

ADMINISTRATIVE AND SUPPORT SERVICES BENCHMARKING REPORT

**HUMAN RESOURCES PERFORMANCE FINDINGS
FY 2011/12**

Contents

Section	Page
1. Commentary	3
2. Highlights	7
3. Cost	9
4. Efficiency	16
5. Effectiveness	29
6. Quality of management information	38

1. COMMENTARY

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Commentary

The management truism that “people are our most important asset” resonates strongly in government.

Because knowledge-based activities make up such a high proportion of day-to-day business and staff costs are a major component of overall expenditure, attracting and retaining the right people is crucial to the financial and non-financial performance of the State sector.

Research indicates that high performing organisations have substantially better talent management practices than poor performing ones.¹ Not surprisingly, chief executives around the world say that strengthening talent management is their number one priority and most likely near-term investment in organisational change.²

New central agency requirements for workforce plans to accompany Four Year Budget Plans reflects the need for people strategies that underpin long term plans.

Too often, strategic HR activities like talent management are displaced by transactional HR activities.

Cumbersome routine processes and low levels of automation give HR staff limited time for HR business partnering, or activities that support and challenge line managers to execute the agency’s people strategy. In some cases, HR staff lack not only the time, but also the capability, to partner with the business.

1. High performers are those in the top 10% of companies by profit margin and revenue growth, and low performers are those in the bottom 10% of companies by profit margin and revenue growth. Strack, R. (et al.). (2012). Realising the Value of People Management: From Capability to Profitability. Retrieved from https://www.bcgperspectives.com/content/articles/people_management_human_resources_leadership_from_capability_to_profitability/?chapter=2 (accessed 10 September 2012).

2. PricewaterhouseCoopers. (2012). 15th Annual Global CEO Survey. Delivering results: Growth and value in a volatile world. Retrieved from <http://www.pwc.com/gx/en/ceo-survey/index.jhtml> (accessed 17 October 2012).

Commentary

BASS results this year show the need for transformational change in HR services. We should celebrate our successes as an HR community: HR service costs are lower and practices are reported to be more mature than in any other BASS reporting period. But we should also be clear about our performance gaps. We are not efficient by international standards, and we need to deliver more value to our agencies through business partnering. These improvements require transforming HR service delivery models: an expanding body of evidence shows that incremental change on an agency-by-agency basis is an inadequate response to our HR service performance challenges.

Seven agencies are working together to establish better, more effective HR services that make a stronger contribution to overall agency performance. Analysis to date of leading practice HR service delivery models shows that we can reduce costs out of our transactional HR activities, reinvest savings in strategic HR services, and realise savings. Working across agencies to leverage knowledge and scale, streamlining and automating processes, and building people capability are fundamental to the success of this programme.

Commentary

The Optimise HR transformation is based on a shared model for future HR services. Scoping of such a model is being explored through Optimise HR and complementary programmes like MBIE’s all-of government contract for recruitment.

Figure 1: Future state vision for the Optimise HR programme



More than ever before, agencies are working together to improve HR services. I encourage the agencies in this report to use their results not only as a basis for their own improvement, but also as a way to identify opportunities to collaborate with other agencies.

2. HIGHLIGHTS

Highlights

HR service costs are decreasing. Agencies spent \$154.4m on the HR function in FY2011/12, which is down \$18.0m (about 11 percent) from FY2009/10 when adjusted for inflation. Agencies reported a nominal spending reduction of \$1.7m (about 1 percent) in FY 2011/12.

The cost of the HR function should be assessed in light of its efficiency, effectiveness, and business value.

Given the importance of HR function performance to overall agency performance, a low cost HR function is not attractive unless it meets agency requirements and value for money expectations.

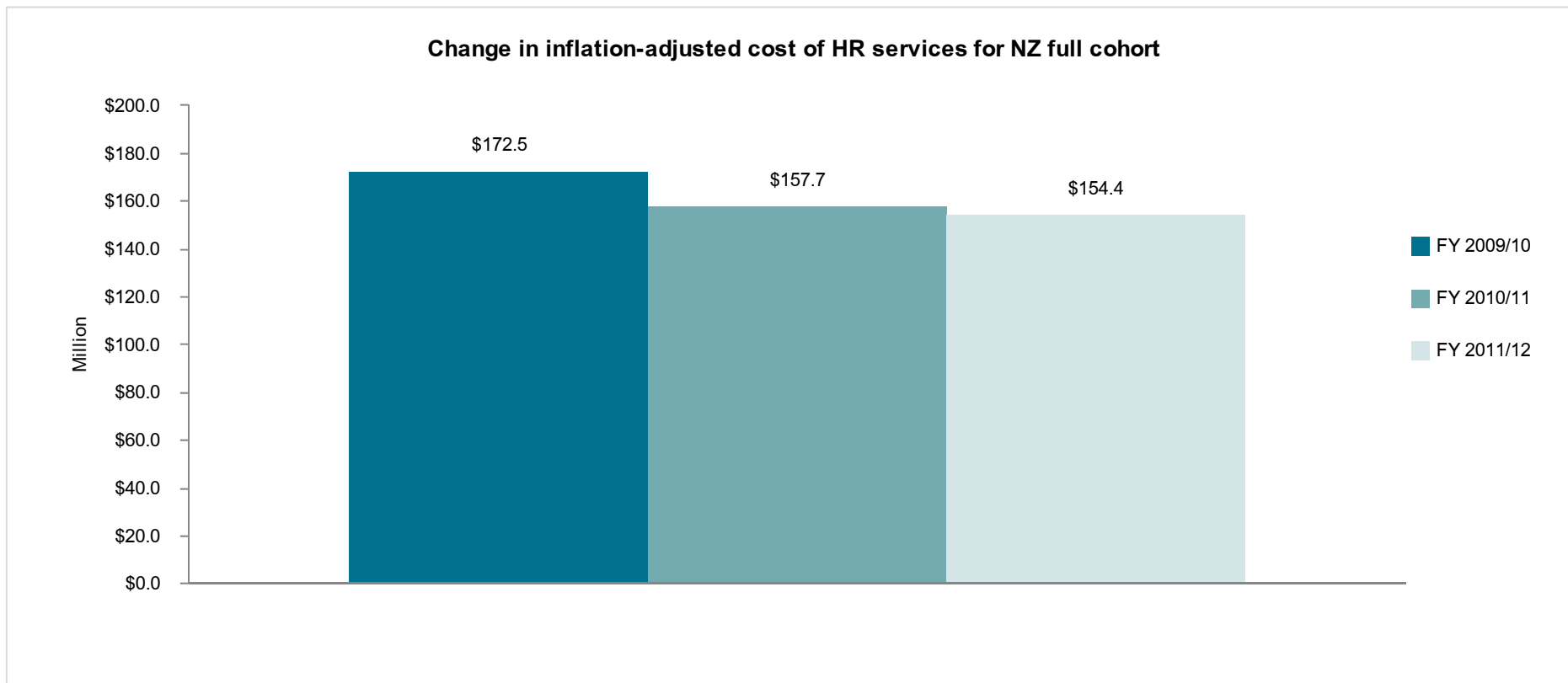
HR services are becoming less efficient with significant opportunities for efficiency-based savings. Since FY 2009/10, the total cost of HR per employee has increased. Approximately \$40 million in annual gross savings are possible if agencies below median efficiency in their cohort for cost of HR per employee met that benchmark.

Effectiveness indicators show mixed results and room to improve. HR management practice indicator scores have increased to over 75 percent, which is higher than UK comparators. Sickness absence rates are flat and reflect higher rates of absence than international benchmarks. The rate of new hires in the same role after 12 months is considerably lower than international comparators, and this result has declined year-on-year overall and in each cohort.

