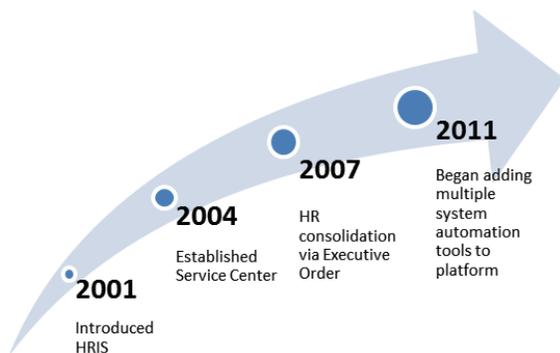


## HR CENTRALIZATION VS. DECENTRALIZATION

In January 2014, state personnel leaders sat down at the annual National Association of State Personnel Executives (NASPE) Mid-Year Meeting in Washington, DC to discuss the top human resource (HR) issues affecting state government today. Included in the top five was the matter of Decentralization vs. Centralization of HR operations. This is a topic that has been surfacing across organizations for years mainly in the “back office”. It’s just not limited to human resources, though. We see this trend progressing in IT, procurement, finance, and even with the consolidation of local governments. Anyone who has spent time thinking about moving to a centralized (a.k.a. shared services) model quickly realizes there is no perfect formula. This issue brief will walk the reader through an array of best practices from several states.

To centralize or not to centralize? Many HR and Civil Service Departments are finding themselves caught in the cross-fire of extreme budget cuts. Human resources need to operate more like a business, with their customers being the employee and the state, to find innovative approaches to deliver services. Centralization is one possible solution. There are many benefits to the concept of putting everything under one authority. According to Sam Wilkins, State Human Resource Director at South Carolina, “the real benefits of centralization are accountability, transparency, and efficiency”. In addition, centralization can:

- Lower operating costs
- Streamline and simplify internal processes
- Enhance employee experience and accessibility to HR staff
- Improve compliance with policy
- Create better role definition focusing on skill sets
- Aid in determining accurate staffing levels



**To centralize or not to centralize?** If centralization makes sense, it’s important to define what processes should be standardized. Transactional is the logical place to start. However, states may want to start with an overall transformational plan to get a broad perspective on today and the future. Take the Michigan HR Transformation model for example, shown in figure 1. “HR Transformation is a commitment”, says Matthew Fedorchuk, Deputy Director at Michigan Civil Service Commission, “You need to be willing to show you can improve service and reduce costs”. Time, commitment, and perseverance can create a metamorphic way of managing the State’s most important asset – its people.

It is imperative to mention that some areas of human resources can't or shouldn't be centralized. Decentralization does have its advantages. For example, when considering employee relations, having an HR representative present at the agency level (within larger agencies) creates a feeling within the agency that HR is part of their culture. Paula Woodhouse, Deputy Director at the State of North Carolina Office of State Human Resources, points out, "Agencies need someone in HR they can trust. They are missing a whole level of consultation if no one is physically there." Line "agency or department" staff as opposed to satellite staff is crucial to service delivery.

**What role does technology play?** The technology world today supplies a multitude of systems that help reduce replication and inefficiencies caused by manual processes. Automating manual processes can range from small tasks such as executing an online sexual harassment training, to very large initiatives like implementing an Enterprise Resource Planning (ERP) system that encompasses HR, Payroll, Financials. The key to understanding where to start goes back to an overall HR transformation plan. It is important to first evaluate existing processes and identify areas of perceived value. Many HR information systems (HRIS) are equipped with an assortment of functions or modules that allow states to expand automation of processes without having to customize their technology. Sometimes, however, it makes sense to augment existing systems with more specialized modules to fulfill business needs. It all depends on the level of detail and functionality needed.

**Change is good, right?** Unfortunately, not everyone feels this way. It doesn't matter what you are implementing, if you don't have buy-in and a strong communication plan in place it can, and likely will, fail. Research shows that 95 percent of organizations with excellent change management processes meet or exceed their objectives, while only 16 percent of those with poor change management efforts meet or exceed their objectives.<sup>1</sup> Whether it's a technology roll-out or an organizational structure change, a certain level of change management and strategic communications is needed to make it successful. People naturally resist change; don't let it curb your efforts.

