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Making Public Sector HR More Strategic: The Role and Value of Alternative Service Delivery Models

An EquaTerra Whitepaper

July, 2008

Introduction

New findings from an EquaTerra and Human Resource Executive® magazine market research study illustrate that the never-ending quest of human resources (HR) professionals to make their organizations' HR operations more strategic remains the paramount objective. Nowhere is this truer than in the public sector. Progress toward this goal, however, continues to remain elusive. The challenge is to both define what will make HR more strategic as well as how to execute on achieving this goal.

Improving total talent management capabilities is increasingly viewed as a key means through which HR can deliver the most strategic value to the organization. While consensus is emerging on the "what" of making HR more strategic, the "how" still remains open to debate. HR organizations must re-evaluate how they deliver both their basic operational as well as more strategic services, such as those that support talent management. This whitepaper reviews and analyzes the findings from this market research study specifically for the North American public sector. The paper offers public sector HR practitioners and stakeholders practical advice on how to accelerate and improve their efforts to become more strategic.

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Overview

Making the HR function more strategic is a perennial goal in most organizations. HR "transformation" is commonly identified as a key means to make HR more strategic. The challenge is defining what transformation really is and then determining how to successfully undertake it.

To help HR executives in their quest to make their organizations more strategic, EquaTerra and Human Resource Executive® magazine recently conducted a market study exploring the HR transformation topic. The goal of the market study was to determine how leading HR organizations today are addressing the "what" and "how" of making HR more strategic. The study assessed the realities of HR transformation, how organizations are pursuing it, and the role that technology and alternative service delivery models – such as shared services, managed services, and outsourcing of information technology and business processes – are playing in enabling it. The study was a follow-up effort to a similar research exercise conducted by the two firms in 2005.

This market study was conducted in the first quarter of 2008. EquaTerra surveyed and interviewed over 450 HR professionals, 30 percent of whom worked in the public sector (e.g., federal/central government, state/provincial government, local government, education, and other not-for-profits). Sixty-one percent of public sector respondents were HR managers or directors and 17 percent were vice presidents of HR (see Appendix for complete demographics). Public sector respondents were nearly all from North America. Seventy percent of public sector respondents worked in organizations with 5,000 or fewer total employees.

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The Current State of North America Public Sector Human Resources

Today's public sector organizations carry more responsibilities than their counterparts of yesteryear as a result of mandates from the Federal Government and public calls for additional services, including homeland security. They also face increased public scrutiny. HR can be a prime weapon for addressing some of these challenges.

However, it seems many HR departments within public sector organizations struggle to define and deliver value above and beyond personnel-related transaction processing activities because of:

- Inadequate resources and lack of executive management attention and support that hamper process improvement efforts;
- An inability to adequately focus on more strategic activities because of competing demands and insufficient resources;
- Ongoing attrition of skilled/affordable employees needed to address these challenges and an overall aging workforce;
- Competition from the private sector for employees;
- Diminishing appeal of the public sector "brand" as a means to attract and retain skilled employees;
- Inadequate funding and appetite to make needed investments in IT applications and systems required to improve HR processes' efficiency and effectiveness;
- Explicit and implicit restraints to the use of IT, mission and business services outsourcing; and
- Inadequate resources and executive support to explore outsourcing as well as other alternative service delivery models.

HR organizations are under increased pressure to simultaneously reduce costs while continuing to improve service levels and capabilities. Transforming the HR organization on a tight budget is a primary goal today for most public sector HR executives. This can create obvious challenges. One such challenge relates to an organization's ability to adopt and implement new information technology applications and systems. Improved IT capabilities can help improve HR service delivery capabilities, address staffing challenges through process automation, and enable HR staff to focus more on strategic activities and less on administrative tasks. The issue becomes how to fund these investments, and how to get creative in this respect, for example, by pooling investments across groups, agencies or jurisdictions, or acquiring IT capabilities from third party service providers.

While the commercial sector in the United States, Canada and other western countries is increasingly pursuing HR transformation via business process and IT outsourcing, this trend has been much less pronounced in the public sector. This too, however, is slowly starting to change. It is still unclear to what degree outsourcing will serve as a catalyst for public sector HR process improvement and transformation. Beyond outsourcing there are other "tools" HR may wish to explore, including the establishment of shared services operations and centers of excellence, greater use of part/flex-time employees, and promotion of "home sourcing," also known as telecommuting or teleworking.

A key point to keep in mind is that "outsourcing" can take many forms. It can involve simple use of third-party contract labor, larger and more comprehensive efforts contracted over a multi-year time frame, to many variations in between. Goals can range from reducing costs, to avoiding or lessening the costs of new investments (such as for information technology), to more aggressive and complex process improvement and transformation efforts. Upfront implementation and ongoing governance costs can run from modest to significant levels. Outsourcing service providers can perform the work onsite, locally or "offshore". There are also variations such as "home sourcing," as described above, and "rural sourcing" where organizations can contract

directly or with third parties to access resources working from remote locations with lower cost labor. The point is to not dismiss outsourcing opportunities based on preconceived and potential inaccurate assumptions about available options, models and costs.

While there are significant challenges associated with the current state of HR operations in public sector entities, there are also many opportunities to introduce and foster the growth of innovative change initiatives. There are also pockets of innovation occurring today in public sector organizations across North America. The challenge is to determine how best to promote the growth and spread of this innovation. It is important to have clear goals in mind when driving innovation. The HR executive must ensure consensus exists around the future state goals of HR transformation. While is it clear that HR should perform as a strategic asset to the overall organization, it is less clear exactly what that means. This market study assessed both the level of success HR organizations are having in playing the strategic asset role as well as what activities are emerging as the most important to making HR more strategic.

HR as a "Strategic" Asset

EquaTerra queried public sector market study respondents about each of their organization's executive management's opinion of HR. Exactly one-half of respondents felt that their executive management viewed HR as a strategic asset (see Figure 1). This level was 11 percent lower than for commercial/non-public sector respondents. HR executives were more likely to cite HR as a strategic asset than HR directors and managers. No strict definition of "strategic" was provided to survey respondents.
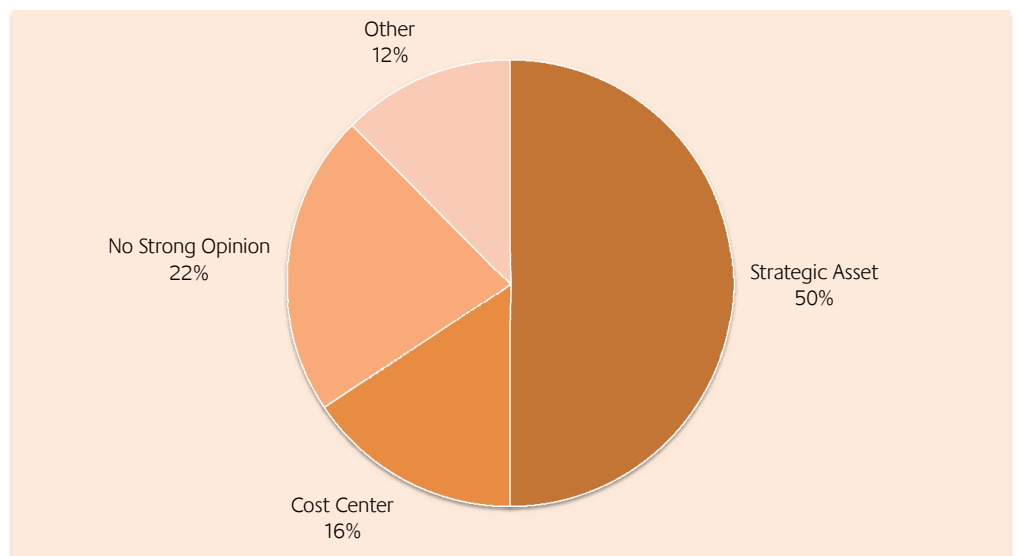

