to outsource.

Where Outside Vendors Are Used



The average number of areas in which these small to mid-sized companies use outside vendors is 1.5. When asked to name the specific outside vendors they use, payroll companies (including ADP) were the most frequently named (by 42% of the total population).

Types of Outside Vendors Used



Summary: HR Departments Today

For the employer with 50-999 employees, we now have a clearer picture of how the HR function is configured, what HR professionals are doing and how they are doing it.

With an average of 2.7 FTEs, HR teams are responding to their company's needs not only for HR and benefits administration, but also for recruiting, reporting, compliance and employee communications, among numerous other duties. These HR teams are serving an average of 3.7 U.S. locations, with an average of 1.3 HR representatives per location. As companies grow, their HR teams grow, but only modestly, adding to the pressure on HR teams to be increasingly efficient: 50-99 employers have an average of 2.1 HR FTEs; 500-999 employers have an average of 4.6 HR FTEs.

Administrative tasks, both HR-related and benefits-related, consume much of these staffs' time: 61% report that the day-to-day management of employees and their records is one of their most time-consuming tasks. In 63% of companies, outside vendors assist the core HR team in performing administrative and other tasks. Many of these administrative tasks could be automated with the use of available HR and self-service tools, creating more opportunities for HR professionals to focus on more strategic HR activities.

Only one-half (51%) of the HR groups are configured as a separate department with its own department head. The smaller the company, the more likely the HR function is to be achieved within the context of other functions, such as finance or administration.

The need to manage increasingly complex administrative tasks while also responding to their companies' needs for more strategic HR activities such as employee development is increasing the pressure on small to mid-sized companies' HR teams and shows us an HR function in a state of transition.

a function in transition

In addition to providing a first in-depth look at the HR needs of small to midsized employers, the 1,267 study respondents also paint a picture of an HR function in transition.

Accurately processing employee transactions, while still required, is no longer sufficient to ensure a successful HR function. Increasingly, HR teams are being brought into the overall corporate strategy and are expected to contribute in new ways to larger corporate initiatives.

The need for “strategic HR” — a term whose meaning will vary in each company — becomes a higher priority as the ever-present “war for talent” heats up in anticipation of the exodus of many Baby Boomer employees from the full-time workforce. Plus, success in an increasingly global economy requires not only attracting but also retaining the right employees, making employee development — including job-specific training, management and leadership training and career planning — an increasingly important component of the HR function.

Yet, while seeking to define what strategic HR means to their individual company, the HR staff must still fulfill their significant administrative responsibilities. It’s not a matter of choosing one over the other — both efficient administration and strategic HR are needed. Today’s HR teams in small to midsized companies face two distinct types of challenges: (1) the challenges related to the appropriate use of technology to increase the efficiency of their HR function and (2) the challenges that arise in the context of managing their actual HR and benefits responsibilities.

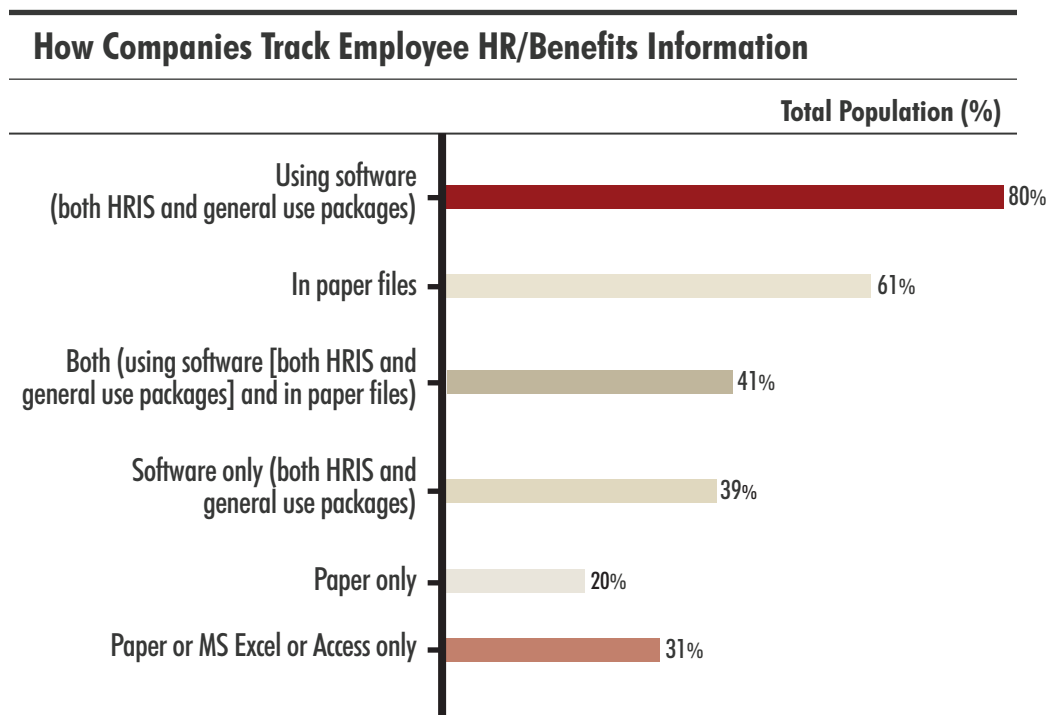
manual v. automated: the challenge of technology

Most large companies already utilize sophisticated technology — whether managed in-house or in conjunction with one or more outsourcing vendors. This frees their HR staff from day-to-day transactional burdens and enables their HR teams to function strategically in support of changing business objectives. It is widely accepted that applying the right technological solutions to transactional needs increases the ability to focus on HR strategy. The value of applying technology to HR and payroll transactions such as record keeping has been firmly established.

Advances in technology are making sophisticated solutions available to smaller organizations. Today, small to mid-sized companies are seeking to identify and use appropriate technology to manage their needs for tracking employee HR and benefits information, automating certain HR tasks and freeing up their staff for more strategic HR activities. Because they may utilize a variety of manual and automated tools, these HR teams also are concerned with how systems integrate across their companies, as well as with their service partners.

