

Slovak firms have to learn to outsource HR. EU aid audit. IT outsourcing.

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Firms hoarding HR tasks

Personnel departments spending too much time on chores and not enough on key tasks

BY MARTA ĎURIANOVÁ
Spectator staff

HUMAN resources departments still spend a significant part of their working time on administrative functions at the expense of higher added value activities such as consultancy. Few companies have learned to outsource activities that do not bring strategic value to other departments or the company's management.

Hewitt Associates recently analysed the HR functions of 50 companies in Europe and North America, looking specifically at the progress they had made over the past 10 years. According to the research, HR has started to move towards a more business-focused role, but has yet to achieve its real vision.

"Many of the problems facing HR departments are associated with HR delivery. An excessive amount of time is often devoted to tasks such as customer service, HR and benefits delivery and general administration, which leaves little time for effective business consulting. HR heads need to look carefully at their delivery arrangements to ensure they maximise efficiency," said Michael Williams, a senior consultant in Hewitt.

He continued: "There are options - HR departments should consider possibilities such as shared service centres, investing in HR technology, employee self-service and outsourcing various functions."

HR outsourcing providers in Slovakia

HR outsourcing in Slovakia has been shaped by the position of HR departments in companies



Modern language instruction can be a typical activity for outsourcing.

in the country. Until the fall of communism in 1989, HR departments tended to be focused on administration, and human capital was not seen as an important part of a company's resources, according to Miroslav Poliak, a partner with Amrop Jenewein Group (AJG).

This changed with the transition to a market economy and the presence of foreign investors, who brought with them the know-how that was lacking and introduced effective human capital systems.

Foreign investors focused on efficiency, cutting costs, and optimising processes, a process that led naturally to the creation of HR outsourcing in Slovakia. However, the number of qualified and experienced suppliers of top HR services in Slovakia was limited, having started to develop only after 1989 as local start-ups or branches of foreign suppliers.

According to Poliak of AJG, the first HR firms developed partial services such as payroll, recruiting, training and education. Later, particularly

after 2000, those services became more integrated, and the firms started providing more complex HR outsourcing.

"Currently, [HR] firms offering complex services in a specific area such as recruitment, training, motivation and others prevail on the market. Very few companies are able to provide complete HR outsourcing as a full replacement for HR departments," Poliak told *The Slovak Spectator*.

Departments that outsource

The resistance of Slovak companies to using external firms extends beyond HR to other areas well, Poliak noted. Cooperation with an external consultancy firm is often in last place on the list of business strategies.

"Sometimes they discover only at the last moment that a problem could have been solved faster and cheaper with an external partner. Many Slovak managers who have not worked in an international environment do not know that there are specific processes or methods that can be used in specific situations, and that these can be delivered by an external partner," Poliak said.

The AJG executive said that managers often try to do everything on their own or with their own people. "As a result, they don't have time even for their priorities, or they address only their priorities and neglect other activities, which can become dangerous after some time."

Deciding what activities an HR department should outsource and what it should do in-house is difficult. Poliak emphasizes it depends largely on a company's priorities.

If, for example, hiring new employees is a priority in the initial stages of a company, HR department should focus on this activity and outsource activities it does not have time for. If a company is at a stable stage, it should focus more on the quality of human capital and outsource

other activities. "However, even this doesn't have to be a general rule," Poliak said.

Gerard Koolen, managing partner of Luger & Makler, said the greatest weakness of HR departments in Slovakia and elsewhere is that they do not regard themselves as "profit & loss" centres.

"The return on the investments made in HR is difficult to measure and express financially. Companies invest heavily in training, search and selection, job grading, and assessments, but they do not measure the profit on these investments.

"Further, when considering outsourcing an activity, such as personnel leasing or any other HR task, HR managers tend to look at the costs only, and not to consider the possible profits. I think you can only make a wise outsourcing/insourcing decision if you take both sides into consideration," Koolen explained.

Activities that can be outsourced include training, search and selection, payroll, and one-off projects such as assessments, job grading, even personnel leasing for 10-30 percent of the headcount. "If these activities are smartly outsourced, the return on these investments is positive," Koolen said.