Figure 1– Executive's Opinion of HR

This question and the next one on HR satisfaction were asked of respondents in the 2005 version of this market study as well. The level of respondents in this year's study reporting HR being viewed as a strategic asset fell slightly from the 2005 response levels. Nearly one-quarter of 2008 respondents indicated that management did not have a strong opinion on HR one way or another, a comparable level to 2005 and eight percent higher than for commercial respondents.

The fact that one-half of public sector HR organizations are not viewed as being strategic and therefore likely not treated as strategic is troubling. While there are obvious issues of perception versus reality, it is important to note that 86 percent of public sector respondents were members of the HR organization, making this perception a self-assessment. Overall study response rates

for both HR and non-HR respondents, along with EquaTerra's own experiences, find that HR professionals are generally more positive about their performance than those they serve. That being said, and given the many HR-related challenges facing public sector organizations today, these results are less than enthusiastic.

Public sector HR groups also often face the challenge of needing to determine which executive's view of strategic HR they should pursue. Donald Packham, the Federal Bureau of Investigation's Executive Assistant Director and Chief Human Resources Officer, made the following observation, "In the public sector, there is no sole, CEO-like decision maker on whose shoulders lie both clarity of those decisions and accountability. Executive management for me includes multiple stakeholders, including the Bureau's Director, the Department of Justice, the Office of the Director of National Intelligence, Office of Personnel Management, and legislators on Capitol Hill – all of whom provide direction. Focus and accountability are distributed often without super-ordinate goals which are important to strategic HR."

Additional feedback gleaned from this year's study illustrates that HR is making some progress in becoming more strategic. Many respondents commented that their organization's HR group was "emerging," "evolving" or "progressing" as a strategic asset, but was not fully there yet. Several respondents also observed that while "human resources" was strategic, their own HR organizations were not. This implies a situation where the HR organization has been relegated to the transaction processing side of HR, while more strategic work is either not being done or is occurring elsewhere in the organization. It can also imply that the strategic work the HR group is accomplishing is not being adequately recognized within the organization. Overall, most HR organizations have work to do to become more strategic. Furthermore, the limited progress made during the past three years implies that attempts thus far are not working.

HR Satisfaction Levels

Market study respondents were next pooled as to their satisfaction with both HR people and processes as well as with HR information technology applications and systems. Respondents were consistently more satisfied with HR people and processes than with HR IT (see Figure 2).
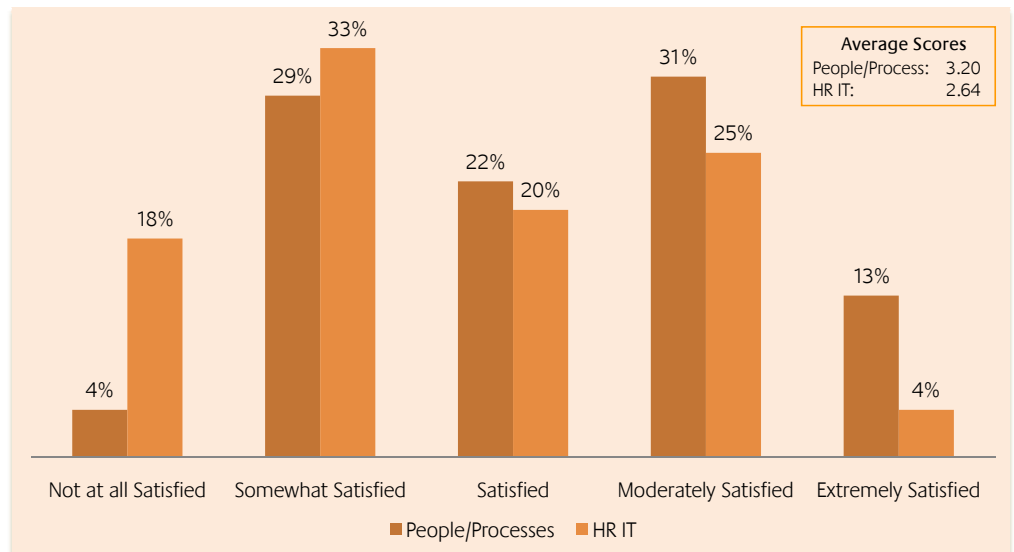

Figure 2 – HR Satisfaction: People/Processes & HR IT

The mean score for people and processes was 3.20 on a one-to-five scale, where one represented not at all satisfied and five represented extremely satisfied. These results are positive but hardly a strong endorsement of the quality of HR operations.

HR IT – a perennial source, or occasional scapegoat, for HR's problems – continues to disappoint, according to the study's findings. On the same one-to-five scale, HR IT had an overall score of just 2.64. These results were in line with those reported by respondents from the commercial sector.

This finding shows that a long-standing and well-known problem has not been addressed successfully, suggested an HR executive with the US Armed Forces. "From experience, I would expect people to look more favorably upon people and processes than technology. No matter how good IT is, people prefer to talk to people. The biggest challenge we've had in transforming our HR operations is getting people to use technology effectively. A recurring theme I hear is that people prefer to talk to people than machines."

On these two points HR professionals were more positive than non-HR respondents. Both commercial and public sector respondents who were not members of the HR organization scored HR people and processes even lower than did HR respondents. There was not a material difference in responses between HR executives and HR directors and managers. Clearly, there is room for improvement in both dimensions of HR operations.

These response levels also represent a decline from the 2005 study, wherein public sector respondents scored people and processes at 3.44 and HR IT scored a 3.02 on the same one-to-five scale. While some of the variation between the two studies is attributable to different sample characteristics, the decline also suggests that, in many organizations, little progress has been made in improving HR performance over the past three years.

Defining "Strategic HR"

Public sector HR groups must clearly define what strategic means in the context of their own organizations and situations. There are still concerns, however, that the term "strategic HR" has become overused and in the process lost meaning and clarity. Packham of the FBI offered the following comments. "In HR, I think we have overused the term strategic. As a result, the meaning and definition of strategic has lost impact. I think we do a better job when we characterize and articulate our top three priorities. By describing priorities, we can wrap the context into a meaningful envelope of what and why."