Tracking Employee HR and Benefits Information

A major “pain point” for HR departments today is accurately managing and tracking the myriad pieces of employee data related to HR and benefits administration. According to the study respondents, the small to mid-sized company is still quite manual in its HR tracking methods. While 80% of the study respondents use some type of software (both HRIS and general use packages) to aid their tracking, 41% use both software and paper files. Nearly one-third (31% of the total population) track entirely manually, meaning on paper or utilizing MS Excel or Access only, and the smaller the company, the more likely it is to track manually.

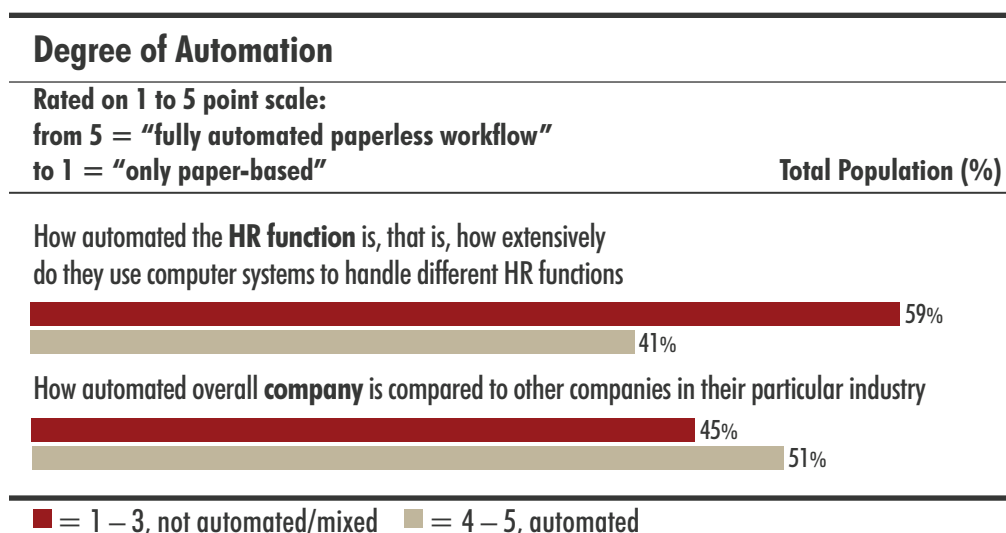


One area that causes pain for HR departments is feeding accurate data into both their HR and payroll applications. Most of the companies that use software (either HRIS or general use packages) have electronic data sharing with payroll (65%), but less than half (47%) say the two systems synchronize automatically and roughly one-fifth (18%) have to go through steps to move data. One-third (34%) say the systems are totally separate. HR time spent on duplicate keying, moving data and validating that data does not add value to the organization.

Automation of HR Tasks

Respondents were asked to rate the level of automation within their **HR department** — that is, how extensively they use computer systems to handle different functions — on a five-point scale where 1 = “only paper-based” to 5 = “fully automated paperless workflow.” Again, this showed a lack of automation in the HR function. A majority of respondents (59%) rated their HR function as 1 – 3 (“not automated” or “mixed”), while only 41% rated it as 4 – 5 (“automated”) with 34% rating it as a 4. As companies grow, there is more pressure to automate and become efficient. Nearly two-thirds (63%) of respondents in companies with 100-499 employees rated their HR automation as 1 – 3, compared to 51% of those with 500-999 employees.

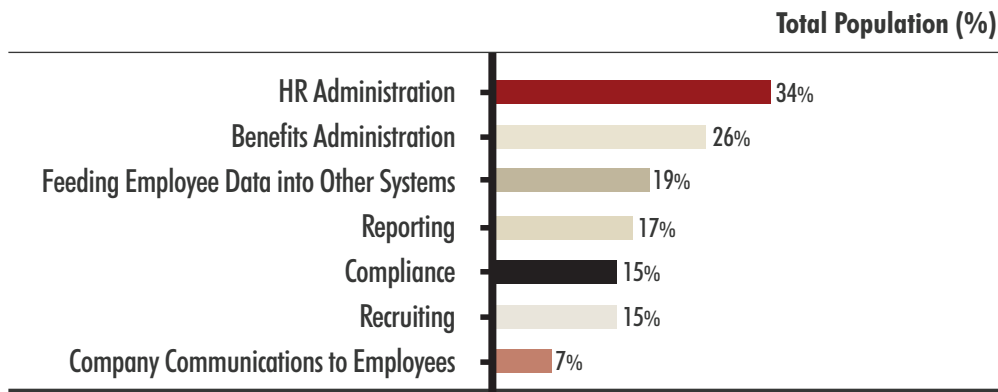
When respondents rated their **company’s** level of automation on a similar scale, comparing their company to others in their particular industry, respondents were somewhat more positive (51% rated 4 – 5, “automated”). Again, the 100-499 employers were more likely to give themselves a 1 – 3 rating (50% compared to 45% of the total population).



The Need for More Automation

Eighty percent of respondents would like to see more automation in some area of their HR responsibilities. HR administration and benefits administration — identified earlier as the most time-consuming HR tasks — are not surprisingly also the top two areas to which respondents would like to see more automation applied.

Two-Three Areas Where HR Professionals Would Like to See More Automation in Their HR Group



Larger companies (500-999) were more likely than the total population to seek additional automation in the areas of benefits administration (34%) and recruiting (27%). This may be a reflection of the fact that larger companies have already seen the power of automation for core tasks and are ready to move further down this path.