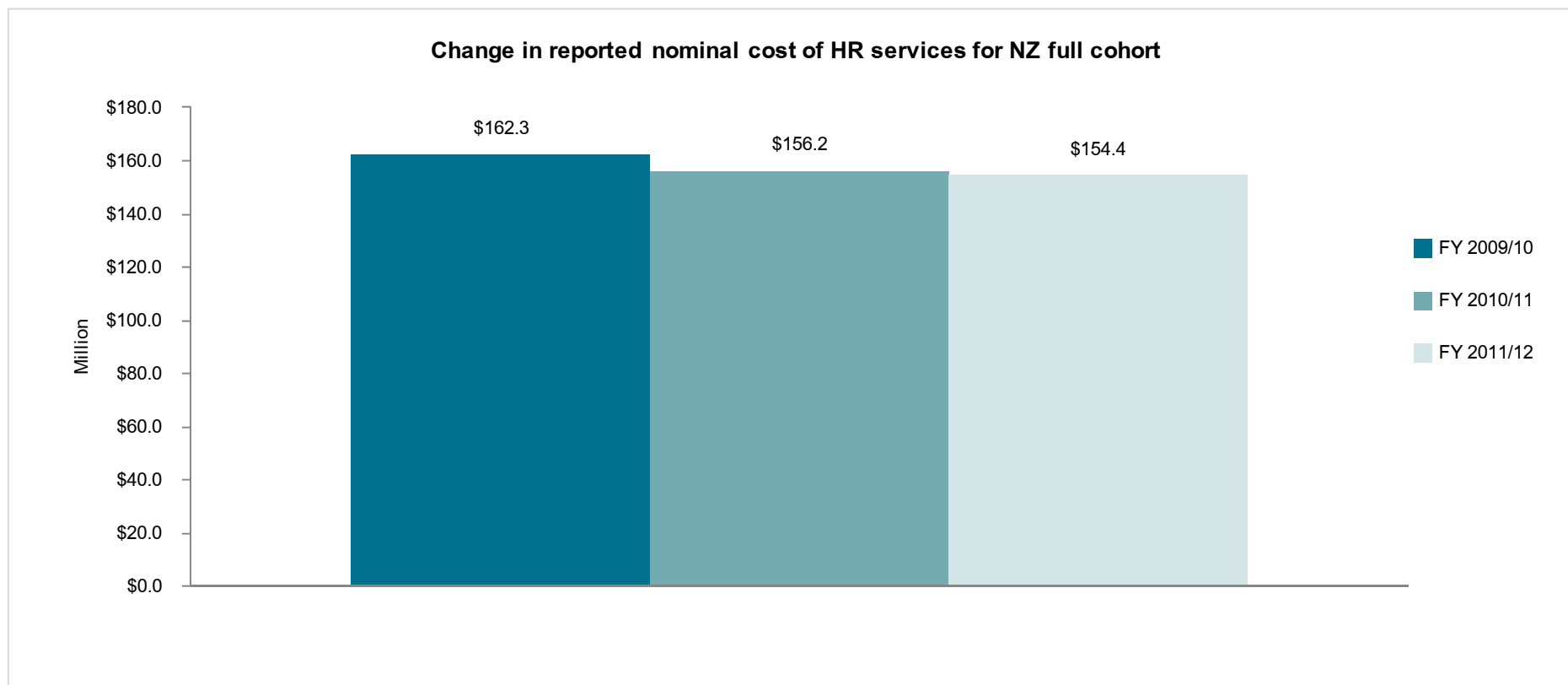
3. COST

Cost findings include total spending overall and by cohort. This section also provides information about changes in spending since the previous reporting period both in nominal and inflation-adjusted terms.

Agencies spent \$154.4m on the HR function in FY2011/12, down \$18.0m (or 11.1 percent) from FY 2009/10 when adjusted for inflation



Agencies reported a nominal spending reduction of \$1.7m (or 1.1 percent) in FY 2011/12



A net reduction of \$1.7m is the result of 17 agencies spending \$11.2m less and 12 agencies spending \$9.5m more in FY 2011/12

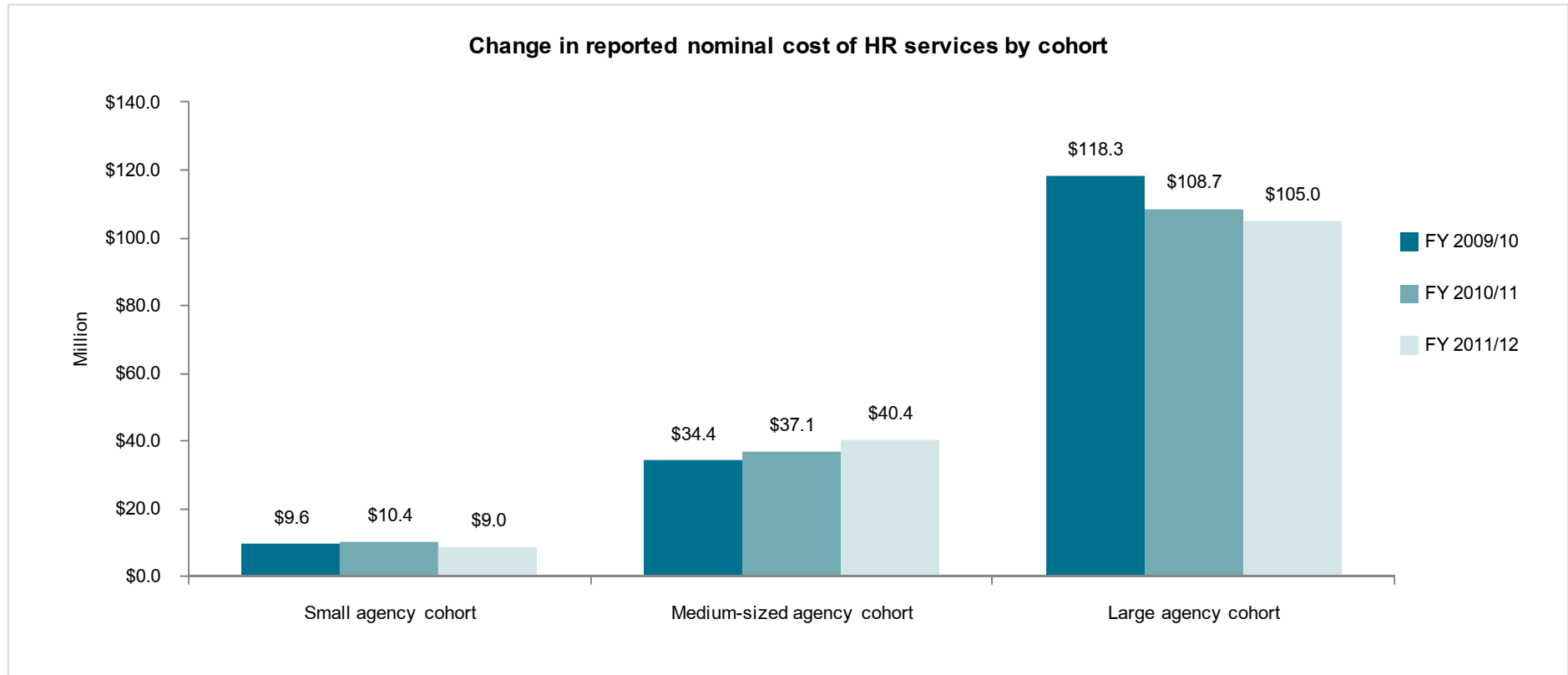
Three agencies made up \$8.5 million of the reported total of \$11.2 million in reduced spending.