The study's findings do point, however, toward a growing consensus of what "strategic HR" means. When questioned on what would make HR more strategic to their organization, over 70 percent of respondents (see Figure 3) indicated becoming a leader in "total talent management" (including recruiting, performance, learning and succession planning). Talent management also received top ranking among commercial sector respondents.

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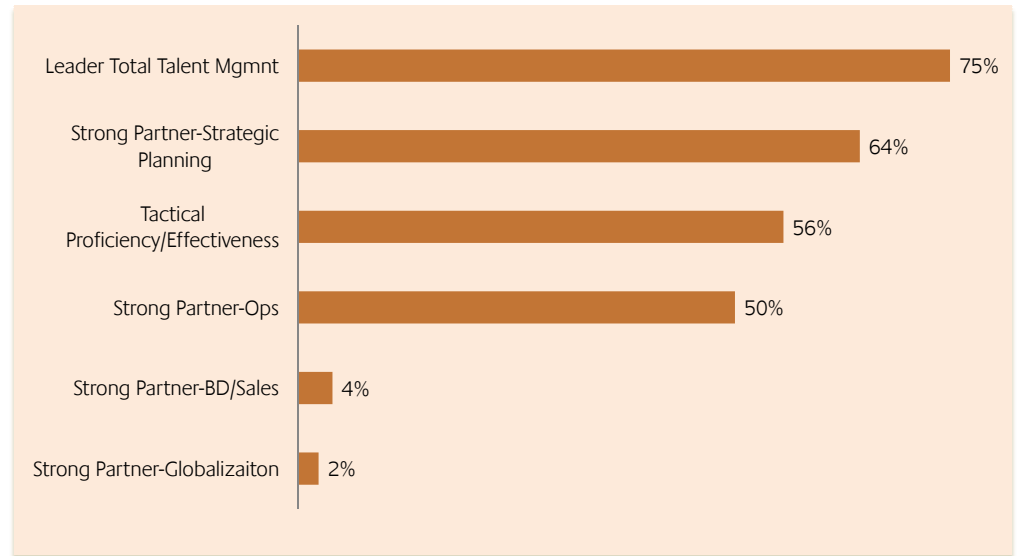|	
Leader Total Talent Mgmnt	75%
Strong Partner-Strategic Planning	64%
Tactical Proficiency/Effectiveness	56%
Strong Partner-Ops	50%
Strong Partner-BD/Sales	4%
Strong Partner-Globalizaiton	2%

Figure 3 – What Would Make HR More Strategic?

Suggesting perhaps a more operational interpretation of being strategic, public sector respondents ranked tactical proficiency and effectiveness in all HR areas higher than commercial respondents (56 percent versus 38 percent respectively). The size of the organization also plays a role in this emphasis with the large number of smaller public sector respondents in the survey ranking this attribute higher than larger respondent organizations. In sum, HR must first get tactical capabilities up to par before they can focus more on strategic activities.

The HR executive with the US Armed Forces agrees, saying: "Unless we can prove that we're effective and efficient in 'pushing paper,' our clients won't listen to us as a strategic advisor. We need proof of our proficiency to gain credibility as well as be effective as strategic advisors."

Part of being strategic also implies that the HR group understands the strategic needs of the organization. James Honchar, Deputy Secretary of Administration for Human Resources for the Commonwealth of Pennsylvania, offered the following advice, "HR needs to not only provide the best technical advice on a consistent basis, but do it in the context and in the manner in which it serves the organization. That very often requires the HR professional to really understand the business of their organization, what is being attempted and finding workable solutions and options to achieve those goals." It also implies moving away from the role of rules "enforcer." Honchar also noted, "HR sometimes is viewed as an obstacle and organizations will find ways to work around HR rather than through them. Some of that reputation is earned by HR itself in placing emphasis on the promulgation of rules and policies and not how to best serve the organization."

Respondents were also polled on which core HR processes and activities contributed the most to making HR strategic. Talent management again came out on top (see Figure 4), cited by over 70 percent of respondents, as was organizational effectiveness (including workforce and performance management). These rankings were very similar to those given by commercial sector respondents.
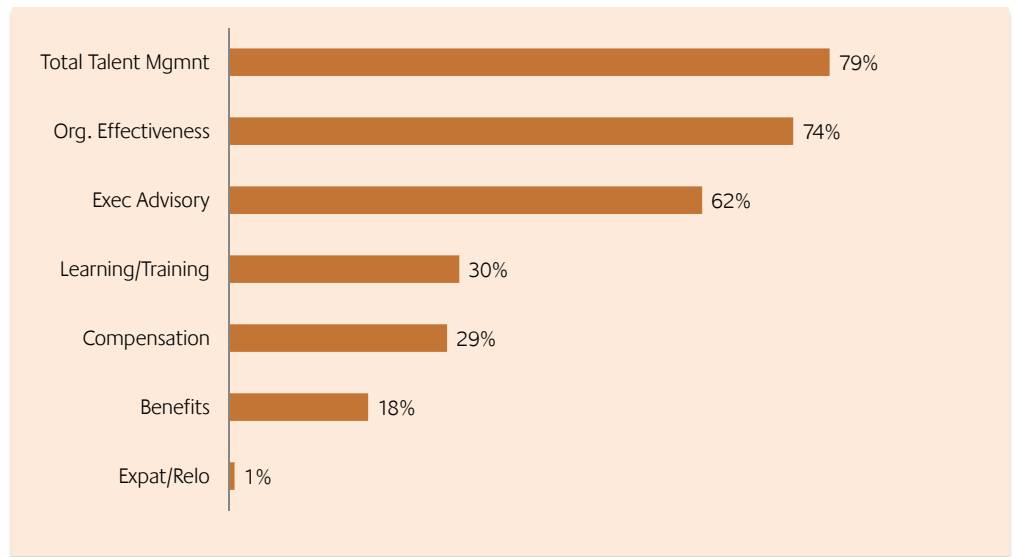
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Figure 4 – Key Activities that Make HR Strategic

Drilling further into the total talent management theme, respondents were asked to rank how important addressing the issues and challenges related to talent are to making HR more strategic and improving overall organizational competitiveness. On a one-to-five scale, with one being not at all important and five being very important, talent management scored 4.34 overall. Respondents from larger public sector entities ranked talent management higher than those from smaller organizations (less than 5,000 total employees).

Recognizing the importance of talent management is one thing, getting better at it is another. The onus cannot be solely on the HR group to drive improving talent management capabilities. Pennsylvania's Honchar highlighted that it requires a joint effort. "[Talent management] This has to be a true partnership between the HR area and the program area. HR should be in a position to recruit and identify as many potential qualified applicants to fill positions. The program area needs to help with marketing their jobs and commit resources to do so. The program area also has to be ultimately responsible for the final selections."