Software Applications and Integration

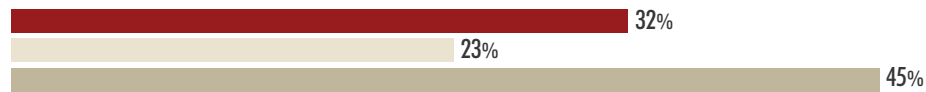
Automation of the HR tasks proves most beneficial when the system(s) used integrate smoothly. Study respondents' HR staffs use an average of 3.4 software applications/systems across their HR function. When those with more than one HR application were asked how integrated their HR systems are with other systems inside and outside their company with which they need to share data, only one-third (32%) said their HR systems are integrated and nearly half (45%) said their systems are not integrated, rated on a five-point scale where 5 = "highly integrated" and 1 = "not integrated at all."

Software Applications: Integration

Rated on 1 to 5 point scale:
 from 5 = "highly integrated"
 to 1 = "not integrated at all"

Total Population (%)

How integrated HR systems are with other systems inside/outside the company with which they need to share data:



■ = 4 – 5, integrated ■ = 3, neutral ■ = 1 – 2, not integrated

Nearly two-thirds (61%) of respondents indicated a need for more integration between HR systems and other systems with which they share data, specifically naming payroll (19%), benefits (17%) and time and attendance (10%).

becoming strategic: the HR and benefits challenges

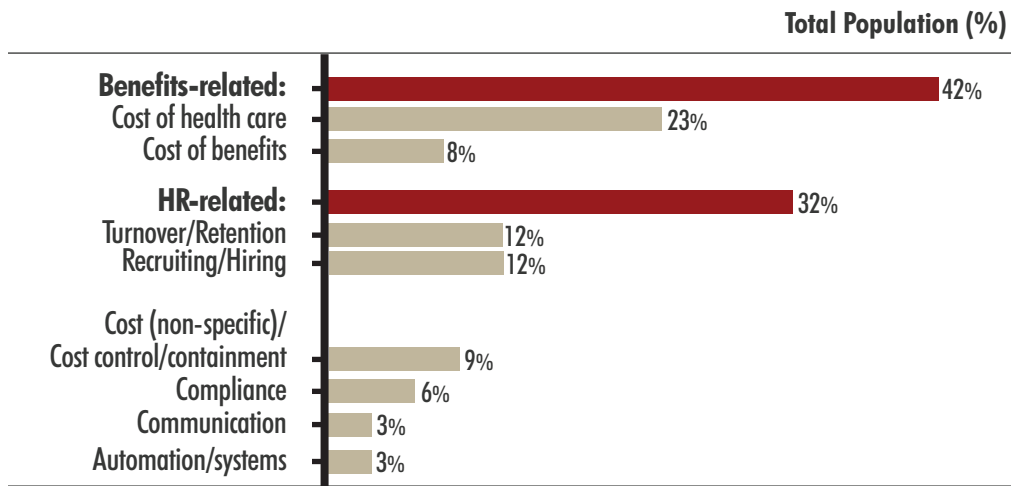
While seeking to achieve more strategic deployment of HR resources, it's easy to describe transactional HR as being disconnected from business activities and operational priorities. However, the issue is not about doing away with transactional HR. Transactions are core HR activities. The issue is how to leverage both old and new technologies to help effectively execute the required transactions with the least time and effort. This frees up HR staffs to help meet the strategic needs of the business.

Thus, identifying and implementing the right technology, while crucial, is only part of the overall HR challenge. 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. With the right automation in place, HR teams find themselves with the time, tools and infrastructure to focus on what strategic HR means to their particular organization. Even so, there is a large gap between having the time, tools and infrastructure to focus on more strategic efforts and actually executing successfully, so HR departments need to develop realistic plans based upon their organization's priorities.

Prioritizing the HR and Benefits Challenges

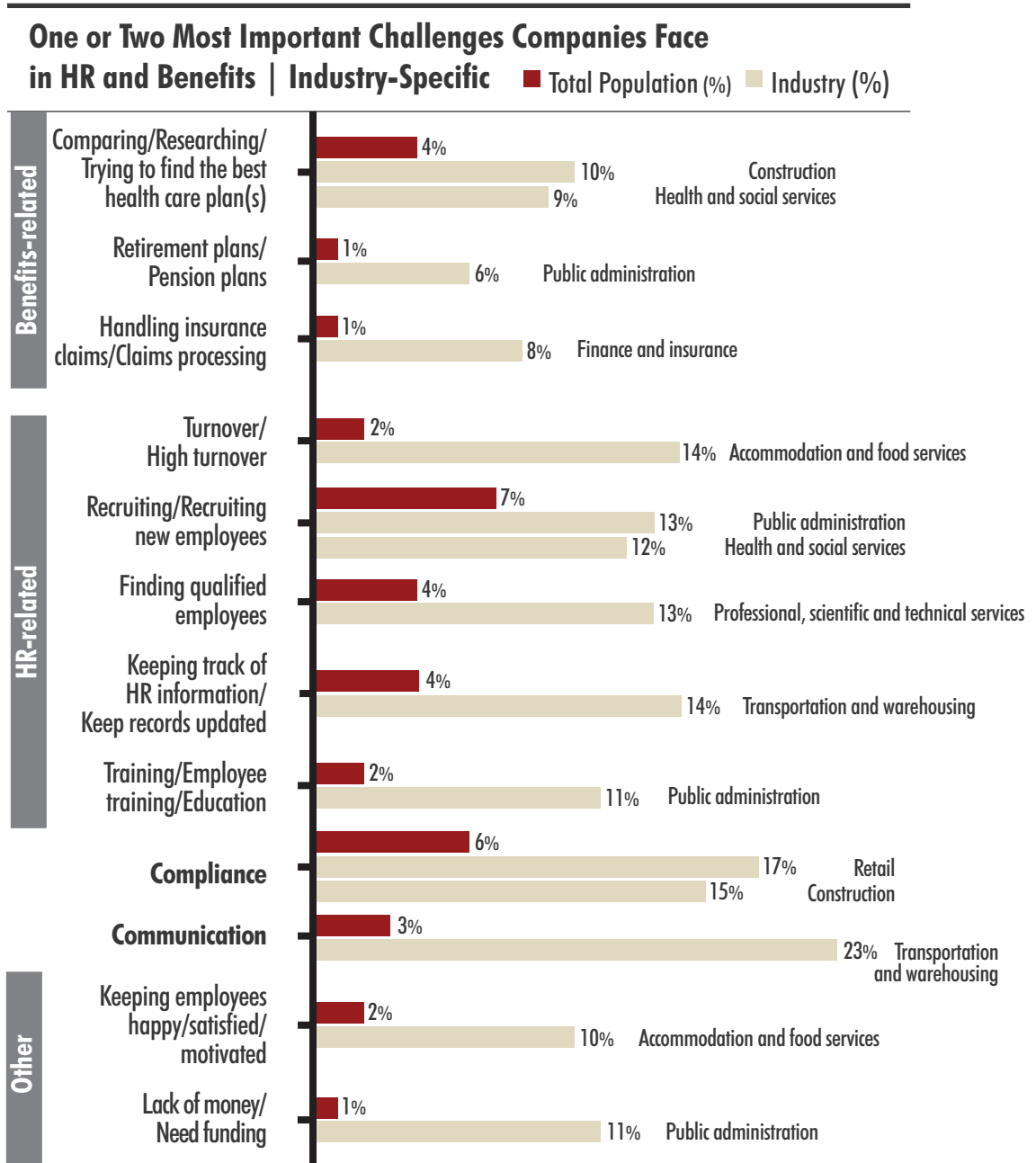
When asked to identify—in their own words—the one or two most important HR/benefits challenges facing their companies, 87% of respondents named one or more challenges. Respondents were most likely to mention issues related to benefits (42%). The cost of health care was the number one benefits issue (23%), and this was true across all the employer size groups. One-third (32%) mentioned HR administration-related challenges, including turnover/retention (12%) and recruiting/hiring (12%).

