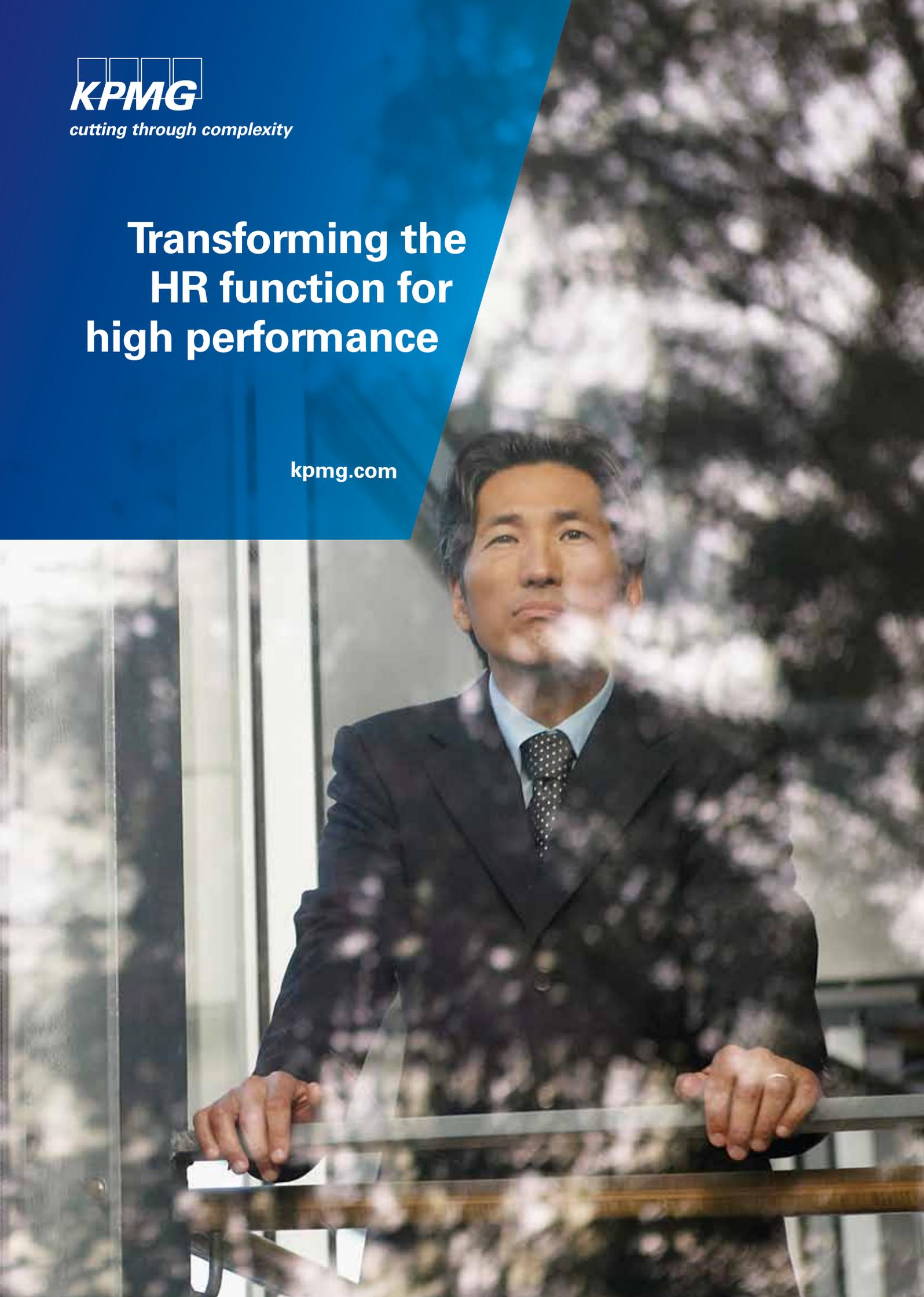




*cutting through complexity*

# Transforming the HR function for high performance

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# 01

# Driving the people agenda

Today's Human Resources (HR) function has the potential to enable a profound transformation, challenged as never before to convert the full potential of an organization's people into financial performance and market value.

The human resources function is well-positioned to deliver sustainable **competitive advantage** to the enterprise through its workforce.