Barriers to HR Transformation

Given the recognition and consensus that total talent management, along with workforce effectiveness, are two key areas to focus on to make HR more strategic, what is keeping public sector HR groups from advancing their cause in these areas? The market study asked about the leading barriers that organizations faced in transforming HR to make it more strategic. These barriers could also negatively impact more tactical HR efforts, like improving basic HR services delivery. If HR groups cannot overcome tactical challenges they will rarely overcome more complex strategic challenges.

The leading barrier to HR transformation cited by over one-half of public sector respondents was a lack of resources or too expensive (see Figure 5). This barrier was cited by 39 percent of commercial sector respondents. This is not surprising given the dire financial situations many government entities are facing today, a situation likely to get worse before it gets better. The top barrier cited by commercial sector respondents, coming in at 44 percent, was other more critical issues. Just 24 percent of public sector respondents cited other issues as a barrier. Lack of resources was also the top barrier cited by public sector respondents in the 2005 version of the study.
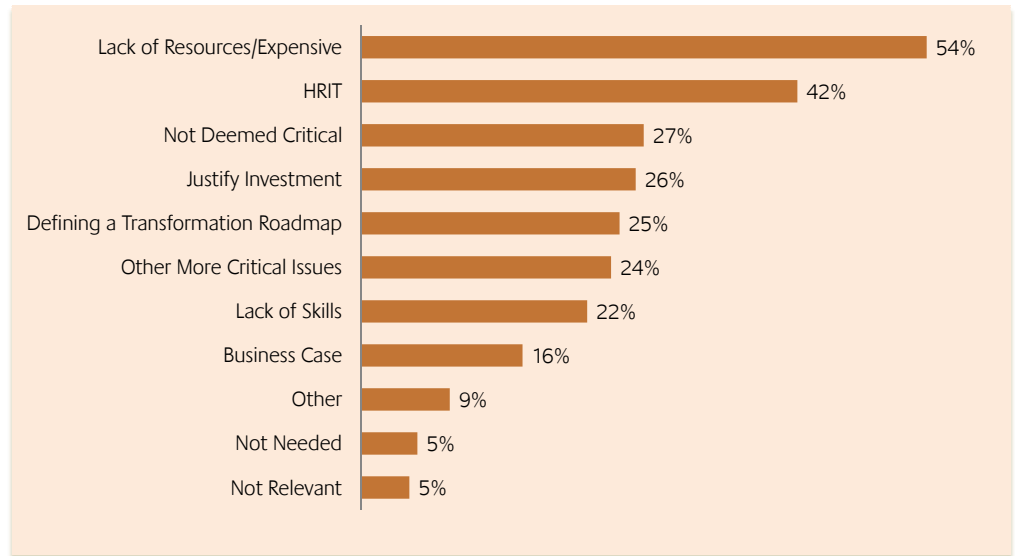
Figure 5 – Barriers to HR Transformation

Even when actions do generate cost savings, public sector groups are often loathe to use those savings to fund transformation efforts, preferring to pass them to the bottom line rather than reinvest them. The FBI's Packham noted as much, "Funding for improvement projects often takes a back seat to the overall goal of reducing an organization's costs. All too often, savings are confiscated by budget officers in order to meet a department's or agency's cost-reduction goals as opposed to being redirected to another improvement project or used for more strategic purpose."

Additionally, a focus on the high cost of transformation is indicative of viewing the effort as one that inherently requires significant upfront investment. While this may in fact be needed, not all transformation efforts have to be expensive. Naomi Wyatt, Pennsylvania's Secretary of Administration, made the following observation, "The way public sector organizations point to costs and IT as being inhibitors is interesting. In my mind, there are lots of fairly 'free' things an organization can do to be more strategic. And when you look at the list of trends, it's not that any of them necessarily require a lot of money or IT."

HR IT again came into play, ranked as the second most frequently cited barrier to HR transformation. Here, it is important to clarify that respondents are referring to their current HR IT environment, not what is potentially available if they were able to upgrade and enhance their overall HR IT capabilities.

The third most frequently cited barrier was that executives didn't deem HR transformation as critical. Lack of executive attention could be a positive or negative indicator depending on whether the executive either viewed HR as already a strategic asset or did not recognize the value of HR transformation and its potential impact on the organization.

Finally, lack of skills to undertake an HR transformation effort was cited by only 22 percent of respondents overall. These findings imply that public sector HR professionals feel they know how to transform HR operations but do not have the resources and support to do the job. Interestingly, however, inability to build a compelling business case was cited by just 16 percent of respondents. This also speaks to the lack of emphasis on building a business case for change in the public sector, in part because the HR group is bogged down and has difficulties finding the time and resources to build a compelling business case.

There are more potential barriers to transforming public sector HR cited by respondents. They relate to the organizational structure of many public sector operations, which is not conducive to enabling change efforts. Pennsylvania's Wyatt noted, "The structure of public sector HR – civil service, unions, antiquated pay formulas – prevent them from being strategic."

Wyatt also takes issue with the argument that HR groups must first master operational activities before becoming strategic, emphasizing that the approach can permanently defer efforts to become strategic. "It fits in with the point that they are required to be so technically proficient that they don't have room or aren't thought of as 'strategic.' And that to become strategic, they may have to change the rules that tie them to a technical role."

So if these challenges are recurring and formidable, how can HR groups overcome them? Some of these barriers are easier to address than others. Getting executives and other key decision makers onboard to actively support an HR transformation effort can prove challenging, especially if HR and its leadership are not viewed strategically. Funding HR transformation efforts and accessing the skills required for transformation can also prove difficult.

One key approach HR organizations are increasingly adopting is looking at options to fundamentally change the means through which core HR services are delivered. Organizations are exploring new HR service delivery models and looking externally for the funding and skills to transform the HR organization. Ideally, these different models can improve process efficiency and effectiveness and also free up HR resources to focus on more strategic topics like talent management. Also, the approach of viewing the user of HR services as more of a "customer" and developing a more customer-centric approach, culture and model to delivering HR services creates clear opportunities to raise the strategic profile of HR, particularly in helping the employee-customers meet their own "business" goals within the organization.

Alternative HR Service Delivery Models

The market study assessed the role and value of alternative HR service delivery models – shared services, HR ITO and business process outsourcing – in transforming HR to make it more strategic. Adoption rates for shared services and outsourcing are generally low in the public sector. Many public sector organizations, especially smaller ones, show a disinterest, or in some cases an aversion, to using these models – especially outsourcing. Larger organizations are generally more likely to have deployed shared services or undertaken outsourcing.

One of the top reasons for low levels of outsourcing in the public sector is the perception that it is too expensive to undertake. This is illustrated below in the section Recruitment Process Outsourcing. EquaTerra often finds that the perceived costs associated with outsourcing are cited as a reason not to outsource. It is certainly possible, however, to construct an outsourcing arrangement that has a more favorable cost model for the buyer than undertaking internal transformation efforts. Outsourcing service providers have economies of scale that can lower costs as well as the potential capabilities to spread costs over the life of a contract. This is not to say that high costs cannot present a legitimate barrier to outsourcing, but that potential outsourcing buyers should ensure they adequately assess costs and funding options before dismissing the outsourcing option as too expensive.