One or Two Most Important Challenges Companies Face in HR and Benefits



In addition to retaining and developing key talent, HR teams are also being asked to contribute to the health of their company's bottom line. Combining the various "cost" categories that were offered by respondents, 41% of the total population mentioned some aspect of cost—either related to benefits or other HR areas. Larger companies (250-999) were especially likely to mention cost (49%), compared to 39% in smaller (50-249) companies.

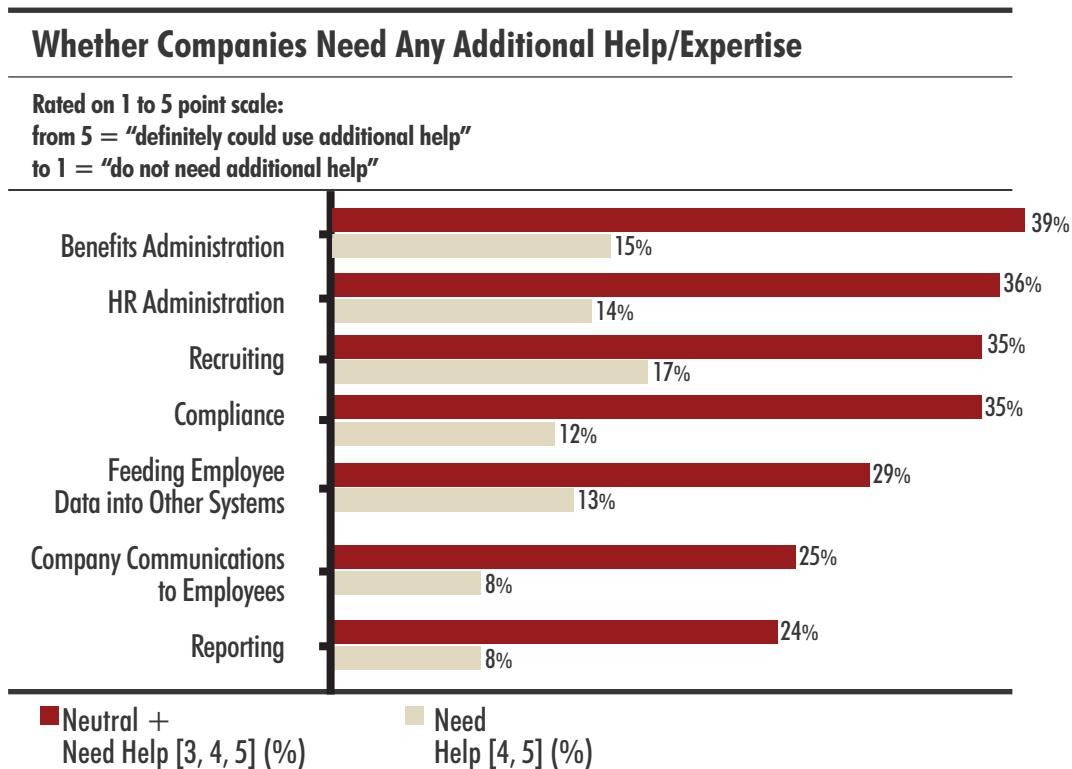
The ranking of these challenges also varies by industry. Fifteen statistically significant differences were found, in eight of 12 industry groups.



Where Additional Help Is Needed

The study also sought to identify the areas in which small to mid-sized companies need additional help or expertise. Asked to use a five-point scale where 5 = “definitely could use additional help” and 1 = “do not need additional help,” respondents rated the seven categories used earlier. Only 3% – 7% of respondents rated any of the categories as a 5 (a definite need), 16% – 24% rated the categories as a 3 (“neutral”) and between 41% and 59% rated the categories as a 1 (do not need additional help).

Combining the “need help” (4 or 5) and “neutral” (3) categories, the greatest needs are in the areas of benefits administration, HR administration, recruiting and compliance. If the neutral (3) rating is removed, the 4 or 5 “need help” responses show the top needs to be recruiting, benefits administration and HR administration.



As has already been established, benefits administration and HR administration are especially labor-intensive areas that present a major challenge to small to mid-sized companies’ HR staffs. Both these areas include a wide range of responsibilities that can be enhanced by the application of the right technology and the right staffing support.