**What's the verdict?** To say centralization is the end-all be-all for transforming HR in every state in the nation would be a misnomer. Jim Honchar, Department Secretary for Human Resources Management, Commonwealth of Pennsylvania, explains it like this, "There is not a one-size-fits-all. To say you can consolidate/centralize everything is unrealistic. Determine what makes sense to employees." Each state has different drivers that contribute to how human resources/ civil service functions, for example, the political environment, presence of unions, budget cuts, and so on. A mixed model of both centralization and decentralization is likely the answer. As you read through the examples put forward by other states, consider what is right for your state.

## A LOOK AT SHARED SERVICE MODELS

Current HR trends have been naturally causing the HR function to move to a shared service model in order to adequately meet the needs of the employees, while standardizing processes as much as possible to create consistency across organizations. Based on the "Global Human Capital Trends 2014" report by Deloitte Consulting LLP and Bersin by Deloitte, the key to engaging a 21st century workforce involves leading and developing the organization, attracting and engaging talent, and transforming and reinventing the HR organization.

As the challenges continue, state governments increasingly find themselves facing the challenge of how to properly manage various needs of their workforce, driving the business case to begin exploring more shared services and centralization of HR functions.

This begs the question, what exactly is centralization of HR? In basic terms, it is the act of bringing processes, functions, people, technology and policies together with the same management across each. Complete centralization of HR is not necessarily the answer. Rather, a blended approach where

the employee experience is standardized across the organization, while individual department or agency needs are managed at the local level is optimal to achieving the right balance of people management. “Hybrid models work. A service center environment works for most transactional processes, but there has to be an advocate within each agency to support employee relations”, says Lisa Spencer, Assistant Commissioner of HR Operations, State of Tennessee, Department of Human Resources. This will help states realize efficiencies of scale in operations, processes, and technology, while still allowing the agency administrations enough autonomy to meet their complex talent needs.

Once state governments have decided that it would make sense to progress toward a shared service model, the next question is where to start. There are several steps that an organization must first take when determining whether and what to move into a shared service model. These steps are shown in the figure below.



## THE INFLUENCE OF TRANSFORMATIONAL HR

Typically, transactional purely administrative functions can be centralized so HR managers across state agencies can then focus on transformational goals. The benefits of this approach include realizing operating efficiency, centralized processing, and increased services to employees. The Commonwealth of Pennsylvania took this approach and applied it to their outdated onboarding processes. See the “Pennsylvania Employee Onboarding Program” case study to learn how the Commonwealth modernized the onboarding of new employees to realize cost savings through an increase in HR staff time productivity, reduction in paper, and a shortened onboarding time for the new hire.

Transformational goals can include a mixture of centralized and decentralized initiatives. Understanding how to fragment HR functions into these categories becomes easier once a review of HR business processes is conducted. HR services like grievances, interviews, training, and disciplinary actions are commonly more effective when executed at the agency level, in other words, as a decentralized function. The impact of this blended approach to shared services benefits the organization not only from an efficiency and efficacy perspective, but also monetarily.

As mentioned earlier in the issue brief, the State of Michigan began its HR Transformation project in 2001. It started with the inception of an HRIS and evolved into undertakings of standardization and consolidation. A process like this requires buy-in from the top along with an estimation of potential savings to be incurred year-over-year. The Michigan Civil Service Commission (MCSC) used this guideline and has seen approximately \$28 million in savings since the initial launch. Here’s how:

- 2001: Introduced new Human Resource Information System to automate and centralize benefits administration, personnel tracking, time & attendance, and payroll.
- 2004: Service Center for employees was created for routine transactions. Through attrition, this eliminated the need 138 full-time employees (FTE’s).
- 2007: Executive order passed to consolidate all HR staff into the Civil Service Commission. Through attrition, this reduced the headcount by another 141 FTE’s.

<sup>1</sup>Prosci Inc., *Best Practices in Change Management*, (Prosci Inc., 2009), 15.