Overall, learning and training and benefits administration were the processes most frequently cited (34 percent of public sector respondents) as supported by shared services, with HR IT coming in third (29 percent, see Figure 6). Payroll was the process most frequently outsourced (24 percent deployed, 9 percent planned). Benefits and payroll were the two processes most frequently outsourced or in the process of being outsourced. These adoption levels trailed those found in commercial sector HR organizations.

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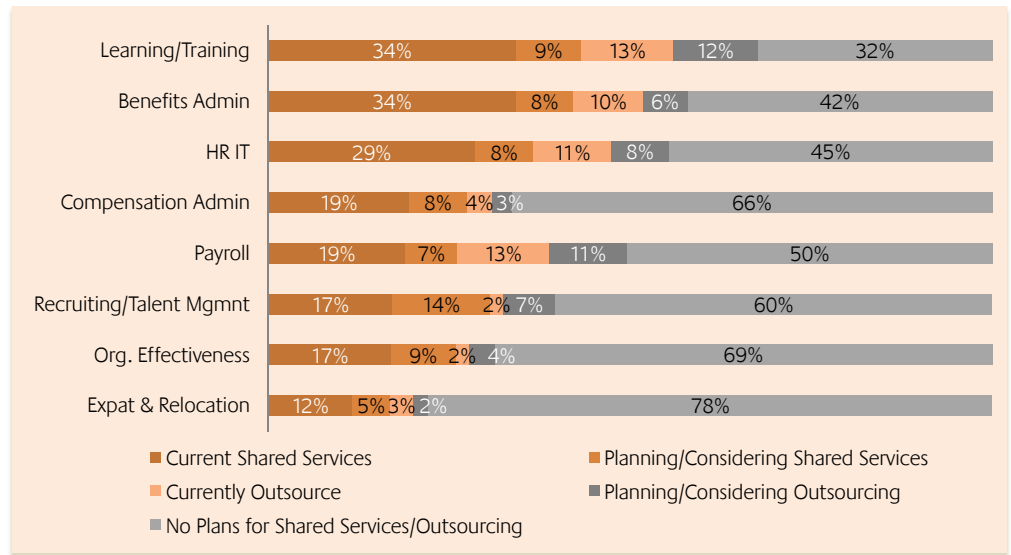| Process	Current Shared Services	Planning/Considering Shared Services	Currently Outsource	Planning/Considering Outsourcing	No Plans for Shared Services/Outsourcing
Learning/Training	34%	9%	13%	12%	32%
Benefits Admin	34%	8%	10%	6%	42%
HR IT	29%	8%	11%	8%	45%
Compensation Admin	19%	8%	4%	3%	66%
Payroll	19%	7%	13%	11%	50%
Recruiting/Talent Mgmnt	17%	14%	2%	7%	60%
Org. Effectiveness	17%	9%	2%	4%	69%
Expat & Relocation	12%	5%	3%	2%	78%

Figure 6 – Current Levels of Alternative Service Delivery Model Usage

Recruiting and talent management processes were the third least frequently outsourced, cited by just five percent of respondents. An additional 10 percent of respondents indicated their organizations were planning to outsource these processes. Recruiting and talent management processes were also less frequently managed via shared services operations than other HR work. Activities associated with organizational effectiveness were also infrequently outsourced. Expatriate and relocation services was the process least frequently supported by alternative service delivery models, though it was also the process that was least commonly deployed by respondents in the market study.

Respondents were next asked to rank how important these alternative delivery models are to transforming HR to make it more strategic. The response rates to this question were in line with the relatively low adoption rates. Respondents scored each of the alternative delivery models in the mid- to lower- end of a five-point scale where one represented not at all important and five represented very important (see Figure 7). The endorsement of these models to support HR transformation ranked from moderate to mediocre at best. The use of shared services scored the highest, though only slightly above the mid-point on the scale, and was followed by HR IT and HR BPO in terms of importance.
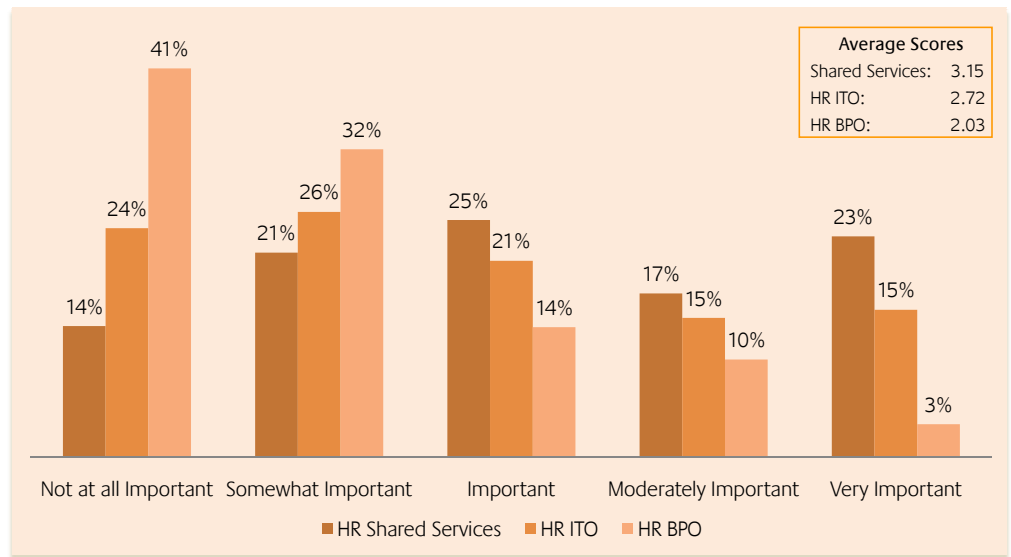
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Figure 7 – Importance of Alternative HR Service Delivery Models

Responses were similar between public sector and commercial respondents, though both HR ITO and HR BPO scored somewhat higher among the latter group. The greater difference was based on the size of the respondent organization. Respondents from smaller organizations regardless of industry, especially those from organizations with fewer than 5,000 employees, placed much less value on all three alternative service delivery models than did respondents from larger organizations. So while public sector organizations generally have been slower to adopt alternative service delivery models, especially outsourcing, so too have smaller organizations across the board.

The perceived value of shared services to public sector HR transformation improved slightly from the 2005 study results, while HR BPO declined to the 2.03 score from 2.44 in the 2005 study. Scores for HR IT fell the most between the two studies, from 3.44 in 2005 to 2.72 in 2008. This is, in part, a function of the different sample between the two studies. It also illustrates that the use of these alternative service delivery models has not gained much popularity over the past three years. This reflects the reality of a public sector HR outsourcing market that is still relatively immature. It also reflects the general stigma surrounding outsourcing and often a lack of awareness of its options and potential benefits. Slow uptake of alternative service delivery models for HR services also parallels slow progress levels by public sector organizations in making HR more strategic.