Moving Toward Strategic HR Management

For many companies, their most expensive and important resource is their workforce. HR professionals have been trained and generally hired to engage the workforce in ways that directly benefit the organization. However, HR professionals often are restrained from doing this important work by the rapidly increasing administrative requirements of their jobs. Through the application of appropriate technology, companies are finding that these administrative complexities can be addressed and HR can focus on being what it was meant to be: a strategic asset to the organization.

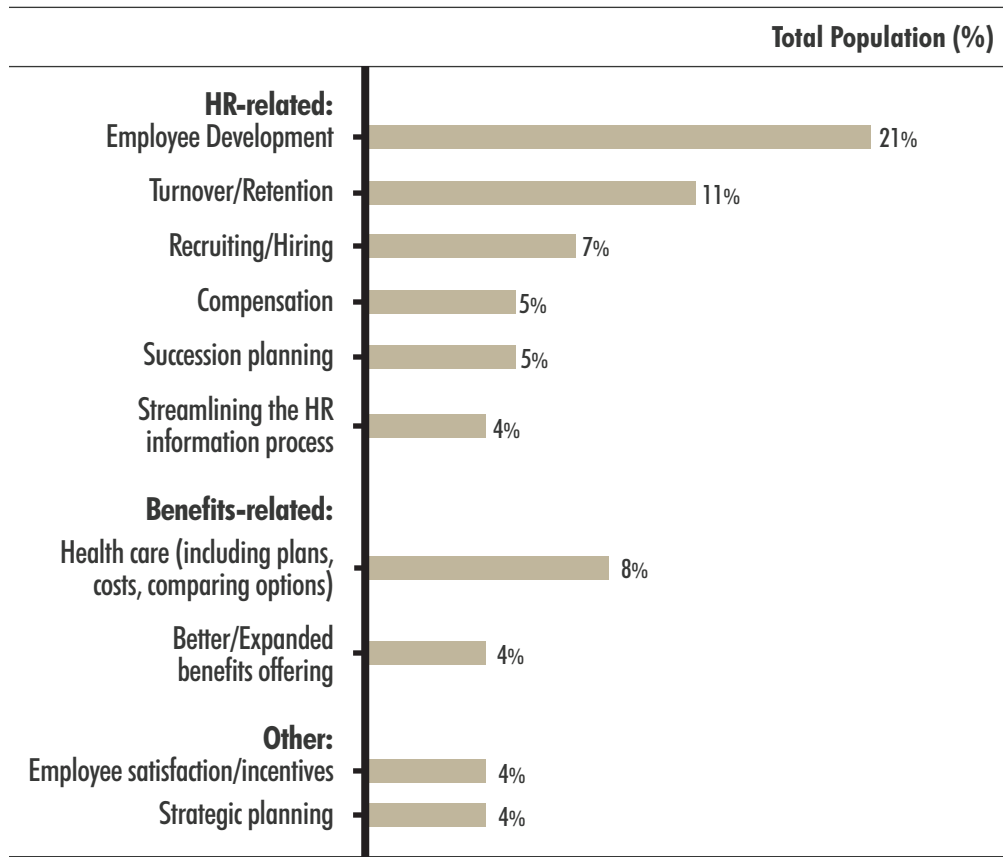
The need for a strategic HR function is not lost on the HR leadership of the small to midsized companies studied here. The study asked respondents to identify the one or two strategic HR initiatives they would spend time on if they had more time to devote to strategic issues. Three-quarters (74%) offered an initiative, and the larger the company, the more likely they were to do so: from 70% of the 50-99 group to 95% of the 500-999 group.

If they had more time to devote to strategic HR issues, respondents' first choice would be to focus on employee development, including employee training and development, management/leadership training and career path development. Twenty-one percent of those who named a strategic HR initiative named employee development as their number one HR-related issue, and as company size grows, that percentage increases (from 19% for 50-249 employers to 36% for 250-999 employers).

Retention of talented employees was the number two strategic issue, at 11%; among the largest companies (500-999), it was 15%. Improving health care benefits (8%) and recruiting/hiring (7%) were also cited as important strategic needs/opportunities.

The larger companies (250-999 employees) in the study, perhaps reflecting the current emphasis on the "war for talent" as well as their increased use of technology to support HR administrative tasks, show stronger interest in recruiting/hiring (18%, compared to 7% of the total population) and succession planning (10%, compared to 5% of total).

