

STRATEGIC HR REVIEW

FROM SHARED SERVICES TO PROFESSIONAL SERVICES

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“What’s next for how to organize the HR department?” is a question we come across all the time. There seems to be an impatient desire for something new and better — a desire to go beyond how HR is currently organized. In the pages that follow, the shift from a “shared services” to a “professional services” model is examined, and five associated organizational design issues also are discussed. This research is based on field work and interviews with more than 100 senior HR professionals from 50 Global 500 organizations over the past five years.

Moving HR Strategy to the Next Level

The HR function has changed and will continue to change. In the last decade, the advent of technology enabled many HR departments to separate transaction work from transformation work. Transaction work could be done efficiently through technology, while transformation work required an organizational diagnosis and unique insights. The transaction/transformation distinction led to the shared services model of organization, which includes:

- service centers driven by technology
- centers of expertise (COEs) driven by functional expertise and specialization
- embedded HR driven by account management

The shared services model needs to become a professional services model. Professional services organizations (e.g., accounting, law, architects, consulting firms, etc.) turn their knowledge into client productivity by having deep centers of expertise and organizing this knowledge into client solutions. HR departments can learn from and adapt this model. They can form deep centers of expertise around people, performance, information, and work, and they also can have generalists who transfer that knowledge into client (line manager) value.

As HR looks at shifting from a shared services to a professional services model, it needs to address the following five steps:

1. Define the basic organizational design choices.
2. Align the HR organization with the business organization.
3. Organize to turn HR knowledge into client productivity.

4. Clarify the responsibilities for each HR role.
5. Create an engagement contract for how HR roles will work together.

1. Define the Basic Organizational Design Choices

For the last 30 years, organizations have been designed along two dimensions that go by a number of names (see Table 1).

Table 1: Two-Dimensional Organization Design

Centralize Standardize Efficient Integrated Tight	Decentralize Customize Effective Differentiated Loose
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These two dimensions lead to four basic organization design choices (see Figure 1).

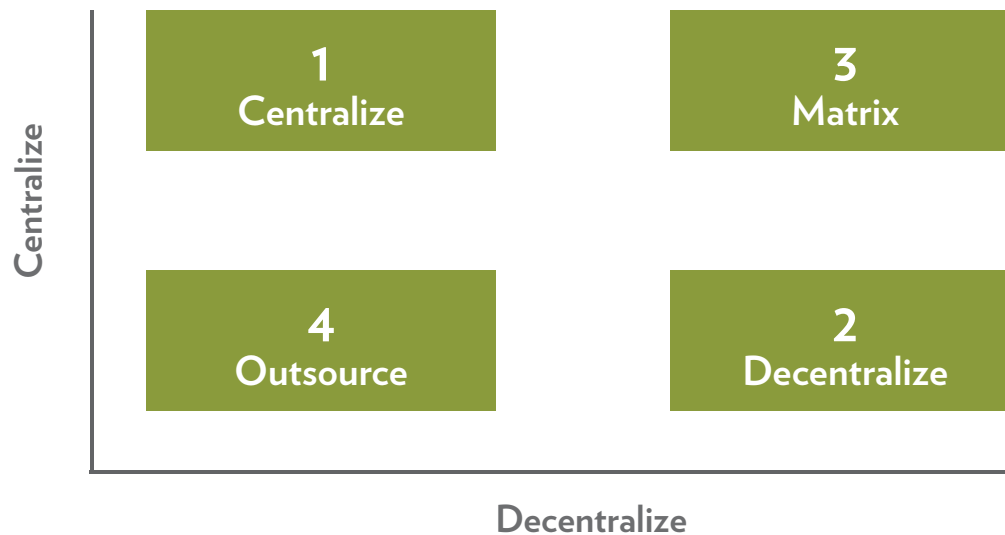
Organizations can be:

- A. Centralized:** a strong corporate office with decisions made by a central body and shared throughout the organization.
- B. Decentralized:** independent business units (by product line or geography) that operate independently of each other.
- C. Matrix:** sharing resources but acting independently.
- D. Outsourced:** being a very small organization that primarily distributes work to brokers and networks.