Recruitment Process Outsourcing and Talent Management

The final section of the market study focused specifically on recruitment process outsourcing (RPO). RPO is a very hot topic in the HR and outsourcing markets today. The goal of the study was to assess actual buyer uptake of RPO, their success in achieving the benefits sought from their RPO efforts, and the role and importance of RPO in improving talent management capabilities. For the purposes of this study, RPO was defined to include the outsourcing of some or all of the following processes:

- Employee sourcing
- Employee hiring
- Executive recruiting
- Staffing

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- Contingent workforce and temp administration
- Drug testing/background checks
- Pre-employment testing
- RPO IT applications/systems

RPO scope was defined as using a "third-party service provider(s) to handle much/most of their recruiting processes."

EquaTerra recognizes there are more steps and processes in the overall recruitment process than represented above. If recruiting starts at sourcing and ends at on-boarding, so ultimately should RPO. The reality of the RPO market today, however, is that many service providers only support a subset of the sourcing to on-boarding processes. They also tend to define RPO in the context of their own offerings. Buyers must clearly understand what is in or out of scope when considering their RPO options. Figure 8 defines how the RPO is market is evolving.

Today RPO has evolved into an end to end solution

| Sourcing | Screening | Testing | Interviewing |

| Pre-employment Processes | Hiring | Offer Package | On Boarding |

Supported by

| Applicant Tracking | Requisition Management | Candidate Data Management | Systems Integration |

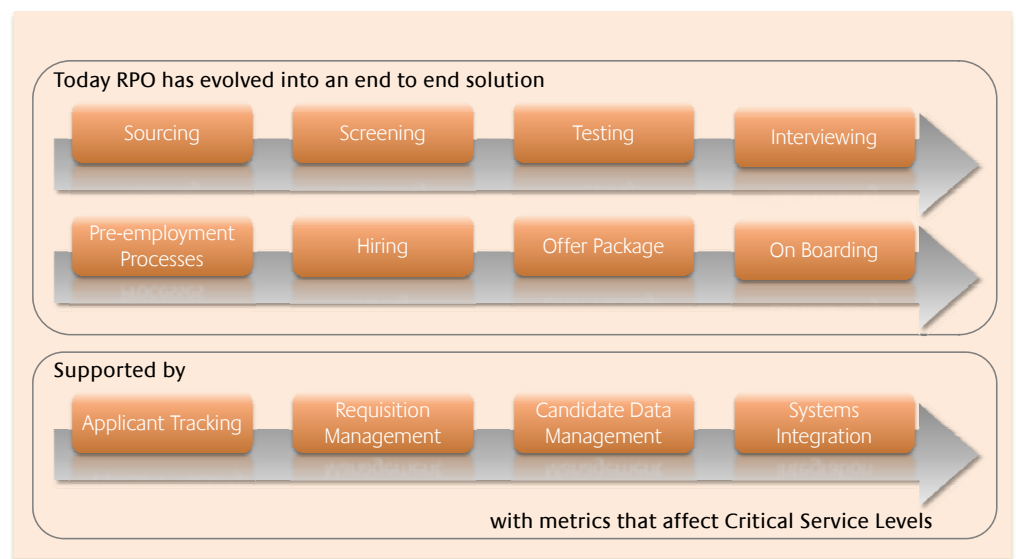**with metrics that affect Critical Service Levels**

Figure 8 – RPO Lifecycle

Respondents were asked to assess the importance of RPO in addressing talent challenges. Overall, RPO was not deemed a critical tool to use when dealing with issues around talent and talent management. On a one-to-five scale where one was not at all important and five was very important to addressing talent challenges, public sector respondents gave RPO a score of 2.04. This compared to a 2.44 score by commercial market respondents. As with outsourcing and shared services, RPO scored higher among larger organizations than among smaller ones. There are several reasons for this, including less outsourcing offerings tailored to smaller organizations, the fact some of these duties are more shared across staff and more difficult to separate and outsource, and the lack of economies of scale gained from outsourcing smaller operations. It is important to note, however, that the viable breadth and depth of outsourcing offerings targeted at smaller organizations is much greater today than in the past.

Adoption rates of RPO among public sector organizations is even more dour than its perceived importance to helping talent challenges. Only five and one-half percent of the public sector market study respondents indicated their organization had implemented RPO as defined above. Adoption rates overall in the market study came in at 18 percent. Just nine percent of total respondents in the study from organizations with less than 5,000 employees had undertaken or were in the process of undertaking RPO. By contrast, 23 percent of total respondents in the study from organizations with more than 5,000 employees had undertaken RPO. Uptake levels

for the largest organizations (20,000 or more employees) were at a similar level. On the opposite extreme from public sector, 63 percent of respondents from the high-tech product and services industry cited RPO usage. Given the small sample size of public sector respondents who had undertaken RPO, further analysis of the efforts is not practical.

Lack of public sector RPO uptake has several causes. One is the large representation of smaller public sector organizations in the sample and the issue smaller buyers face with outsourcing detailed above. There are also few RPO firms targeting the public sector, given perceived lack of demand, though this situation is changing. Restrictive work rules and other constraints with outsourcing also play a factor.

There are a variety of factors driving the adoption of RPO (see Figure 9). Accelerate the recruiting and hiring process was the benefit most commonly sought from RPO, cited by over 60 percent of respondents. This was followed by using RPO to enable HR organizations to focus on the more strategic aspects of recruiting by offloading the transactional activities to the third-party outsourcer. Reducing the costs of the recruiting process ranked lower, in contrast to many other types of outsourcing, where cost reduction is a top benefit sought.
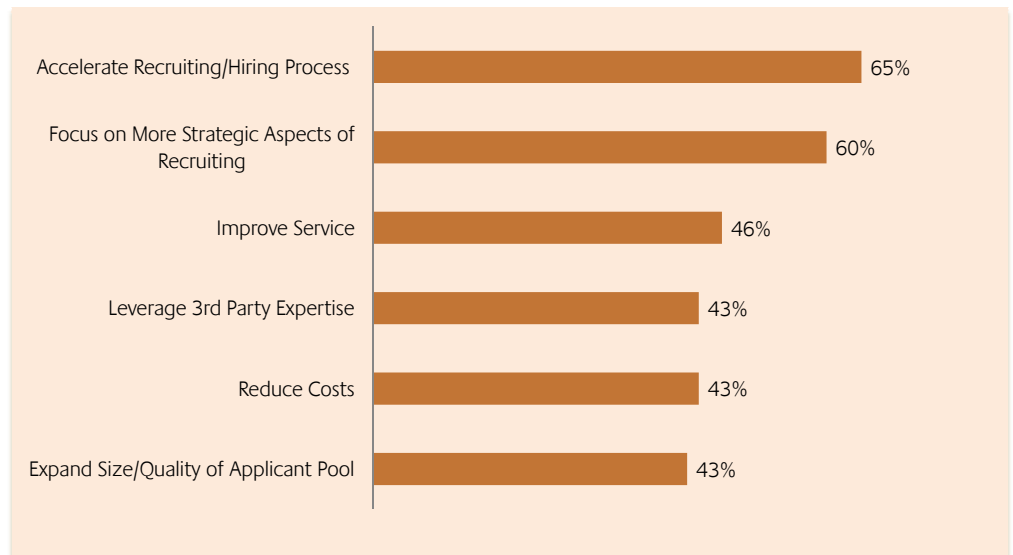