Over the past decade, HR has made significant progress in the use of technology and process improvements to help reduce costs and improve operating effectiveness. However, there is considerable evidence that the HR profession continues to experience a credibility problem and that it lacks demonstrable strategic impact. In our view, however, this does not need to be the case. On the contrary, HR can be an important value creator in business.

As the driver of an organization's people agenda, the HR function is well-positioned to deliver sustainable competitive advantage by being equally accountable for achieving profitable growth as other mission-critical functions such as Finance and IT. But unlike the Finance function, where value creation is measured in the strict terms of profit and loss, the value of the HR function is situationally specific. In practical terms, this means the HR function of a customer service business should be configured differently and deliver a distinct brand of

added value compared with a product innovation business or another that relies upon operational excellence. For example, HR can be a strategic asset to an automobile manufacturer when the function supports the 'Lean Agenda', or when it supports research and development in a pharmaceutical company or customer service within a bank. In order to increase the value that HR adds to an organization, leading practices must be combined with a holistic HR framework – one that is configured to address the unique needs of the business over a specific period of time. Only then can sustained competitive advantage be achieved.

This 'situationally specific' HR model has the potential to yield significant returns for businesses that choose to adopt it.

As such, we believe the pursuit of generic best practices and standardized operating models for HR is simply not the best route to the boardroom table for Chief People Officers.

The task is complicated by a number of factors, including the current challenging economic conditions, the increased intensity of competition and the extensive political changes occurring around the world. Our clients continue to tell us the most complex 'people issues' they are dealing with include:

- Identifying and managing talented employees and focusing on the people and roles that deliver differentiated value, and go beyond the traditional focus on the 'top 200 and high potentials'.
- Creating organization cultures of sustainable cost control, innovation and performance improvement, while at the same time being authentic in the eyes of customers, leaders and employees.
- Providing a predictive measurement framework for the people agenda in a business, shifting attention from HR activities to people-driven outcomes that actually help fuel business performance.

- Evolving HR information technology from expensive legacy record keeping systems to more modern information systems that can help enable better-informed business decisions.
- Conducting strategic workforce planning to anticipate when and where talent is needed and being mindful of the shifts in growth potential and innovation.
- Developing strategically-aligned systems of people performance that emphasize the unique ingredients that can drive market leadership rather than simply following benchmarks, fads and fashions.

The types of issues outlined here require innovative, robust HR initiatives aimed at enhancing organizational performance and having a real and tangible impact on core business measures, such as customer retention, market share and profit-per-employee.



# 02

# Measuring value

As a global professional services organization, KPMG has a distinguished heritage of measuring and assuring value. We help clients prove the added value of their HR function, offering measurable substance to the people agenda.

Our firms help clients prove the **added value** of their HR function, offering measurable substance to the people agenda.

KPMG HR professionals believe strongly in the importance of tracking and measuring quantitative data. As such, our unique insights help to add new dimensions, translating data into analytics, identifying correlations between key pieces of information and assessing the events and actions that help contribute to impactful outcomes.