<sup>2</sup>The Global Human Capital Trends 2014 report can be found at: [http://www.deloitte.com/assets/Dcom-Namibia/GlobalHumanCapitalTrends2014\\_030714.pdf](http://www.deloitte.com/assets/Dcom-Namibia/GlobalHumanCapitalTrends2014_030714.pdf)

- 2011: New platform allowed for the adoption and creation of a variety of system automation tools. For example: PARIS (Position Action Requests Info System) brought visibility into creating and modifying positions. PARIS dropped processing time down 70 – 80%. More importantly, it got rid of the overwhelming amount of paper files produced by the old system.

Today, MCSC feels that the mixed model in Michigan is working well and they are using the saved productivity time to proactively help agencies be more efficient.

Even with agencies working as decentralized HR units, the central HR office can remain the authority influencing processes and procedures to create additional uniformity. Additionally, there are instances of departments that state HR has no authority over, such as Higher Education systems, Legislative branches, and judicial systems, adopting policies created by Human Resources or Civil Service in an effort to benefit from these best practices. A good example of this is in the State of North Carolina. Their Office of State Human Resources has a particularly strong relationship with the judicial system and serves as a mentor to help create an HR environment that works best to serve all of their state's employees.

#### **Commonwealth of Pennsylvania Case Study – Pennsylvania Employee Onboarding Program**

Prior to December 2012, Pennsylvania's onboarding process was entirely decentralized. Issues for new hires included unknown start dates, inability to access internal systems, and an inundation of HR paperwork. These multiple processes led to confusion and stress for the new employee and the supervisor.

Fast forward to the present and the onboarding process is much more efficient and effective. New hires receive a link to an onboarding website upon acceptance of a job offer. The employee has immediate access to position details, required new hire forms, information on pay and benefits, and more.

Since the program was launched, over 10,000 new employees have gone through the new onboarding process. Success has been measured by a survey and savings calculation:

- 75% of supervisors and 81% of new employees agree the new process allows them to become quickly engaged and productive.
- Approximate \$1 million in annual savings

## **HUMAN RESOURCE TECHNOLOGY**

State governments are in different stages across the country when it comes to looking into HR technology to bring efficiencies, create centralized processes, and reduce costs. It's often overwhelming to understand what solutions are insufficient, what are of real value, and what is excessive. This is why it's important for states to share best practices and lessons learned. The NASPE community provides this setting so there are ample opportunities to leverage the research done by others.

**“Organizations are narrowing their focus on HR initiatives as they attempt to strike a balance among people, processes and technology priorities... This shift [is attributed] to high-impact HR investments, such as streamlining business processes and implementing manager self-service, to a commitment to running the HR function more like a business.”<sup>3</sup>**

Here's a look at some of the HR technology systems most frequently invested in by state governments to achieve greater centralization and efficiencies:

#### **Enterprise Resource Planning (ERP)**

ERP systems traditionally are a large investment and endeavor for states. They encompass more than just HR capabilities, like financials, budgeting, and project management. Multiple decision makers generally are involved in the decision process. Though states can choose which modules to include, the most common HR functional areas include:

- Payroll
- Benefits
- Recruiting
- Training

#### **Human Resource Information System (HRIS) or Human Resource Management System (HRMS)**

HRIS/HRMS systems are also a large investment, but on a smaller scale since they are exclusive to human resource technology. These systems basically serve as the management of all employee information. Depending on the States' level of commitment to HR technology and budget spend, this can be a viable option.

- Like an ERP, these systems provide automation to payroll, personnel tracking, recruiting, etc...

#### **Time & Attendance Tracking / Leave Tracking (Includes FMLA)**

Time & attendance and absence management systems provide a detailed level into labor costs and trends. And analytical capabilities allow for future budgeting of labor.