All organization design choices take some variant of these four design options. HR departments follow suit and may be organized into one of the following basic models:

A. Centralized HR: In these organizations, there is a head of HR. Many functional areas of HR report to this person, including staffing, training, benefits, compensation, organization design, etc. These functional areas have responsibility for designing and implementing HR policies across the organization.

Figure 1: Four Basic Organization Design Choices



B. Decentralized HR: Each separate business unit has their own HR department, which includes a head of HR and dedicated functional specialists. Virgin in the UK, Tata in India, or Berkshire Hathaway are essentially holding companies where each business has a dedicated HR staff with very little corporate oversight.

C. Matrix HR: This is what is referred to as a shared services model. Under this model, HR works in a matrix form to try to get the benefits of both centralization and decentralization. A matrix HR department is likely to have roles such as:

- **Service Centers:** Using technology, HR service centers do routine, administrative, and standardized work. Service centers find ways to deliver staff work cheaper while meeting quality and service parity. An example would be the development of common administrative systems, or putting HR benefits online so employees can be self-sufficient.
- **Centers of Expertise (COEs):** These consist of specialists who have unique insights and great depth in HR practice areas around people (e.g., staffing and training); performance (e.g., rewards); and organization (e.g., organizational development and labor). They carry out some of the following actions:
 - Create and control a menu of choices.
 - Provide specialist expertise on targeted problems.
 - Push corporate-wide challenges to business.
 - Work with business to provide specialist expertise on targeted problems.
 - Share learning from one business to another.
 - Connect with external thought leaders.

- **Embedded HR:** HR business partners who work on the business management team and participate in business discussions. They carry out the following:

- Perform talent and organizational diagnostics to align with strategy.
- Coach the business leader and other team members.
- Help make change happen.
- Measure and track quality of HR work in the business.

- **Corporate HR:** Oversees the overall HR function by providing advice to senior executives, managing HR careers, and shaping corporate direction.

D. Outsourced HR: In these organizations, HR is simply a broker and negotiator of contracts for talent and organization. The HR processes are outsourced to external providers.

2. Align the HR Organization with the Business Organization

To determine which of the four design choices an HR department should follow, ask this simple question: *How is the business organized?* An HR department structure should match the business structure. A holding company business structure would lead to a decentralized and dispersed HR organization. A single, integrated company would have an HR department organized by functions, including staffing, training, rewards, organization design, and others. Since most large organizations diversify and operate within a multiple business unit structure, the vast majority of HR departments are governed by more complex organizational structures.

When an organization is using a centralized business model, some leaders implement the shared services HR model (top right in Figure 1). For instance, one insurance company was a centralized business with a single business unit and a strong, centralized operating model. The HR department tried for years to implement a shared services HR department, but it did not work. In small or single business companies, HR should be centralized. In other cases, a business (e.g., Tata, Virgin) may operate as a holding company, and HR should be organized independently within each business. See Figure 2 to capture the alignment between the business organization and the HR department.

3. Organize to Turn HR Knowledge into Client Productivity

The vast majority of today's large, multi-divisional companies are highly matrixed businesses. In these companies, HR should be organized around a shared services model. We estimate that 65 to 75 percent of large companies use a shared services/matrix model. As discussed above, in a shared services model, there are four roles that HR can play:

- a. Service centers to do administrative work in a more efficient way.
- b. Centers of expertise to ensure innovation and deep specialized knowledge in key HR areas.
- c. Embedded HR to diagnose client needs and build integrated HR solutions.