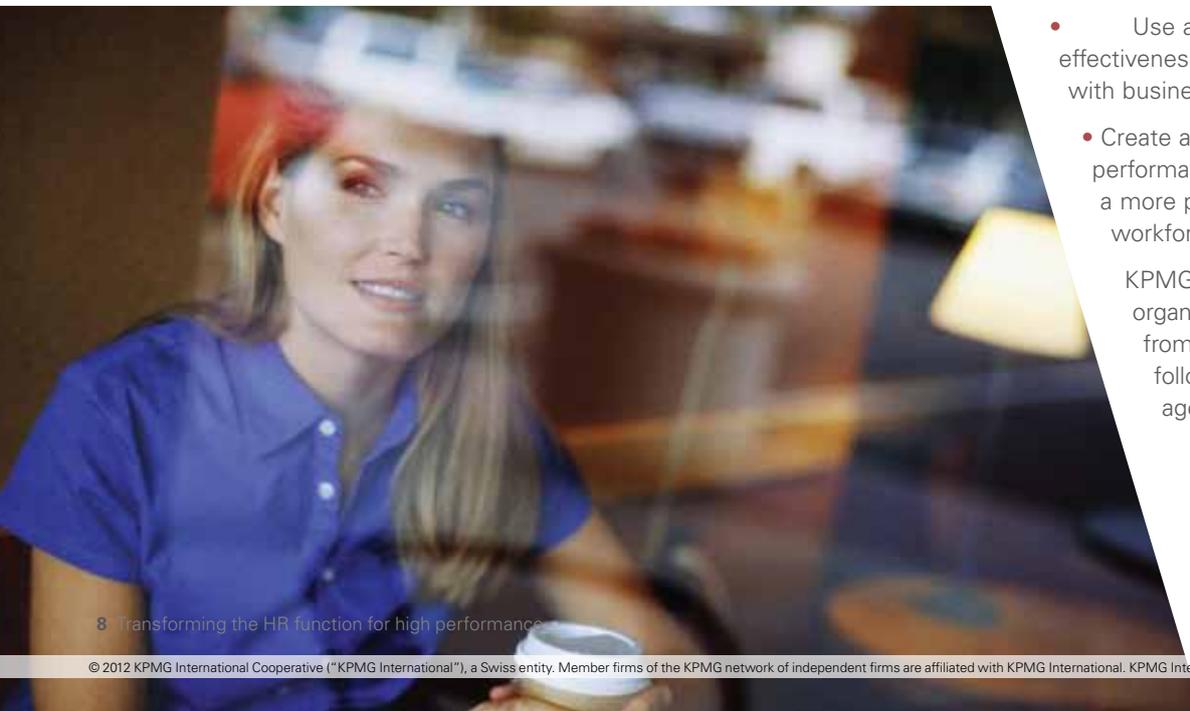
In the past, HR has measured its value in terms of a standard set of relatively traditional metrics. KPMG HR professionals see beyond these traditional metrics to uncover the inherent contributions and barriers within your organization's workforce. Our combination of astute business professionals with

deep human capital knowledge and experience, coupled with our proprietary tools and methodologies, enables us to see beyond the ordinary for our HR practice clients.

In our experience, clients choose to work with KPMG's HR advisory professionals in order to:

- Gain closer alignment between human capital strategy and overall organization business strategy.
- Better match HR skills and capabilities to complex business needs.
- Optimize HR transactional and operational processes.
- Achieve more efficient and effective management of people-related costs.
- Use analytics to correlate the effectiveness of the HR function with business results.
- Create a sustainable, high-performance culture that results in a more productive and engaged workforce.

KPMG HR professionals help organizations generate insight from information across the following five key people agenda dimensions.



## 1 Cost

The 'cost' dimension might include analyzing the ratio of front to middle to back office staff. In addition, profiling the workforce and employee cost in relation to the value chain can deliver significant insight. For example, for one client, KPMG mapped the pay bill to the value chain, which revealed that a disproportionate amount of cost was being carried by middle and back office functions.

## 2 Capacity

This analysis considers strategic workforce planning aspects such as career progression rates, blockages, shortfalls and gaps. KPMG HR advisors also look at appropriate numbers of work levels (between CEO and frontline) and spans of control. In one large government organization, the average span of control was 1:3 and the total number of layers was 10. This dynamic can create an environment where accountability is syndicated to the point at which it is compromised. HR functions have a wealth of data about how their organization, is structured and configured. Ideally, they could turn this data into insights about the health and functioning of the business for decision support purposes. Few choose to do so, however, thereby limiting their influence. Profit-per-employee is another key comparative metric in this dimension for commercial organizations and can be particularly appropriate for knowledge and intellectual capital-based businesses, where traditional return on capital measures may be less insightful.

## 3 Capability

This dimension assesses whether key roles in the value chain are being 'talent managed' in an appropriate manner. KPMG member firms have observed that many organizations fail to prioritize or focus their efforts and spending on talent development for key roles within their value chains. Instead, they either focus on a first-come, first-served basis or adopt a hierarchical approach (e.g. 80 percent of spend and effort is on the people at the top or on a fast track toward the top of the hierarchy). A value chain view of the business can elicit roles that have a critical part to play and, if invested in, could deliver disproportionate benefit. For one global hotel chain, this led to a redistribution of talent spend toward its hotel receptionists, as they had a pivotal role to play in brand awareness and customer retention, thereby delivering a competitive advantage.