- Recent study: "12% of employees overstate their time worked by 2 hours monthly. With 5.3 million state employees at an average wage of \$15/hr, this amounts to approx. \$229M per year in overpayments to employees."<sup>4</sup>

#### **Learning Management System (LMS) /Training**

- In some instances, classroom training is still imperative; however, eLearning or online training can be a cost saver and productivity enhancer, allowing employees to complete training modules at their own pace. These systems also provide an extra layer of compliance with federal & state regulations.
- Sexual Harassment and Workforce Violence training are serious subjects. Some states recommend classroom training as opposed to online training to ensure employees are truly paying attention. This is not always feasible due to geographic restrictions and can be cost prohibitive; so, web-based training is the next best thing.

#### **State of North Carolina Case Study – Policy change through LMS**

When the Department of Public Safety (DPS) put out a policy change on grievances, they had to find a dependable way to ensure all employees were aware of and acknowledged this change. Through the state's Learning Management System, they created a 20 minute online tutorial about the policy change which the employees were required to complete. DPS was easily able to access records to find out who took the training and who did not. No paperwork was required.

<sup>3</sup>SHRM, HR Technology Spending Rise, [www.shrm.org/hrdisciplines/technology/articles/pages/hr-technology-spending-rises.aspx#sthash.3JoktchY.dpuf](http://www.shrm.org/hrdisciplines/technology/articles/pages/hr-technology-spending-rises.aspx#sthash.3JoktchY.dpuf)

<sup>4</sup>Governing, Latest Front in the Battle of Wasteful Spending, [http://transformgov.org/en/knowledge\\_network/documents/kn/Document/303639/Latest\\_Front\\_in\\_the\\_Battle\\_against\\_Wasteful\\_Spending](http://transformgov.org/en/knowledge_network/documents/kn/Document/303639/Latest_Front_in_the_Battle_against_Wasteful_Spending)

### **State of Louisiana Case Study - Web-based Training: Preventing Sexual Harassment**

Training on sexual harassment became legislatively mandated for State employees in Louisiana in 2013. With 65,000 employees throughout the state, the State Civil Service Agency (SCS) had to come up with an efficient and effective way to train all personnel.

A hosted web-based training where compliance could be tracked made the most sense since it could be deployed using Louisiana's existing LMS system. With minimal cost to the state, they were able to make a solid case and move forward.

As part of the ongoing efforts, it is expected that Louisiana will see improvements in the following:

- Reduction in sexual harassment related grievances and EEOC charges filed
- High policy compliance rate due to web-based training accessibility
- Effortless tracking for metrics on adherence
- Increased level of workplace respect awareness

### **Performance Management**

- Performance Management systems provide an online platform for employees and managers to set annual goals & objectives. These systems allow them both to go in and update as needed.
- It's important to note, though, that performance management automation should never replace the one-on-one interaction of a face-to-face meeting.

### **Recruiting/ Selection/ Applicant Tracking/ Onboarding**

- This is a very broad category and not every state is ready to pull the trigger to centralize all of these processes at once. In fact, onboarding can be fulfilled with an LMS.
- These systems do provide greater search results and an organized structure to make for quicker process time.
- Byron Decoteau, Deputy Director, State of Louisiana – Department of State Civil Service discussed using the technology for standardization, but having agencies be in control of the data. "Technology has been instrumental in allowing agencies to post their own positions, review applications and establish eligible lists with timely referrals to hiring managers. We are able to easily review agency records for accountability purposes and provide guidance to agencies concerning rules and the hiring process. Offer them the tools, and let them be the owners."
- State of South Carolina does something similar. They have centralized the posting and application process, but each agency still has authority over candidate selection and interviews.

### **Benefits Administration**

- Although this is not always done through the Human Resources or Civil Service departments, it's important to mention. These systems often make it easier for employees to understand a sometimes complicated process. In addition, it takes some of the burden off of human resources to answer benefit-related questions.

### **Grievances**

- Grievances always need to be taken seriously and when there are multiple systems across one state, it can get chaotic. There are systems available that can replace a variety of manual processes.
- The State of Tennessee has recently changed a six-step grievance process that could keep employees and departments in limbo for extended periods to a more streamlined three-step appeal process that has a maximum time period of 120 days for resolution.