Mariana Turanová, a managing consultant with Target Future, said it is usually effective to outsource recruitment, training (not planning but the organisational aspects such as securing teachers, premises, etc), and the salary and payroll agenda. In this way, HR departments have enough time for crucial activities such as gaining and retaining key employees, and supervising the efficiency of their employees.

Ingrid Grebecová, executive director of Trenkwalder Management Partners, added that executive searches for top managers is commonly outsourced because such candidates are usually not offered on the general job market.

Getting a bang for the HR buck

PWC Slovensko study links effective HR management to greater profits, productivity

BY MARTA ĎURIANOVÁ
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IF AN HR department is not managed effectively, it may be time to consider outsourcing some personnel activities. However, how do you know if your HR department is not performing as it should?

PricewaterhouseCoopers (PwC) Slovensko says an effective HR department should regard staff as capital that may continuously be improved through investments and benchmarking, rather than as a cost.

According to PwC, effective HR management rests on three important principles: first, HR strategy should support the business strategy of the entire company; second, HR efforts should be focused on four tasks - strategy, consultancy, advisory and administration - and managers should be aware of how much time is being spent on each; and third, HR performance should be benchmarked against key competitors on financial, productivity, behavioural and skills grounds.

The powers of the HR management should be clearly defined in keeping with the company's strategic objectives. The new HR challenges are higher value added activities such as filling key positions, developing action plans for each individual, development centres, training programmes, workshops, and coaching and mentoring. The importance of these functions allow HR departments to become an equally important cog in the business as other departments and the company's top management.

In its regular HR Benchmarking study, PwC Slovensko evaluates the effectiveness of HR departments at companies in Slovakia. It looks at the relationship between HR management and the financial results of the companies.

In the first phase of its 2005 study, PwC tracked what financially successful and fast-growing companies do differently in their HR management from other companies. They found that these companies were better at controlling costs and securing a higher return on their HR investments.

"These companies are able to get back Sk4.1 for each crown invested into their employees, while other companies get only Sk1.5 back," Natália Ďurigová and Zuzana Lemaire from PwC Slovensko told *The Slovak Spectator*.

The study also examined what financial results were reached by companies with the best HR management conditions (the latter was defined as those whose HR strategy is formulated in a written document, whose HR

director is part of the top management, and which regularly assess the benefits of HR management).

"These companies are interesting because while they show an almost identical growth in turnover to other companies, they have 20 percent higher labour productivity and 23 percent higher profit per employee," Ďurigová and Lemaire said.

In addition, companies that regularly assess the benefits of HR management reached a 97 percent higher profit per employee on average than companies without such regular assessments.

From the strategic point of view, the position of an HR director in a company's organisational structure is also important, as is who controls HR department activities.

If an HR director is part of a company's top management, HR strategy tends to be more in line with the company's overall strategy. Similarly, in companies that regularly change their corporate strategy, the HR director reports directly to the general director.

"We can conclude that when HR management conditions are optimal, they not only improve the quality of HR management, but they also have a positive impact on a company's financial results," the PwC managers said.

Two-thirds (64 percent) of the companies surveyed by PwC use either full or partial outsourcing for at least some of their HR activities.

Outsourcing is most often used for recruiting and selecting staff (48.2 percent of companies) with annual costs coming to Sk3,925 (€105) per full-time employee (FTE); these activities tend to involve partial outsourcing.

For training and developing staff (46.9 percent of companies) the annual costs of full outsourcing come to Sk14,500 per FTE, or Sk10,255 per FTE for partial outsourcing.

The third most outsourced activity is health and safety at work, which is fully outsourced by 32.1 percent of companies. Payroll services are outsourced with a similar frequency for annual costs of Sk7,745 per FTE (full outsourcing) or Sk1,259 per FTE (partial outsourcing).

PwC Slovensko said it is optimistic about the way in which HR departments at Slovak companies are developing, among other reasons because companies are more and more interested in taking part in HR benchmarking studies.

In the initial year of the PwC study in 2000 only 20 companies took part, by 2005 the number stood at 81. This year, 108 companies have so far expressed interest in taking part in the HR benchmarking study.

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