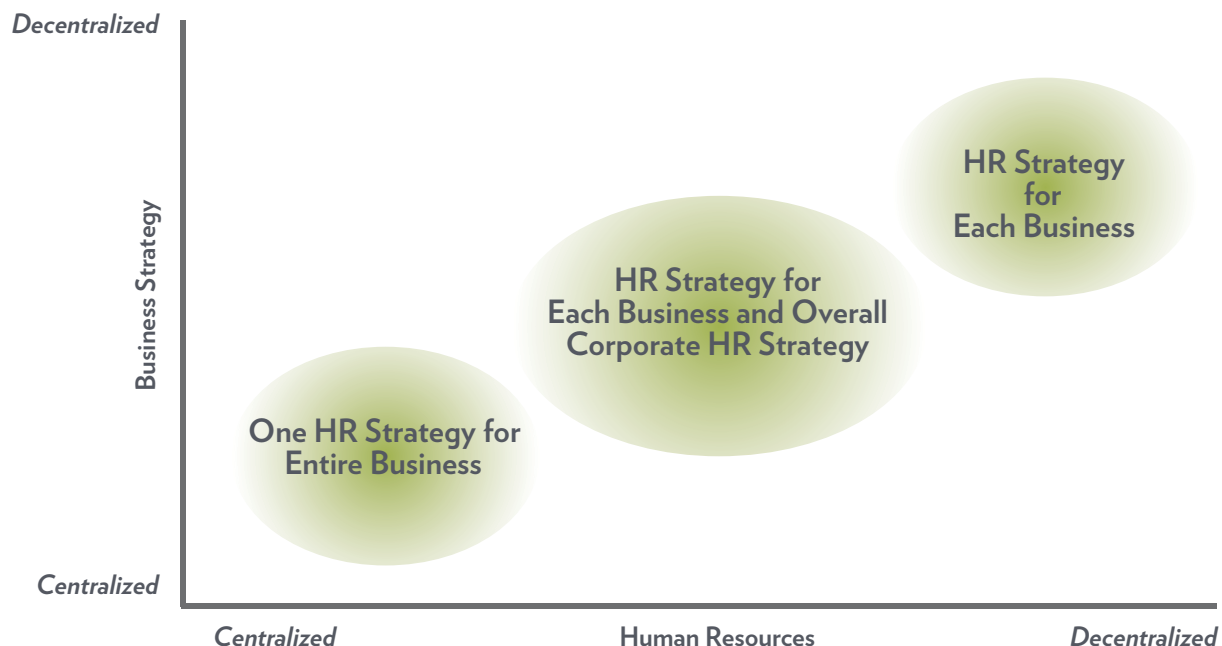
d. Corporate HR, which is responsible for the overall enterprise-wide initiatives (e.g., a common face to customers, investors, or a community that deals with corporate officers).

Given that so many companies organize HR around shared services, it's not surprising that many organizations are looking for ways to make this structure more efficient and successful — or that they're looking for ways to increase the skills of their HR people.

Focusing on Value

To better understand this shared services logic, we can turn to and learn from professional services firms. The job of a professional services firm is to turn knowledge into productivity and client value. The business organization of a professional services firm is the “new” shared services model for the HR organization. The HR department should operate as a professional services organization within its firm. The centers of expertise are sources of knowledge. The embedded HR professionals have the duty to diagnose client (line manager) demands and expectations and to provide integrated solutions. Professional services firms operate in a horizontal — not vertical — structure. Vertical structures focus on allocation of authority and power, while horizontal structures focus less on who's in charge and more on how value is created for the users. The driving question is not whether to centralize or decentralize power; instead, the question is how to create value for the clients. It's not who's in charge, but who we are serving. This allows us to shift from the power question to the value question.

Figure 2: Aligning Business and HR Strategy



Professional services firms like PwC and Accenture organize their businesses around individual units such as tax, advisory services and internal firm services; these are akin to HR centers of expertise. Professional services firms also have dedicated client engagement managers to support customer accounts; these managers are akin to embedded HR professionals. The goal of the professional services firm is to turn knowledge into value. The process starts with client expectations and the knowledge and resources it takes to meet them. We argue the same logic applies to how HR should be organized. Embedded HR works with business units to help them reach their goals, and they can pull in a team of knowledgeable experts (COEs) to help them do this.