- Agencies with the greatest reductions in HR cost cited the following reasons: personnel savings from organisational restructure; and reductions in outsourcing and other costs as a result of a departmental merger.

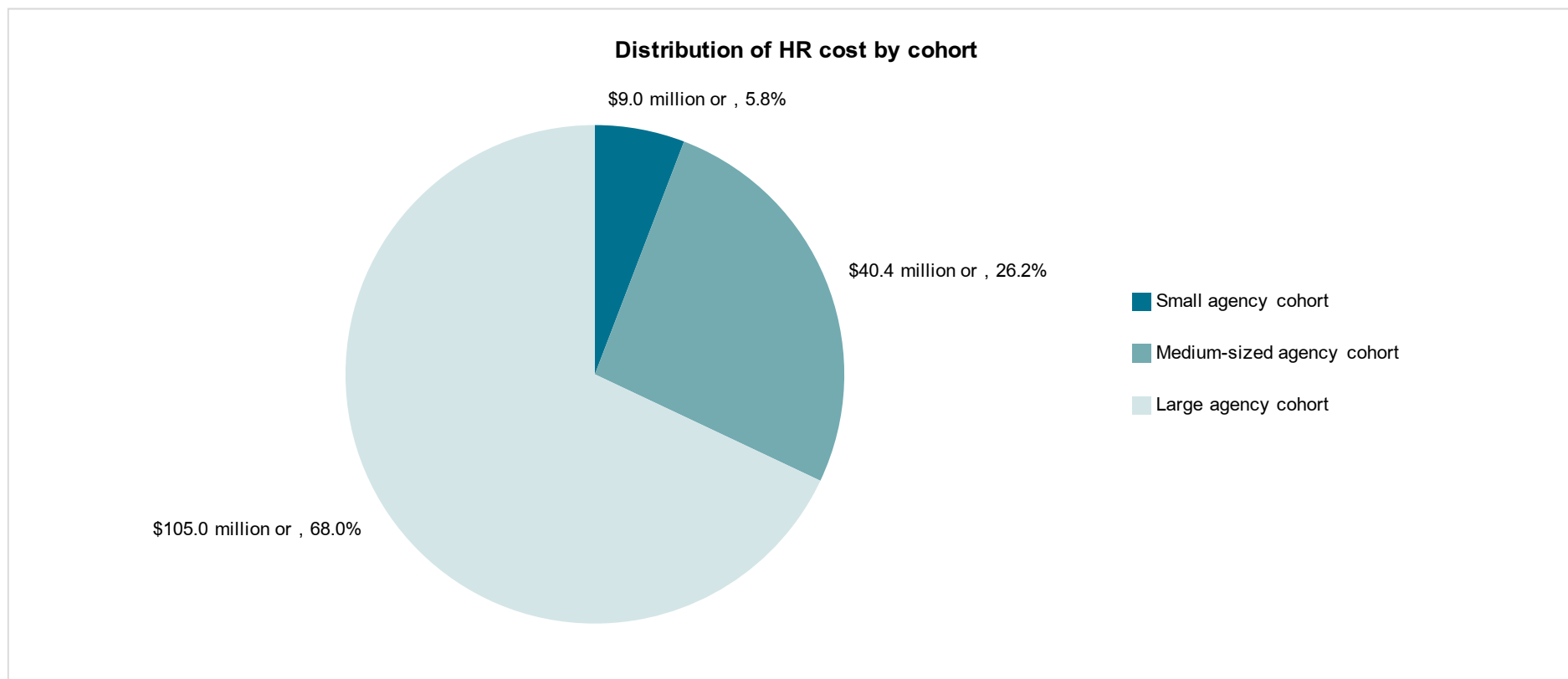
Of the 12 agencies that reported spending increases totalling \$9.5 million, three agencies made up \$4.9 million.

- Agencies with the highest increases in spend cited contributing factors including: organisational restructure of the HR department; costs associated with a wage round negotiation; and significant change within the department that required greater outsourced and other resources.

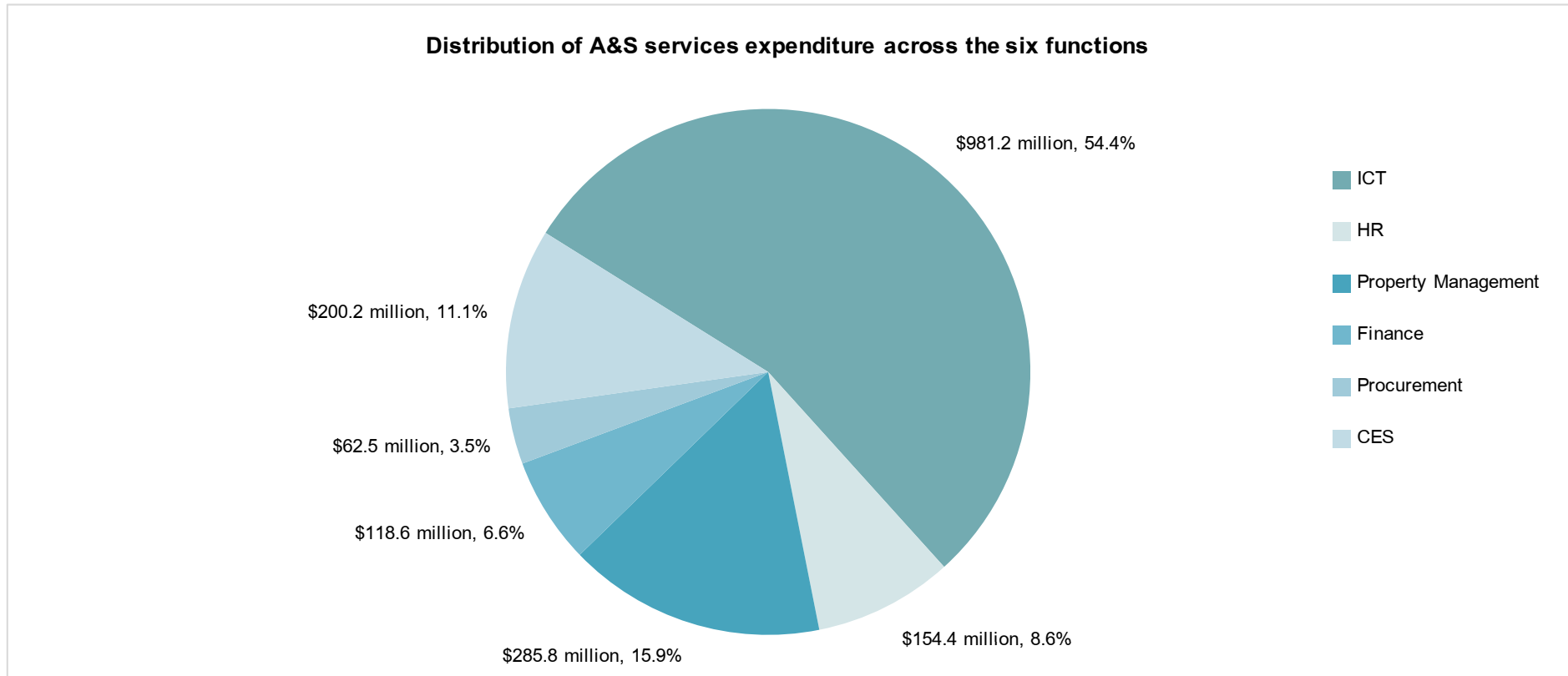
Only the large agency cohort has reported year-on-year reductions in HR service expenditure