Accelerate Recruiting/Hiring Process	65%
Focus on More Strategic Aspects of Recruiting	60%
Improve Service	46%
Leverage 3rd Party Expertise	43%
Reduce Costs	43%
Expand Size/Quality of Applicant Pool	43%

Figure 9 – RPO Benefits Sought

Measuring RPO's value was done by assessing the degree to which organizations have been successful in achieving these benefits. Figure 10 illustrates the frequency with which various recruitment processes have been outsourced and the success that organizations have had in achieving the benefits sought from outsourcing. Drug testing and background checks were the recruiting processes most frequently outsourced by organizations that have undertaken RPO. This was followed by outsourcing the processes for recruiting and contracting and managing contingent or temporary labor. The actual hiring process and the staffing process were the two activities least frequently outsourced.
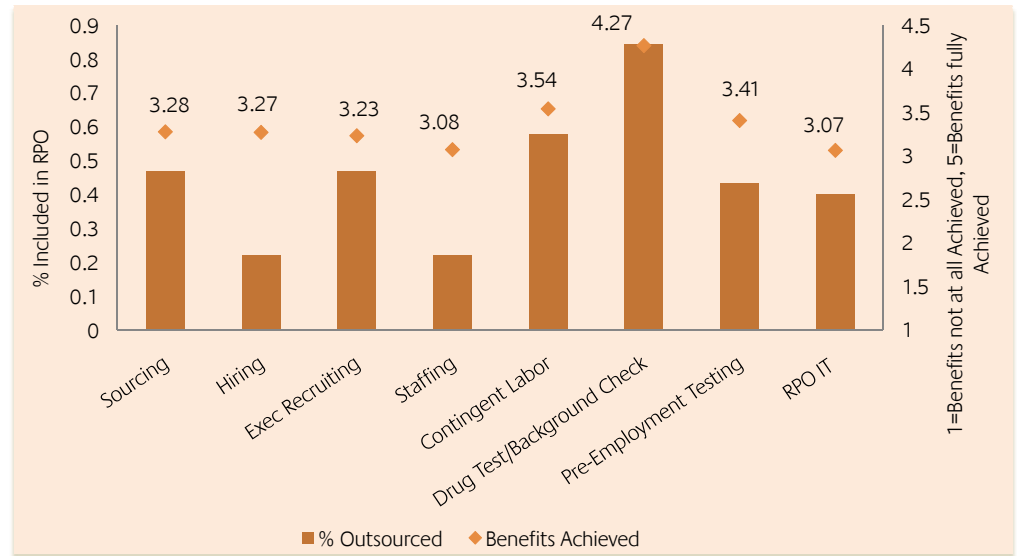
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Figure 10 – RPO by Process & Benefits Achieved

Organizations that have undertaken RPO have been reasonably successful in achieving the benefits they sought through outsourcing. On a scale of one-to-five where one represented benefits not at all achieved and five represented benefits fully achieved, the average score for all processes covered under RPO came in at over 3.0. Drug testing and background checks, the processes most frequently outsourced, also received the highest score. No other process scored over a 4.0. Staffing and HR IT scored the lowest. So while the number of organizations overall that have undertaken significant levels of RPO is not large, those that have done so have experienced fairly positive results, though there is still room for improvement.

There were a variety of reasons given by public sector respondents as to why their organization had not undertaken RPO. The top reason cited for not undertaking RPO, identified by close to 40 percent of the respondents, was that it was not needed (see Figure 11). Given the staffing challenges facing many public sector organizations, it is difficult to view their existing recruitment processes as adequate or not in need of repair or overhaul. The question is to what degree outsourcing can help address challenges. This was followed by the perception that RPO was too expensive. This response is interesting given that for those respondents whose commercial organizations had undertaken RPO, cost reduction was not a predominate benefit sought. Just 19 percent of public sector respondents indicated their organization might consider RPO in the future. The rank order of these reasons was similar between public sector and commercial sector respondents.
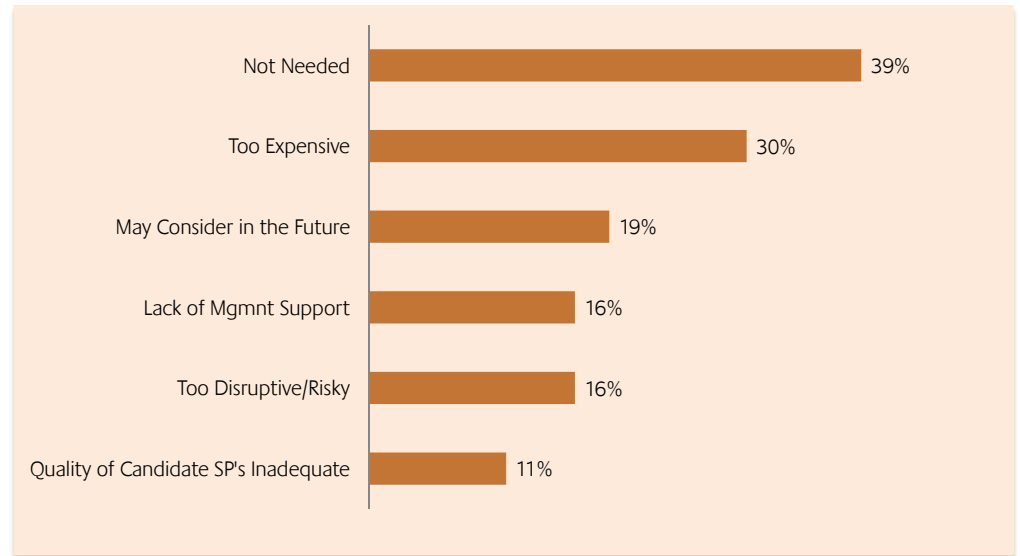
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Figure 11– Why RPO Not Undertaken

The opinion that RPO is too expensive is similar to the top barrier to HR transformation identified in the market study. While the cost associated with undertaking an internal HR transformation can prove a major impediment, especially if significant investments in new supporting HR IT capabilities are required, high costs are potentially less of a true barrier to RPO.

Digging deeper into why organizations had not undertaken RPO, EquaTerra found a mix of pragmatic as well as philosophical reasons. Several respondents simply felt that a third party could not understand their recruiting needs as well as they did internally. Others felt that it was preferable to automate the transaction-oriented processes typically included in RPO rather than outsource them.