One or Two Strategic HR Initiatives Respondent Would Spend More Time On

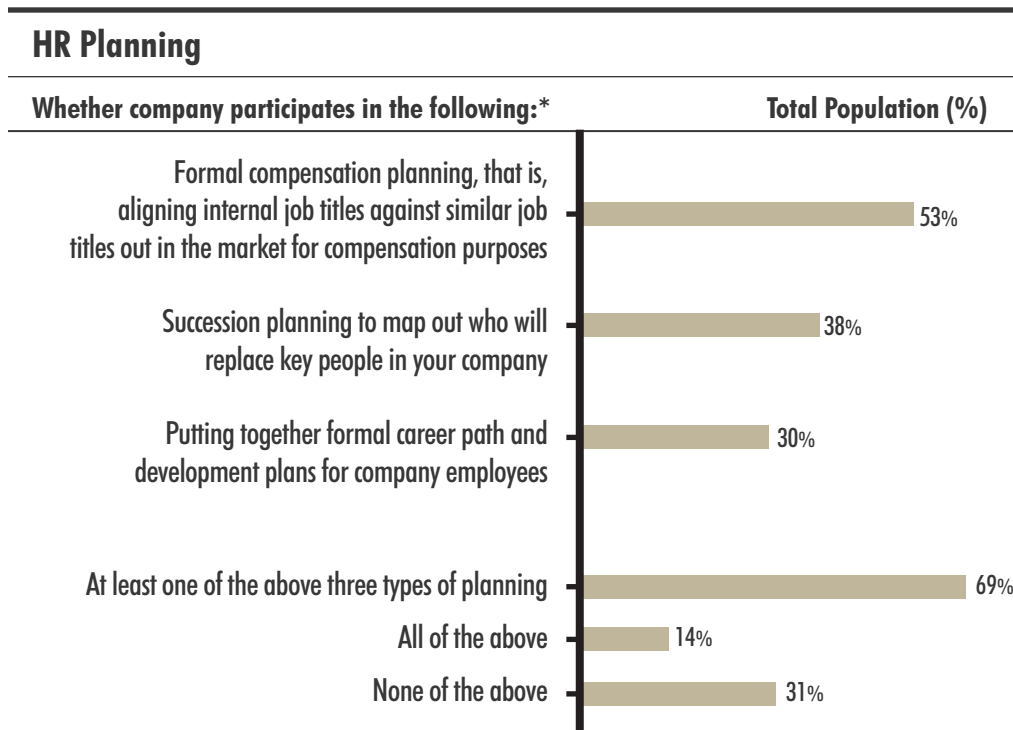


In assessing the strategic initiatives named above, it is important to note that if 74% of respondents identified specific strategic HR goals, that means 26% did not. This indicates the major need that still exists to educate HR professionals, especially those in small to mid-sized companies, on the need for advancing the HR function so that it actively participates in meeting their company's larger corporate goals.

It will be difficult for HR to assert its strategic role if more than 25% of heads of HR have no particular strategic goals on which they would like to spend more time. The reasons for this are outside the scope of this study, but smaller companies that do not have strategic goals may not feel fully accountable for the HR function because their focus is spread across multiple functional areas, or they may simply be consumed by day-to-day HR requirements. Without identifying and taking a more strategic role, the HR team will likely be left to contribute primarily as HR-specific administrative processors and crisis managers.

The Planning Function

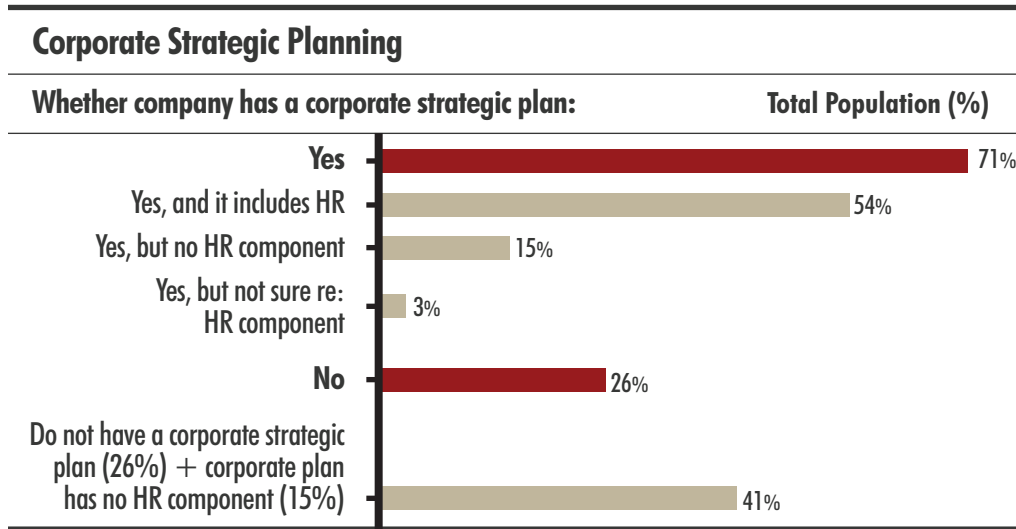
Strongly related to the success of strategic HR initiatives are the planning activities that are done within HR. Based on this study's respondents, the small to mid-sized companies market has some distance to go: Only 69% do any of the following: formal compensation planning, succession planning or formal career pathing/employee development plans. Only 14% of the study's respondents do all three; 31% do none.



* Respondents were given these three categories and asked to respond "yes" or "no."

As was the case in the previous section regarding the strategic HR initiatives on which respondents would like to spend more time, companies with 250 or more employees show a stronger interest in HR planning activities: 80% of the 250-999 employers do at least one of the three types of HR planning, compared to 69% of the total population; 27% do all three (compared to 14% of total).

HR departments also appear to lag their companies in terms of formal planning: 71% of respondents affirmed that their company has a corporate strategic plan, just over half of which (54%) include an HR component. The larger companies are more likely to have a corporate strategic plan that includes an HR component (63% of 250-999 employers; 68% of 500-999).



However, 15% of the company corporate strategic plans do **not** include an HR component. When added to the 26% of study companies that have no corporate strategic plan, this means 41% of the small to mid-sized companies studied here either have no corporate strategic plan or have one that excludes HR. This lack of planning surely contributes to the 26% of heads of HR who did not name any strategic HR initiatives on which they would like to spend more time. Corporate planning that includes HR provides the foundation for better educating and involving HR teams in the strategic success of their organizations, both within and beyond their specific HR functions.

Once again, there is a difference between employers of more than 250 employees, compared to those employing 250 or fewer: 31% of companies with more than 250 employees have no corporate strategic plan or one that lacks an HR component, compared to 42% of companies with fewer than 250 employees.

Summary: A Function in Transition

For the employer with 50-999 employees, the HR function is clearly a function in transition, as it seeks to meet challenges relating both to the application of technology and to strategic HR issues. One of the trends the study uncovered was the strong relationship between a company's size and its propensity to focus on strategic HR management. The larger companies within this space have already experienced some success in the application of technology to HR issues and thus may have more energy to devote to strategic thinking.

Nearly one-third (31%) of the companies studied are still tracking employee benefits and HR data entirely manually — either on paper or utilizing MS Excel or Access only. Therefore, it should not be surprising that 80% of the companies studied would like to see more automation of some area of HR, with 34% seeking more automation of routine HR administrative tasks.

The single biggest HR/benefits challenge facing the small to midsized company's HR team is the cost of health care, named by 23% of respondents. Companies are also holding the HR function more accountable for assisting in meeting the bottom line, with 41% of respondents mentioning some aspect of cost — related to benefits or other HR areas.