Many of the solutions can be added as an additional module to an existing ERP or HRMS system. However, there are home-grown systems (not recommended due to maintenance constraints) and stand-alone products for each that can interface with an ERP/HRMS as well. When making decisions to centralize or standardize any of these processes, the State should consider what information they will require. While ERP and HRMS systems can provide a lot of the basic needs, it often requires customization. Exploring stand-alone solutions along with ERP/HRMS modules will give a broader view of capabilities and costs.

**“Despite increasing functionality in ERP solutions, there will continue to be a need for third-party solutions.”<sup>5</sup>**

Lastly, don't forget that with the centralization of technology comes a substantial amount of data. Data can be very valuable, but you have to know what to do with it. South Carolina is just one state who sees the value and is looking forward to the future of human resource dashboards as well as good reporting to monitor metrics.

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In the age of 'Big Data', Human Resources (and even Finance) can take some of the data collected to discover better ways of operating and look for signs of waste. Say, for example, overtime is a big concern. Analytical tools are available to dig into which departments, employees, months, are tracking the most hours worked. In some cases it's unavoidable, but in other cases, it could be abuse. Visibility is another key benefit to centralization.

## EMPLOYEE CALL/SERVICE CENTERS

The rise of self-service and call centers has given Human Resources and Civil Service Departments freedom from the overburdening task of answering hundreds (if not thousands) of transactional questions from employees. Putting the information within reach of the employee promotes an environment of self-service and productivity. In short, it's a mean of creating more centralization.

When considering an employee call center or service center, state governments need to remember the following:

- What kind of technology is need? Computer systems? Telephone switching equipment? Software?
- What type of services are you going to provide employees through the call center?
- Who will staff the telephone lines?
- What kind of buy-in is needed from the Administrative or Executive level?

It's all about getting the balance right. HR needs to recognize when issues can be resolved through self-service or a call center or when the personal touch of an HR liaison physically present is needed. Several states rolled out Call/Service Centers and realized success. Though not all models look the same, there are some commonalities including handling questions about compensation, benefits, and payroll.

<sup>5</sup>Massimiliano Clapps and Ivy I. Anderson, Trends in Statewide ERP Implementations (Gartner, Inc., 2009), 16.

### State of Nevada Case Study – Agency Consolidation

As the Governor of Nevada appealed for more standardization across the state, particularly around HR personnel and policy, it became clear that consolidation was imminent.

HR consolidation was done on 14 different departments, each of which had 300 employees or less. Larger departments were left alone. Personnel staff from those departments now work out of a centralized office, but visit departments weekly. Employees affected by change consider this a success:

- 1st year – 71% satisfaction rate
- 2nd year – 96% satisfaction rate

## ORGANIZATIONAL STRUCTURE

Another source of centralization frequently occurs as a restructure of the existing human resource model. It can happen when a new Governor comes in, new legislative requirements are introduced, as business strategies change, or as a process improvement effort. This change can be particularly hard on the employees because there are typically lay-offs, manager changes, and job function adjustments. It's critical for states to take change management into consideration as a restructure plan is created. A drop in employee morale can have serious organizational implications.

If a state has seen other restructuring efforts in different departments or agencies, the best place to start would be to sit down with that group and find out how they executed change. If Human Resources is the first to go through this transformation in the state, then reaching out to another state who has gone through the process is a good idea. There are always lessons learned to be shared.

States need to remember that this kind of change does not happen overnight. A good project manager will be needed to see this initiative through from beginning to end. This opportunity is also a good time to review existing policies and processes to make sure they will align to the new structure.

## WHAT MAKES SENSE FOR YOUR STATE?

As reiterated throughout this issue brief, there is no perfect formula that would work in every state. Centralization or standardization and shared services, will continue to be a viable solution for creating efficiencies, managing compliance, and cutting costs. But don't lose sight of the important role HR staff has, to personally interact with employees. Lee-Ann Easton, HR Director, State of Nevada, Human Resource Management, said it best, "You can't take the human out of HR." Technology will continue to play a significant role in the ever changing HR landscape. Use this to streamline the transactional functions, but keep the non-transactional issues human. By asking the questions (right) to determine feasibility, your State can be ready for whatever HR changes lie ahead.