When asked what could potentially make their organizations reconsider pursuing RPO, many respondents simply said "nothing." In some cases this was based on a lack of faith in or knowledge about RPO, while in others it was based on contributing limiting factors specific to the respondent's organization (such as small size, strong unions blocking outsourcing, management disinterest or restrictions based on being in the public sector). Other respondents indicated that more proven successes in the RPO market could lead them to reconsider, along with greater industry expertise on behalf of RPO service providers. A more compelling return on the investment coupled with clear plans and commitments from RPO service providers to limit disruption to the recruitment process were also cited as key factors influencing decisions.

Conclusion

This market study's findings reiterated that transforming the human resources organization to be more strategic remains a perennial goal for most public sector HR executives. Improving total talent management and organizational effectiveness capabilities has emerged as a key means through which HR groups can play a more strategic role in their organization.

Neil Reichenberg, Executive Director of the International Public Management Association for Human Resources, offered the following summary of this study's results, "This study demonstrates the challenges that public sector HR faces in becoming more strategic, especially in a time of diminishing resources. While the study results indicate that progress is being made, the journey is far from over. The HR department needs to develop innovative strategies and tools that will enable them to become leaders in total talent management within their organizations."

The role and importance of talent management clearly resonates in today's market. The tasks of finding, attracting and keeping good people have always been of paramount importance to organizations across all industries. It is more important today than ever given several trends impacting public sector organizations. These trends include the following:

- Aging populations and workforces;
- Challenges in educational systems to turn out students prepared for the workforce;
- Increasing lack of interest in public sector careers by many recent grads and young professionals;
- Pressure to increase the volume and quality of government services;
- Increased global competition for talent and the globalization of many markets; and
- Increased education and skills levels required for most jobs beyond entry-level positions.

Improving total talent management is critical for public sector organizations and their HR groups during the next five years. The ability to complete the public sector missions at hand hinges upon organizations' talent capabilities. HR groups that excel at talent management will invariably be viewed as more strategic and more importantly the organizations they support will more likely succeed at their missions. Key to becoming strategic, however, is for HR executives to define and execute a clear plan of action and not overly fixate on contemplating the philosophical nature of strategic HR.

Public sector HR executives must overcome a range of barriers to transform HR in order to make it more strategic. These barriers include the often cited high costs associated with major change efforts and the lack of management support to undertake them. Such barriers are not new. Attempting another re-organization or increasing the investment in HR IT – commonly tried change agents in the past – may not eliminate these barriers or improve overall talent management capabilities. Many HR organizations need to define new and improved mechanisms to overcome barriers to change.

Greater use of alternative service delivery models has the potential to help HR organizations transform their operations. Through these models, public sector HR groups can off load transactional work and then focus on more strategic HR activities, ideally cutting costs in the process. HR organizations can also leverage third-party expertise to improve the overall efficiency and effectiveness of their operations. The uptake of these models, especially for outsourcing, has been occurring slowly in the market. While some early adopters have faced challenges in making these models work, all HR executives are well served to thoroughly assess their options relative to the deployment and expansion of these models. Alternative service delivery models alone will not make HR more strategic; but they represent a potential key lever for change that too often has not been thoroughly explored.

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Appendix
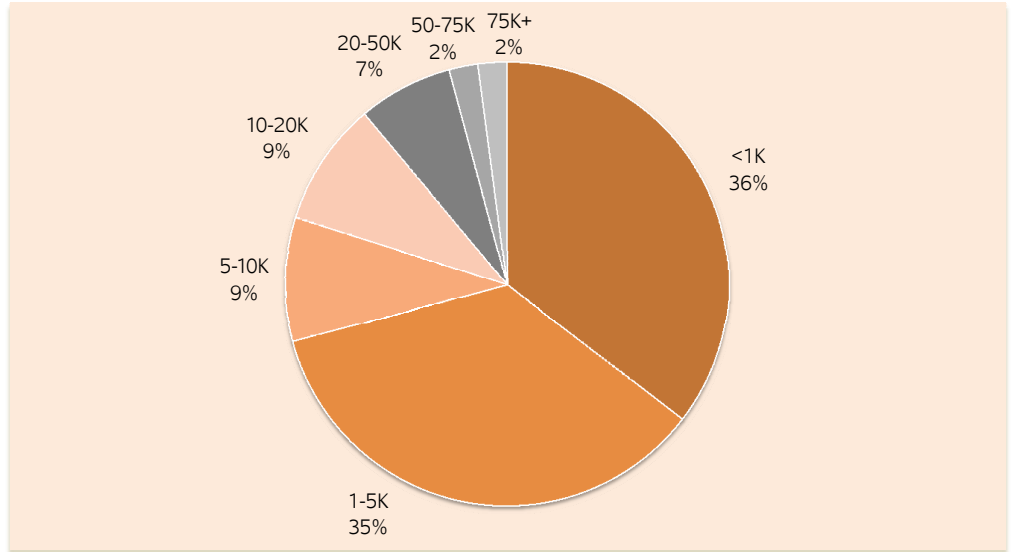
App 1 – Public Sector Respondent Organization Size – Total Employees

App 2 – Respondent Title

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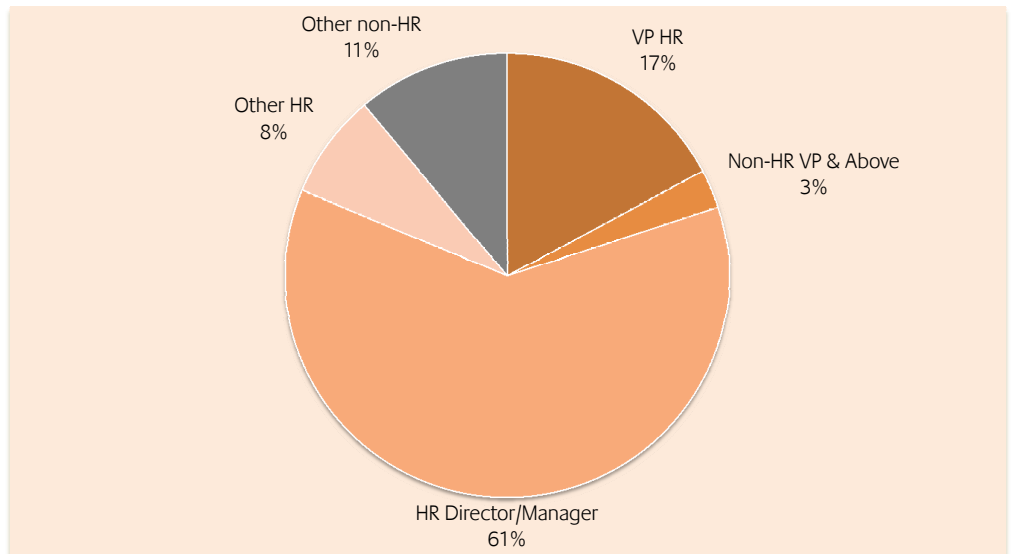
About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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