## 4 Compliance

This lens evaluates HR priorities such as the success of diversity initiatives, process compliance and health and safety matters. In particular, it deals with how organizations create a culture that addresses and balances the big three differentiating dimensions, namely: inclusion, innovation and risk management among all employees.

## 5 Connections

The 'connections' dimension measures the commercial engagement of employees and the quality of 'line of sight' with top to bottom goal setting and review. This is a critical quality and helps to build 'shared mindset' and organizational agility. KPMG firms are acknowledged as 'Employers of Choice' and, as such, we have learned what it takes to build employee engagement. For instance, commercial engagement is a quality that goes beyond simple 'involvement' or commitment to the business. Rather, it is about extending that sense of ownership of a business to the hearts and minds of all employees. KPMG's proprietary Commercial Engagement Index tool measures this key quality. Organizations that score well on their ability to create vertical, diagonal and lateral connections show a better track record in agility, continuous improvement and innovation. Key qualities for global competitive advantage are ones where, if it chooses to, HR can play a leading role.

# 03

## Succeeding in a changing world

### KPMG's Global HR Transformation Center of Excellence

We believe that for HR to be successful, it must be configured to drive value through a system of performance that is specific to the organization, its strategy, marketplace, products and services. That is what we do at KPMG. We work with our firms' clients' HR functions to help configure them to deliver that value.

For HR to be successful, it must be **configured to drive value** through a system of performance that is specific to the organization.

KPMG's Global HR Transformation Center of Excellence works across our entire network of member firms to provide dedicated access to senior HR professionals. These individuals strive to cut through the complexity of our clients' HR challenges with advice and tools that can be applied around the world.

These senior professionals have broad business backgrounds – many have held senior HR positions in industry – as well as deep HR domain expertise and well-known market reputations. Together with some of the world's foremost academic researchers, they foster innovation and develop market-leading insights in HR.

With the support of the Center of Excellence, KPMG firms help HR executives and their leadership teams to make changes in the HR function that can help to drive business strategy. For HR to be the catalyst for change and deliver significant and sustained value, it must not simply respond to and be aligned with business strategy. On the contrary, it must contribute to and be an integral part of that strategy. We work with member firm clients to deliver this integration through the following five areas:



## CONFIGURATION FOR VALUE CREATION

KPMG HR advisors work with Chief People Officers and leaders in HR to design their unique configurations of HR strategy, organization and processes that lead to a distinctive system of high performance.

## ORGANIZATION

We work with clients to select the HR organizational model that best fits their current and emerging needs. We help them assess what services to centralize or decentralize and what areas might be best-suited to outsourcing or shared services. Our recent acquisition of EquaTerra\* makes KPMG firms among the largest global advisors for outsourcing and shared services. This combination provides clients with a range of capabilities – from strategy through to optimization – for HR organizations wanting to reduce costs and improve effectiveness and efficiency.

## PEOPLE

We help clients determine whether their HR function has the right number of people with the right skills in the right roles. After assessing current skills and gaps, we evaluate the potential and readiness for change and the opportunities to up-skill key roles. Then we develop competency models and role profiles for the future state and create a road map for a smooth transition to a demonstrably higher performing HR function.

## TECHNOLOGY

Large-scale transformation and technology deployment projects create significant change and can cause angst while implementation is underway. Our proven tools and approaches help member firms' clients balance competing demands and priorities while satisfying the needs of a variety of stakeholders. After analyzing each client's unique business needs, we work with them to evaluate the vast array of technology choices and providers available, develop the business case for technology investments and manage the implementation through to completion. Our recent acquisition of Optimum Solutions\* adds to the systems implementation capabilities of KPMG, particularly in the fast-growing area of human capital management applications and cloud.

## PROCESS

KPMG HR practitioners have deep experience in HR process optimization, encompassing all HR functions and programs, down to the policy level. Our approach incorporates leading practices, deep technical expertise across HR and highly-developed performance improvement methodologies and tools that enable us to accelerate results.

\*On February 18, 2011 the business of sourcing advisory firm EquaTerra, Inc. and its subsidiaries was acquired by KPMG LLP (US), KPMG Holdings Limited (UK) and KPMG International.