Medium-sized and large agency cohorts make up 94.2 percent of reported HR service expenditure in FY 2011/12



HR makes up 8.6 percent of A&S service spending, making it the fourth largest function by reported expenditure



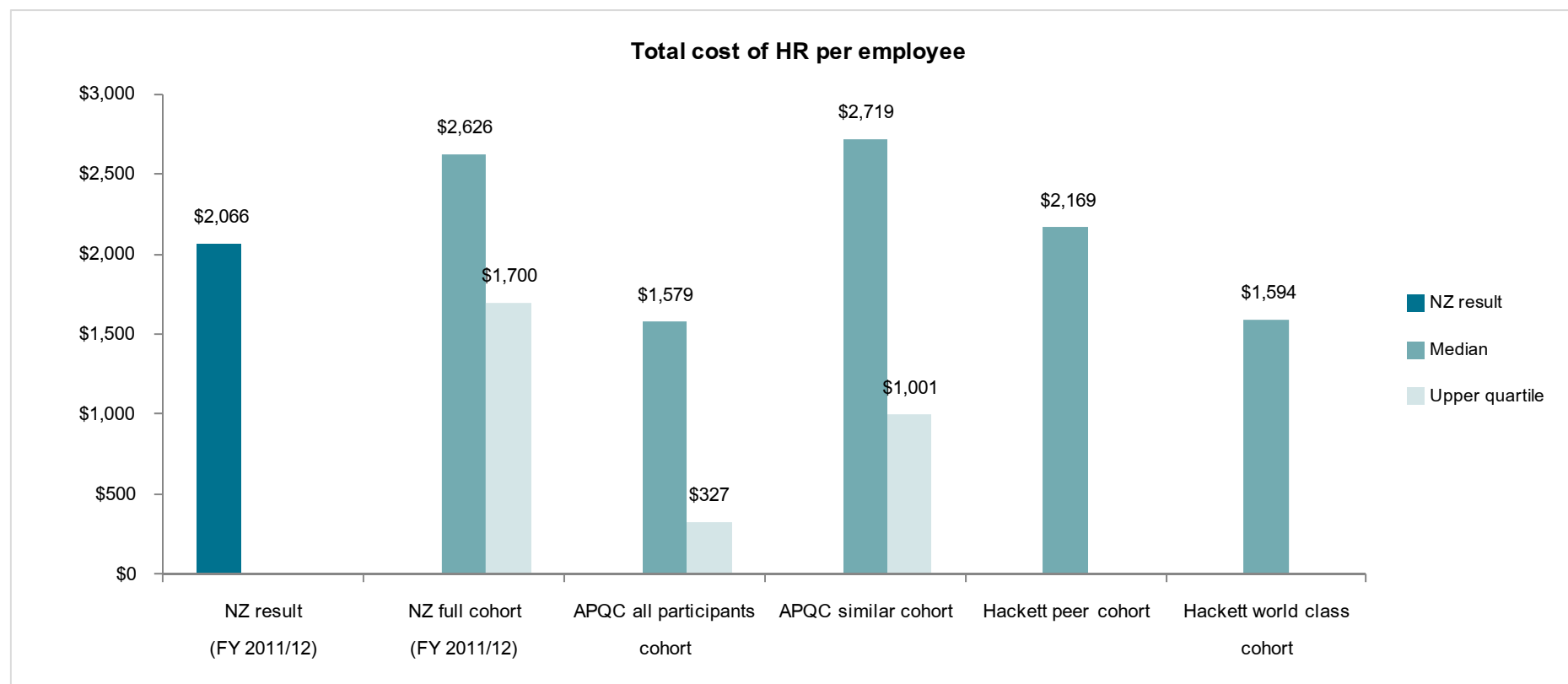
4. EFFICIENCY

Efficiency findings report on the ratio of input to output (or the use of resources in a manner that minimises cost, effort and time) as well as opportunities for efficiency gains and their implications for potential gross cost savings. This section also compares cohort efficiency with international comparators (American Productivity and Quality Center (APQC) and The Hackett Group) and examines changes in efficiency since previous reporting periods.

Efficiency findings are based on two metrics:

- the total cost of HR per employee, where a lower cost is considered more efficient
- the number of employees per HR FTE, where a higher number is considered more efficient.

The cost of HR per employee is \$2066, and median efficiency shows significant room for improvement when compared with top performers

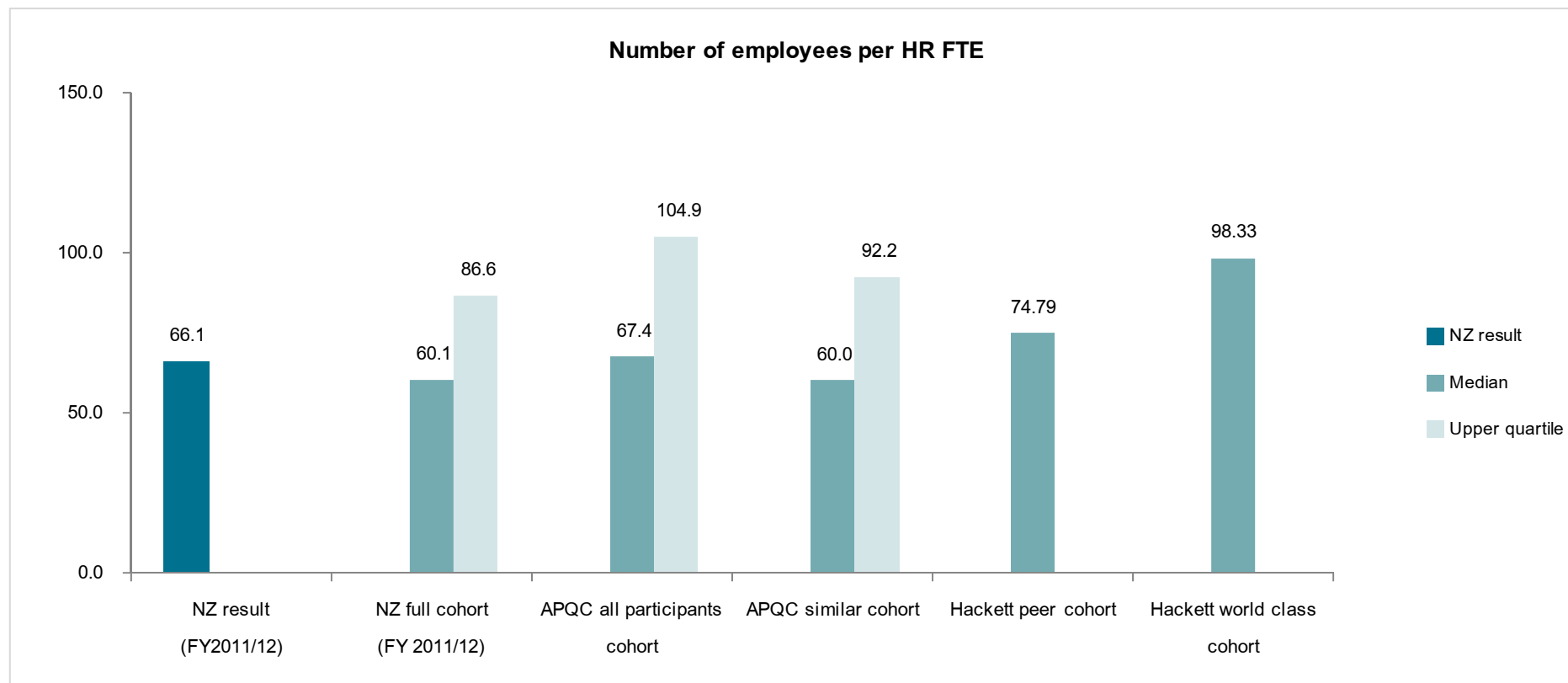


This graph shows that while the NZ result is lower than the APQC similar and Hackett peer cohorts, it is higher than APQC all participants and Hackett world class cohorts, and higher than upper quartile performers. In addition:

At the median, the NZ full cohort (\$2,626) is 66 percent more expensive than the APQC all participants cohort (\$1,579) and 65 percent more expensive than the Hackett world class cohort (\$1,594).