4. Clarify the Responsibilities for Each HR Role

The four HR roles (service center, centers of expertise, embedded HR, and corporate HR) are innovating to make the shared services model more effective. The following looks at how these roles may evolve.

Service Center

- a. Service centers began by using technology as either a source of information (e.g., an employee wants to find out about his/her benefits program), or as a means of driving efficiency (e.g., technology can replace employees for self service). These technology centers could be outsourced and operated at a distance, and they should also offer employees around-the-clock access to administrative questions.
- b. Technology is increasingly shifting to connection. Social media allows people to connect with each other remotely, and we envision service centers adapting new social media and using technology to connect employees in HR practice areas. Below are a few possibilities:
 - Staffing: Screening potential applicants through technology tests to showcase the work they might be hired to do with technology-based tools.
 - Training: Doing more self-paced learning, team-based training, and even mentoring/coaching through technological solutions.
 - Compensation: Automation of the rewards system, which could help employees personalize a menu of rewards options.
 - Benefits: Using technology to offer concierge services on healthcare, including preventive as well as acute care.

Centers of Expertise

- Centers of expertise offer deep staff insights that can be adapted to solving problems.
- These knowledge centers may be increasingly geographically distributed and connected to share learning globally.

- Centers of expertise may be more adept at collaborating with each other and with other functional areas (e.g., finance, IT, facilities, etc.) to offer integrated solutions to client (business unit leader) problems.
- Centers of expertise may rely on more precise analytics to determine which services are used and how those services are used, which could provide more precise allocation of resources.
- Centers of expertise experts may form knowledge networks across and outside their organization to provide innovative solutions.

Embedded HR

- a. Embedded HR professionals have the challenge of diagnosing line manager/business issues and offering integrated and innovative solutions.
- b. Embedded HR professionals may become better able to diagnose and advise for solutions in the following areas:
 - Individual Ability and Talent: Making sure that the business has the right competence and commitment to deliver strategy. In addition, we envision talent moving from commitment and willingness to fully contribute, which includes deriving passion and meaning from doing the job well.
 - Organizational Capability and Culture: Making sure that the business establishes a culture consistent with business goals.
 - Leadership: Ensuring a deep leadership bench with leaders who have the knowledge, skills, and abilities to deliver on strategy.
- c. Embedded HR professionals may also learn to go outside their business unit boundaries to work with customers, investors, government, and other community leaders to make sure that HR investments inside the company are consistent with expectations outside the company. This outside-in view of HR means that talent, culture, and leadership may be defined by external stakeholders.

Corporate HR

HR professionals who perform corporate HR roles address six important areas of need within the emerging HR organization:

- They create a consistent, firm-wide culture face and identity.
- They shape the programs that implement the CEO's agenda.
- They ensure that all HR work done within the corporation is aligned with business goals.
- They arbitrate disputes between centers of expertise and embedded HR.
- They take primary responsibility for nurturing corporate-level employees.
- They ensure HR professional development.

5. Create an Engagement Contract for How HR Roles Will Work Together

HR professionals in each of the four roles (service centers, centers of expertise, embedded HR, and corporate HR) do not act independently. To make a professional services model work requires a shift in the service mindset, talent upgrades, and effective management of inherent tensions.

First, HR professionals need to create an end-to-end service mindset, not a power mindset. You have to know who your client is and what organizational knowledge your client needs in order to be successful.

Second, the skillset of HR professionals has to be updated. Embedded HR leaders need to be excellent brokers of knowledge and be able to orchestrate the service delivery, while COEs need to create knowledge and offer a menu of choices.

Third, the inevitable tension between centers of expertise and embedded HR needs to be managed by corporate HR. There is a natural push-pull tension between embedded HR and COEs. In a pull situation, the business unit has a specific need, and HR pulls from the COEs to address the need. In a push situation, the COEs sometimes try to push one-size-fits-all solutions to business unit challenges. This inherent tension must be managed, but will never fully dissipate. ■



About the Authors

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