Study respondents named a variety of strategic initiatives for which they wish they had more time. Their top strategic HR goal, named by 21% of respondents, is employee development, including both job-specific and leadership training, as well as establishing career paths.

However, more than one-quarter (26%) of respondents replied “nothing” or “not sure” when asked to name their strategic HR goals. In many cases, HR is not alone in its lack of clear strategic direction: 41% of the companies studied reported having either no corporate strategic plan (26%) or having a corporate strategic plan with no HR component (15%). This makes for a challenging HR environment indeed.

**observations and
recommendations**

1

observation

With only one-half (51%) of the HR groups configured as a separate department with its own department head, there clearly is room for further professionalization of the HR function within companies with 50-999 employees. The smaller the company, the more likely the HR function is to be achieved within the context of other functions, such as finance or administration.

No matter what industry, and no matter what size the organization, the companies that compete successfully — both against their competition and in the marketplace for qualified employees — will be those that create an environment in which their HR professionals can concentrate their efforts on driving long-term value. While certain HR activities are required for doing business, if HR's contribution stops at compliance, many opportunities are being lost.

recommendation

The HR function needs to be taken seriously. A company's workforce is critical to the success of the organization — and strategic HR management is critical to the success of that workforce. The issues are well established. What's new are the options available for ensuring that the HR function supports business units in ways that help drive growth and contribute to the health of the bottom line.

Finding it no longer sufficient to be only processors of employee transactions, HR departments of all sizes, including the small to midsized companies studied here, are exploring better ways to manage their many responsibilities. This may include embracing the automation of appropriate tasks, learning what it means to provide strategic HR in their organization or working to maximize their HR team's resources to help their companies win the increasingly competitive battle for talent.

As stated earlier, the issue is not about doing away with transactional HR. There will always be critical HR transactions to be performed. The issue is about leveraging both old and new technologies to help the HR team effectively execute required transactions with the least time and effort in order to free up HR professionals to help meet the strategic needs of the business.

recommendation

Analyze critical business processes and address increasing administrative requirements with the right workforce technologies. Consider leveraging tools that push the work out across the organization to employees and managers — those closest to the transactions. Then the HR function can be what it is meant to be: a strategic asset and valued partner to senior management and the company.

3

observation

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

Small to mid-sized companies are well positioned to let workforce technology help transform their HR function from one occupied with transactions to one occupying a leading role in the company's strategy for success. Unlike larger companies, where HR's role may have become somewhat entrenched, in the small to mid-sized company the HR function has the opportunity to grow along with the company and effect real change.

recommendation

HR professionals should not continue to be defined or controlled by the transactional requirements of their function. In order to ensure that the workforce is an engaged one that delivers the maximum benefit to the organization, the HR team must be encouraged both to assert its leadership role in employee development and to take an active role in contributing to the overall corporate strategy.