At the upper quartile, the NZ full cohort (\$1,700) is 420 percent more expensive than the APQC all participants cohort (\$327) and 70 percent more expensive than the APQC similar cohort (\$1,001).

The number of employees per HR FTE in FY 2011/12 is 66.1, showing lower efficiency than international benchmarks, especially at the upper quartile

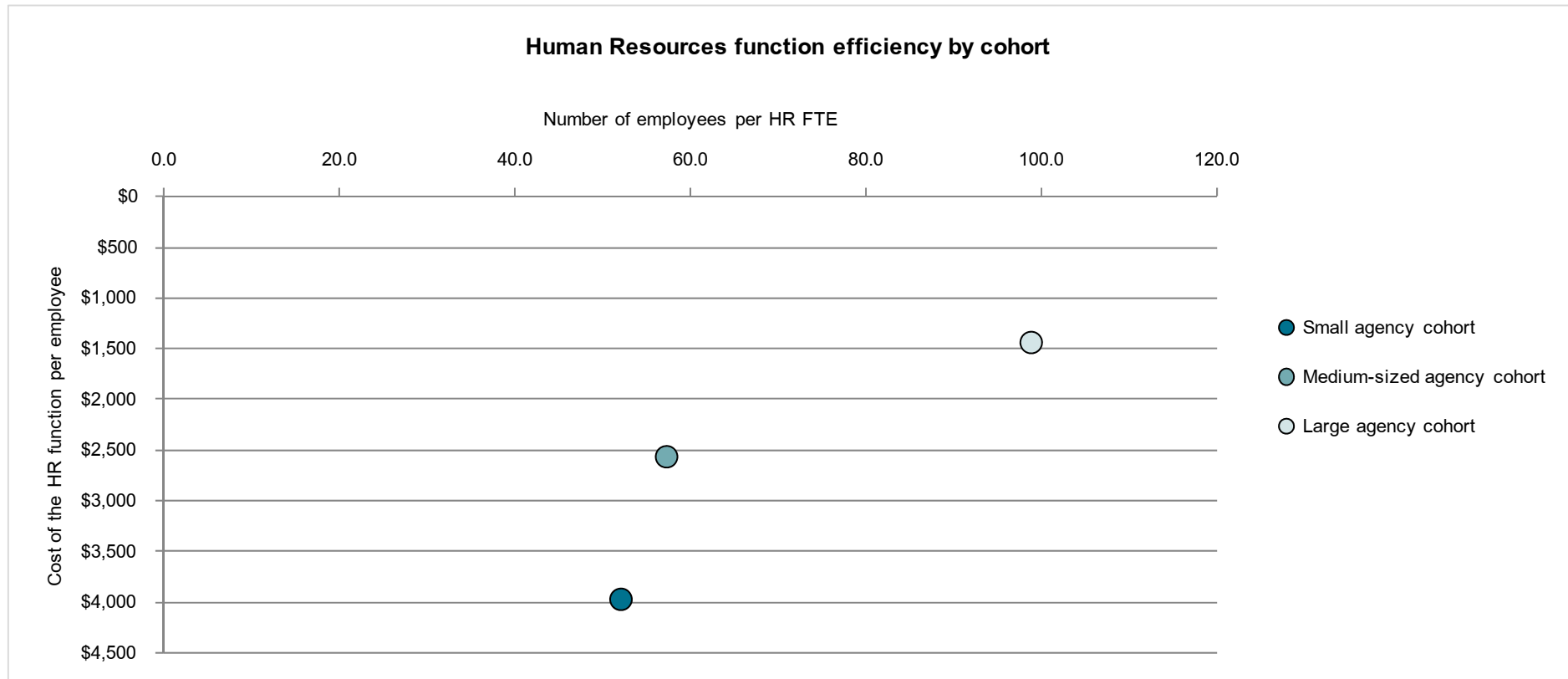


This graph shows that the NZ result is higher than the APQC similar cohort, but it is lower than APQC all participants and Hackett peer and world class cohorts, and lower than all upper quartile performers. In addition:

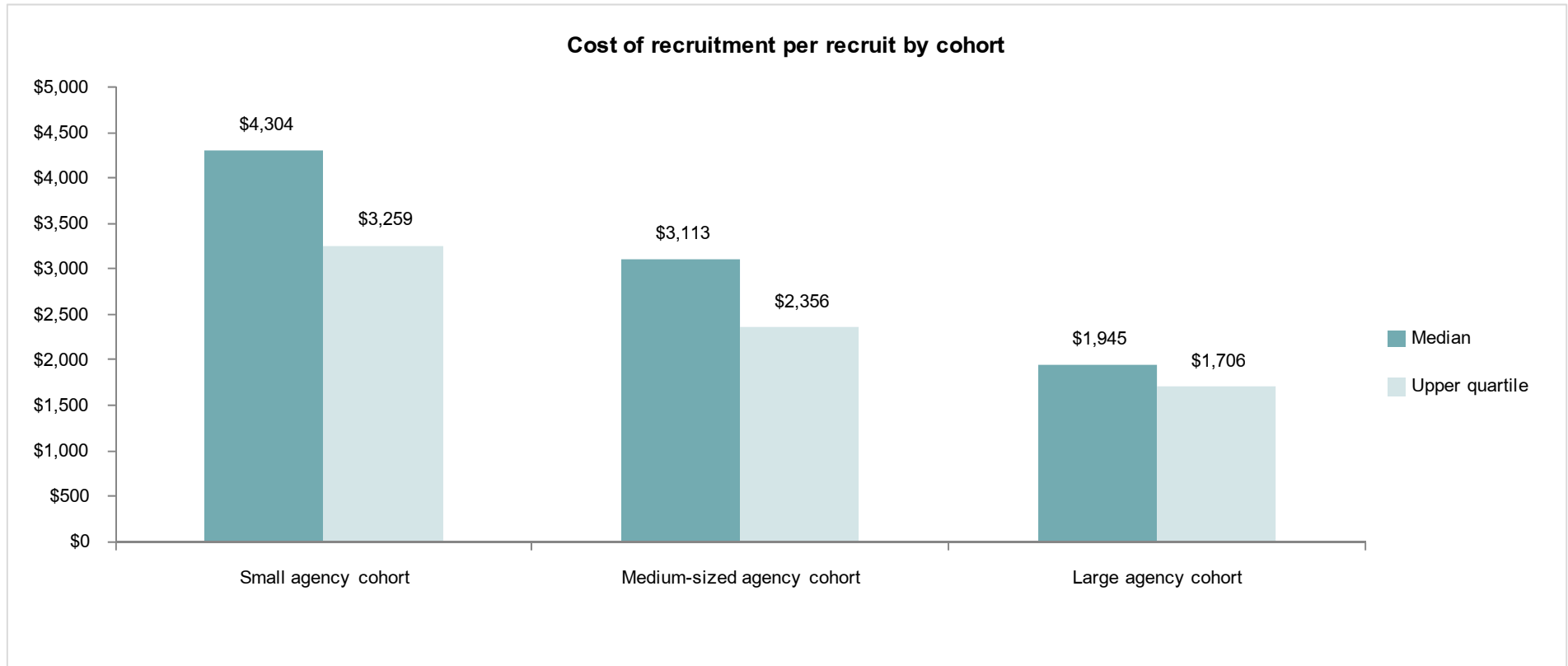
At the median, the NZ full cohort (60.1) is 11 percent lower than the APQC all participants cohort (67.4) and 39 percent lower than the Hackett world class cohort (98.3).