\*On October 17 2011, KPMG LLP, the U.S. audit, tax and advisory firm, announced that it completed the acquisition of Optimum Solutions, a provider of management consulting and implementation services for organizations utilizing Oracle Corp.'s enterprise software.

# 04

## Taking HR to the next level

Clients working with KPMG firms can meet the challenges of their complex HR transformations. The following examples demonstrate the measurable value we have generated for clients.

Clients working with KPMG firms can **meet the challenges** of their most complex HR transformation challenges.

### **A European telecommunications company transforms its HR function and strengthens its service culture**

The KPMG engagement team's insights into the HR function of one of the world's leading telecommunications companies has closely aligned the business and HR strategies, enhanced the employee experience and helped create a far stronger service culture – one that is more in tune with the company's business goals.

KPMG member firms advised on the standardization of HR processes and policies across Europe, helping eliminate inefficiencies and duplication. In an unusual move, outsourced shared service centers were brought back in-house, rebuilding them as a single European People Services Center staffed by high-caliber, multilingual people able to handle far more sophisticated tasks.

The KPMG team also helped this particular client to create centers of excellence containing dedicated HR specialists who can quickly address the high-level demands of the workforce.

These changes have taken service quality up to new levels and reduced operating costs. Human Resources is now considered to be a real partner to the business, advising on issues such as talent management and organizational structure.

### **A power and utilities company identifies a new HR technology portfolio**

Weighed down by disparate applications that were not serving the business well, a quasi-federal power and utilities company asked a KPMG member firm to re-evaluate the HR IT strategy and better align it with future business and HR strategies. Because most applications were not well-integrated, users had developed many manual workarounds. Self-service capabilities were under-utilized and many applications crashed frequently, slowing productivity.

The KPMG project team developed and analyzed an inventory of the company's HR applications and tools and conducted briefings with key stakeholders and customer management. They surveyed and interviewed three major audiences (technical, business and HRIS customers) to determine their needs.

As a result of these insights, company management was able to identify four high-level alternatives based on their strategic value, ability to address customer needs, ease of implementation, cultural fit, potential benefits and projected costs. Once an alternative was selected, the KPMG team created an HR IT strategy and road map for implementation that resulted in significant cost savings and closer alignment with the business and HR strategies.



**A global financial services firm streamlines its payroll service delivery model**

A major diversified financial services company asked KPMG HR professionals to design an efficient and scalable payroll service delivery model capable of serving twice as many employees within a few years. After assessing the current state of payroll processes and defining the future business requirements, the team helped the client evaluate alternatives based on our insights into policy, process, organization, metrics and sourcing considerations.

The alternative selected has the potential to increase payroll accuracy dramatically, shorten the payroll cycle by 75 percent and achieve multi-million-dollar annual savings in reduced labor and overpayments.

# 05

## Getting it done

Clients work with KPMG HR professionals for one simple reason: Our teams get the job done. Our HR advisors take organizations' biggest and most complex HR transformation challenges and work with them to help find the right answers, execute on the chosen strategies and capture the associated benefits.

KPMG's Global Center of Excellence offers firms' clients **market-leading thinking & HR innovation** which provides solutions and tools that can be applied around the world.

At KPMG, we cut through complexity. We believe no other firm understands HR and business like we do. We are business professionals with a deep understanding of people issues and how to measure the impact of HR so that it can achieve and sustain competitive advantage.

Our work is specific to your organization and its strategy, marketplace, products and services. KPMG's Global Center of Excellence offers firms' clients market-leading thinking and HR innovation, which provides solutions and tools that can be applied around the world. The center helps make KPMG HR professionals' insights robust and real, so that we can work to achieve clients' objectives and deliver the value they expect.

That's what we mean by getting it done: demonstrating a measurable impact on the organization's people agenda to create value and market leadership.

KPMG HR professionals work to align HR and business strategy, enhance service delivery, redesign processes and make HR teams more effective and efficient.

Our teams have a proven track record of delivering sustainable, competitive advantage through people.

In other words, we're the experts when it comes to getting it done.



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Designed by Evaluateserve.

Publication name: Transforming the HR function for high performance

Publication number: 121084a

Publication date: October 2012