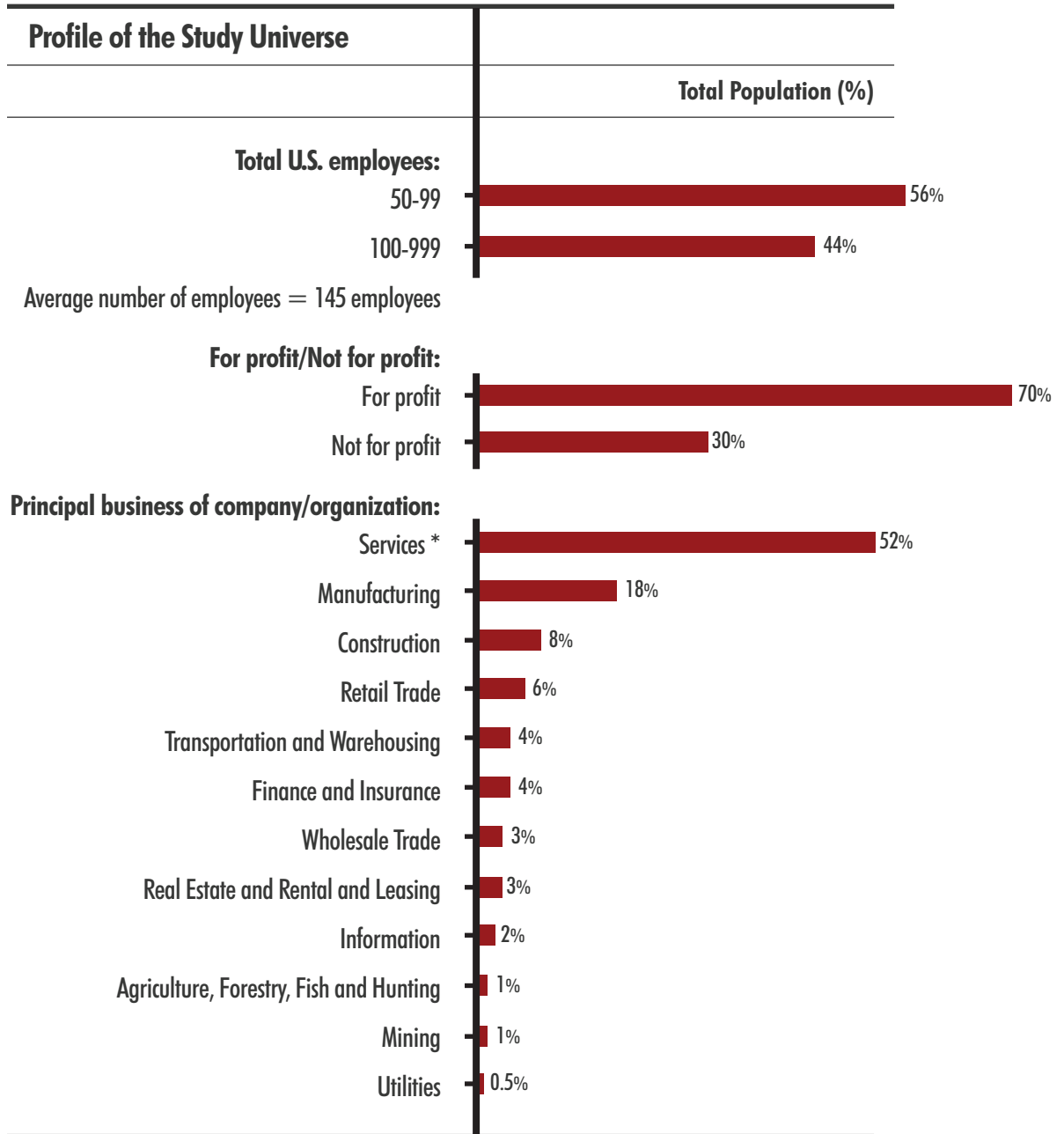
* * *

This study has provided an in-depth look at the HR function in companies that employ between 50 and 999 employees: how the HR professionals view themselves within their organizations, what they spend their time on, what causes them the most pain and where they would choose to focus their time if they could.

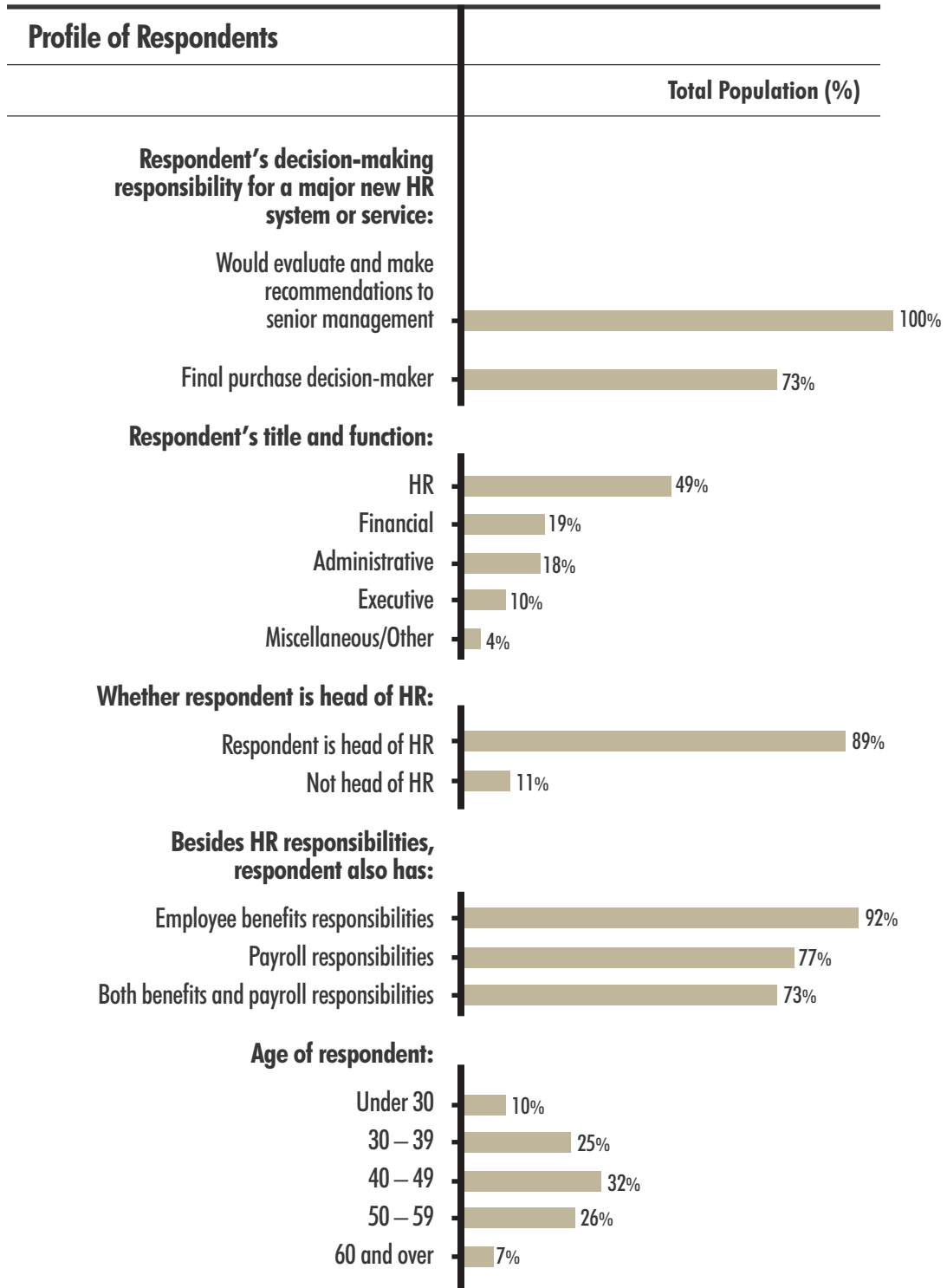
As important as it is to gather and exchange information, it is not enough only to talk about the need for strategic HR, or about the differences between transactional and strategic HR. Smart companies are creating an environment — one that starts with senior management — in which strategic HR is most likely to occur. What's required is action that enables the HR staff to get back to the work for which they were trained and hired: helping ensure that employees can meet the organization's changing objectives.

* * *

study methodology



* "Services" = Health Care and Social Assistance: 16, Educational Services: 10, Accommodation and Food Services: 8, Professional, Scientific and Technical Services: 5, Administrative and Support and Waste Management and Remediation Services: 5, Public Administration: 4, Arts, Entertainment and Recreation: 3, Other Services (except Public Administration): 2.



about the study

This study was conducted via telephone in addition to an e-mail in the fall of 2006. Respondents were a screened random sample of companies with 50-999 employees (federal agencies excluded) who track HR/benefits information on their employees (virtually all companies of this size do).

Although this research was sponsored by ADP, ADP was not identified to respondents as the study sponsor.

In reporting these study results, because numbers have been rounded to the nearest percentage, totals do not always equal 100 percent.

about ADP

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