At the upper quartile, the NZ full cohort (86.6) is 16 percent lower than the APQC all participants cohort (104.9) and 4 percent more expensive than the APQC similar cohort (92.2).

The large agency cohort has more efficient HR services than the other cohorts by both HR efficiency measures

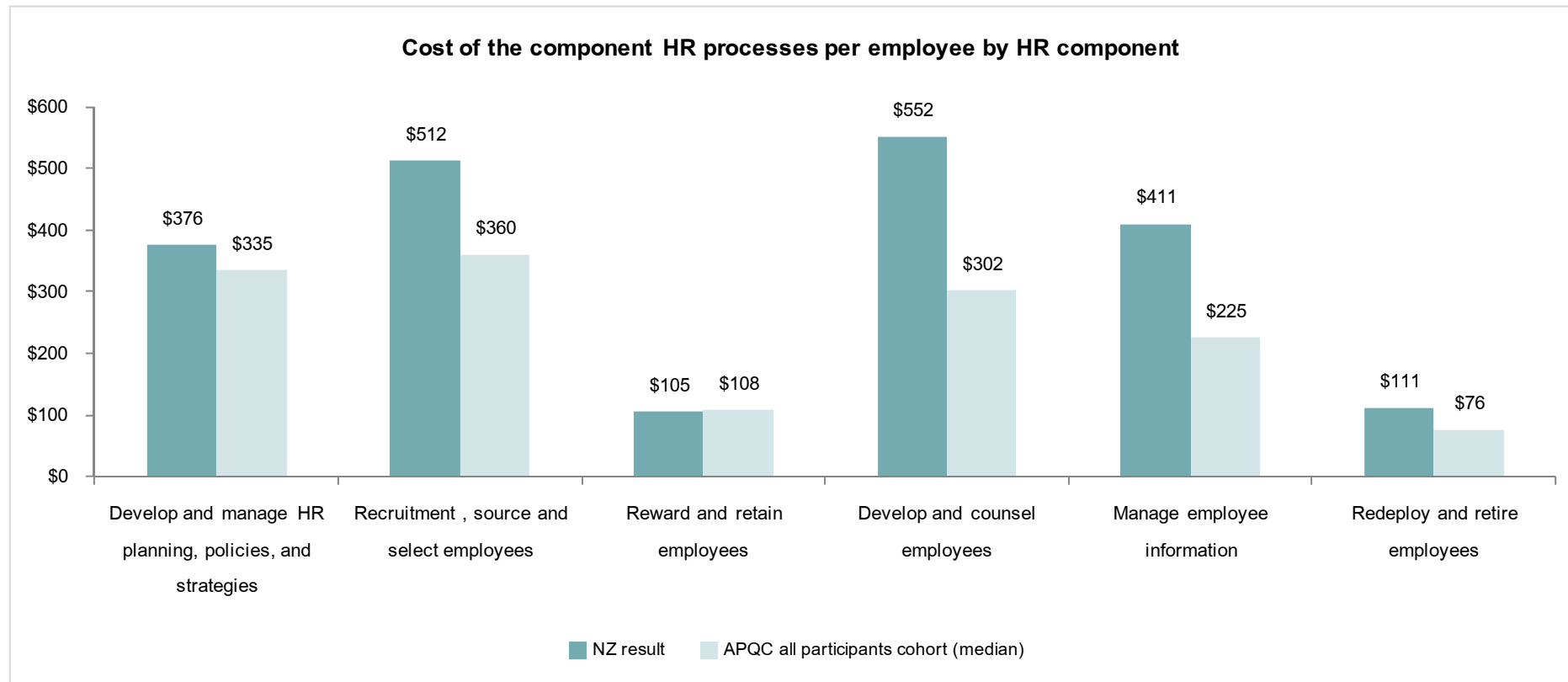


The relationship between scale and efficiency can also be seen in the different costs of recruitment among the NZ cohorts



At the median the small agency cohort costs are 121 percent higher than the large agency cohort, and at the upper quartile they are 91 percent higher

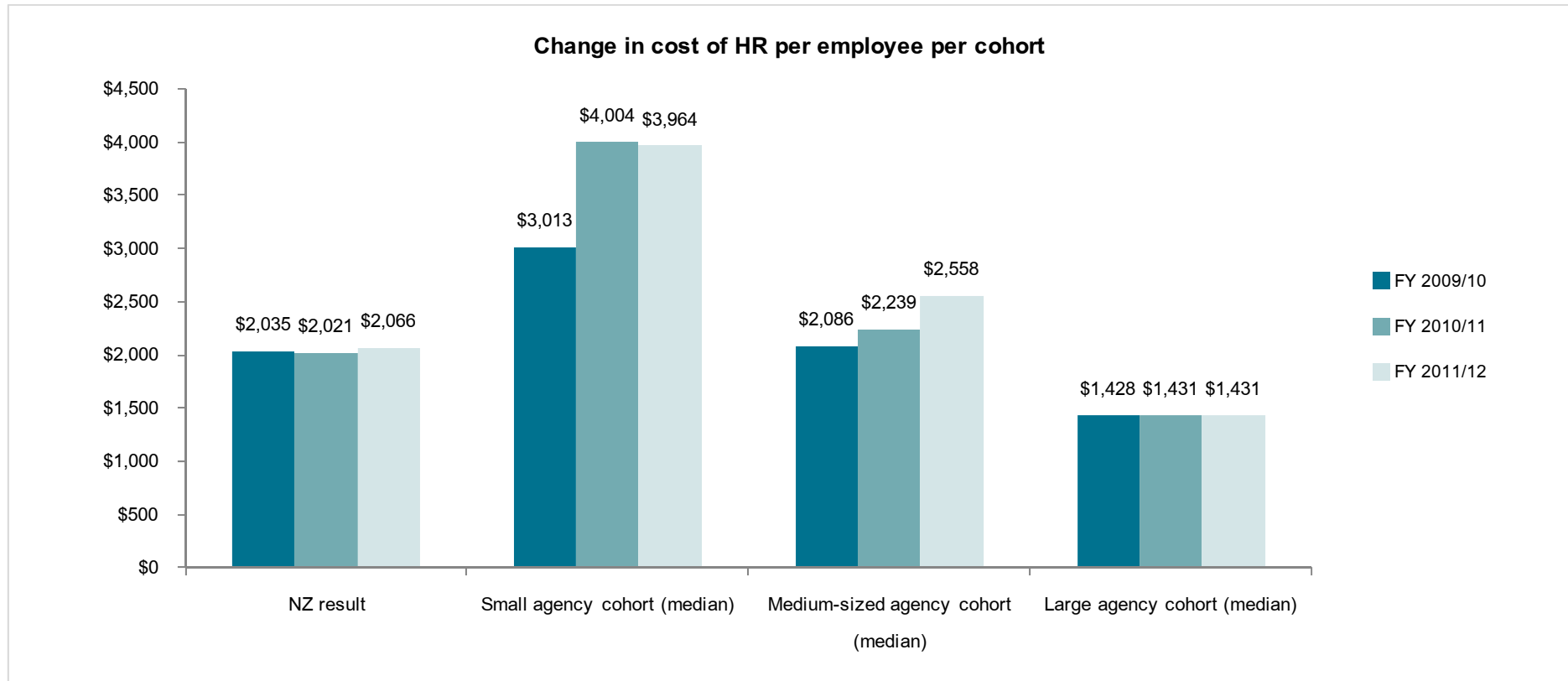
The HR processes: develop and counsel employees; recruit employees; and manage employee information, are particularly expensive relative to benchmarks



The differences between median APQC and the NZ result in FY 2011/12 are:

- Develop and counsel employees – 83 percent
- Recruitment, source and select employees – 42 percent
- Manage employee information – 83 percent

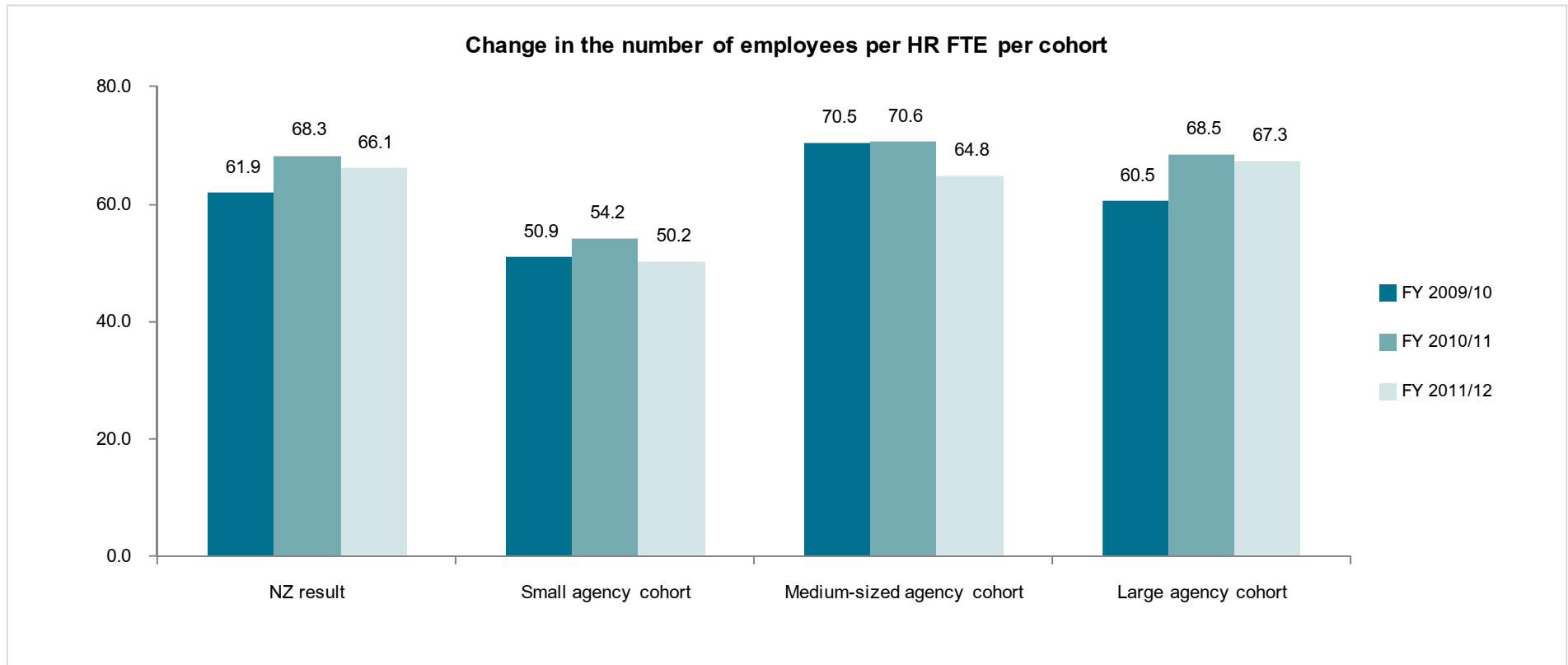
When measured by the cost of HR per employee, HR services are less efficient than they were in FY 2009/10, with no cohorts making gains



The efficiency gap between the small agency cohort and the large agency cohort remains the widest.

In FY2011/12, the small agency cohort median HR costs per employee were 177 percent higher than for the large agency cohort

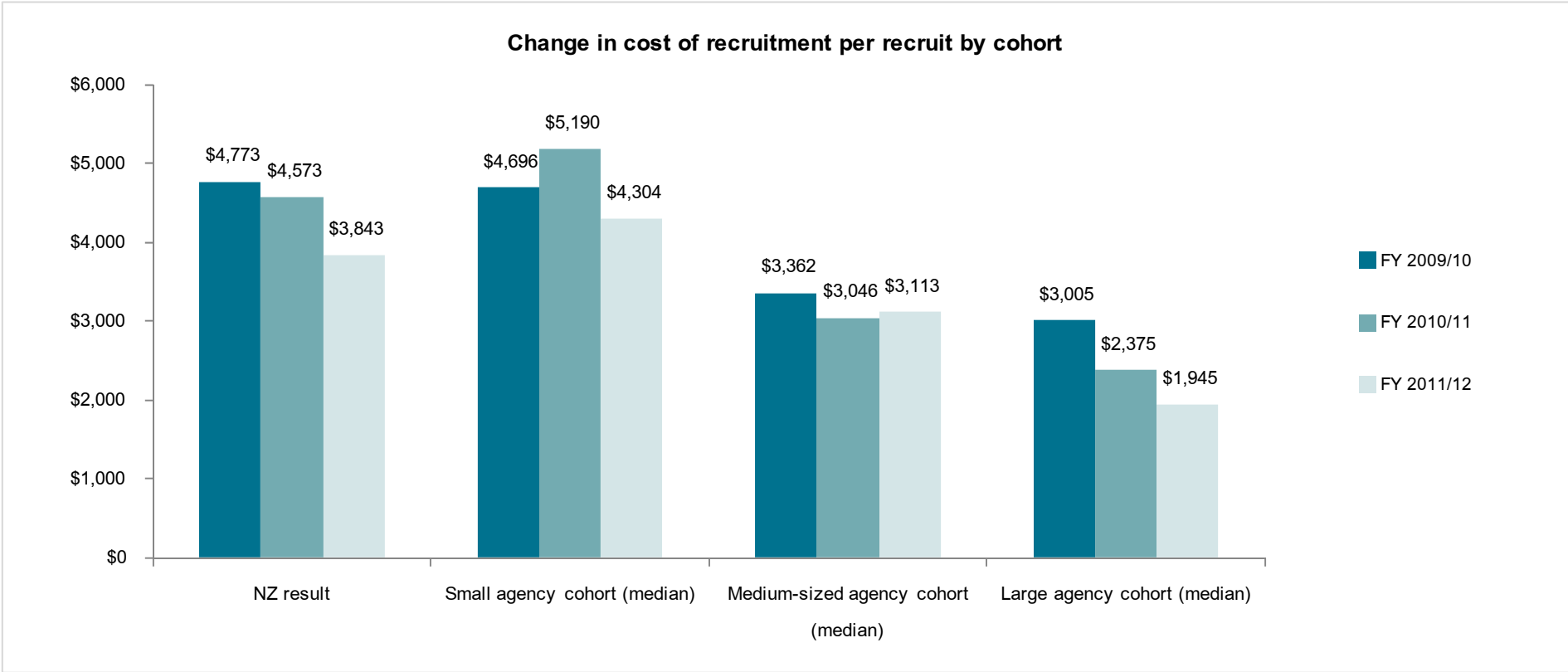
When measured by the number of employees per HR FTE, overall HR service efficiency has remained flat since FY 2010/11



The NZ result for the number of employees per HR FTE has increased from 61.9 in FY 2009/10 to 66.1 in FY 2011/12.

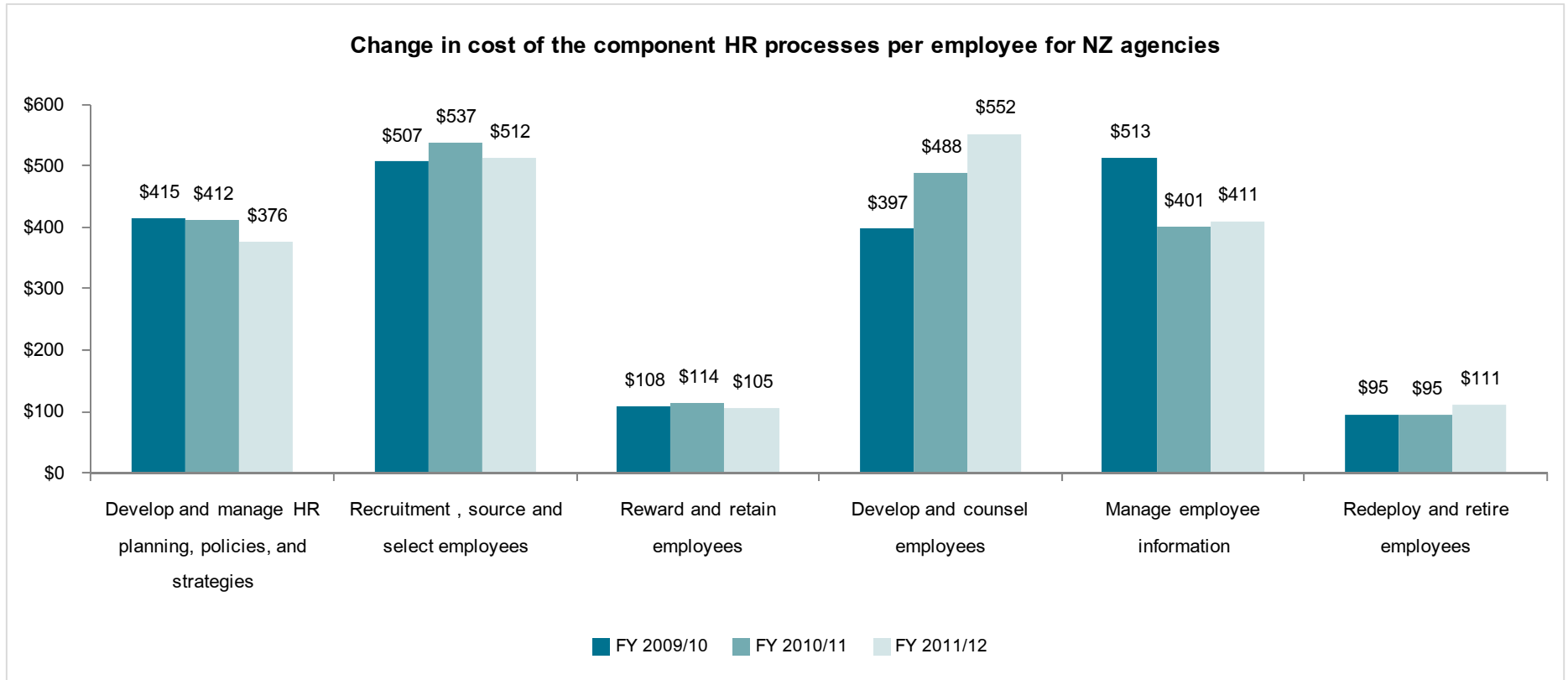
Note that lower HR FTEs can also reflect greater use of outsourcing, and therefore may not reflect greater efficiency

For the NZ full cohort, the median cost of recruitment per new recruit has reduced overall and in each cohort since FY 2009/10



The NZ result for the cost of recruitment per recruit has reduced by \$931 or 20 percent since FY 2009/10

Overall, agencies have not delivered comprehensive process efficiency gains since FY 2009/10

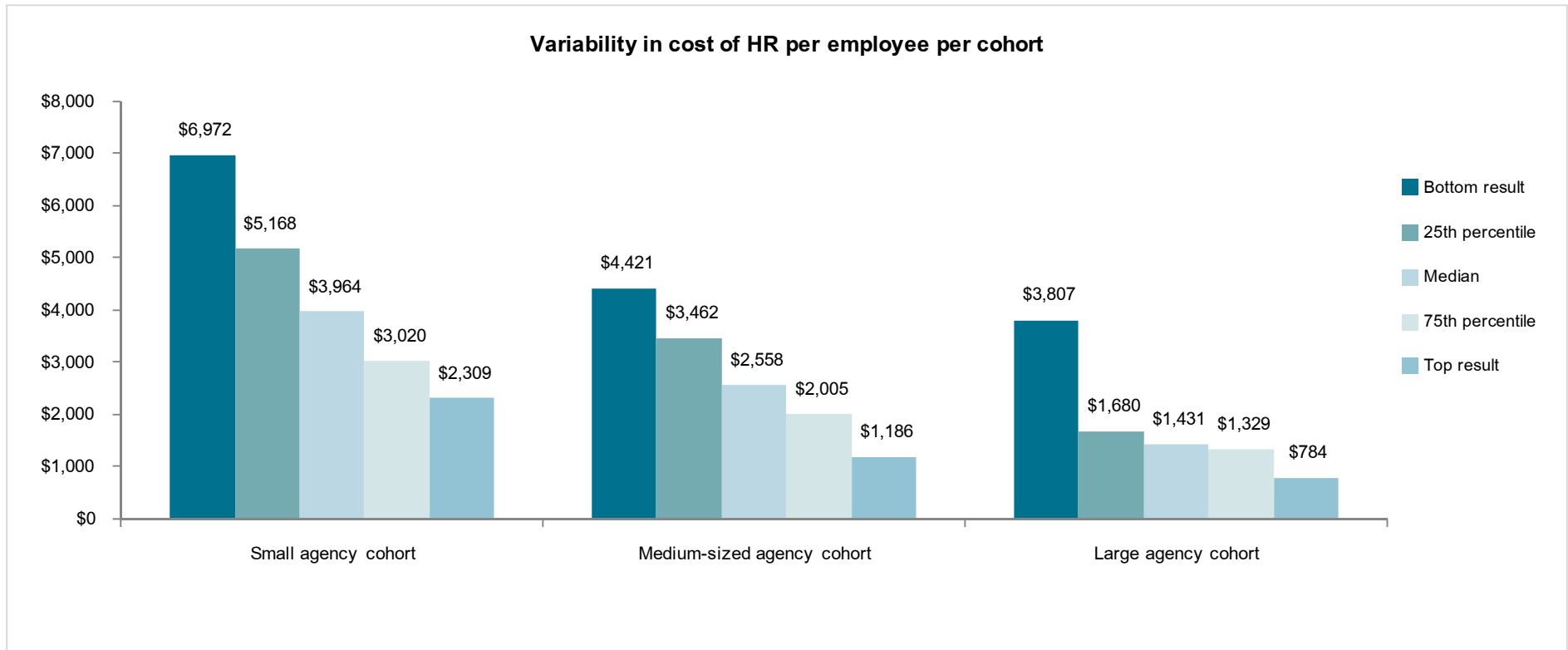


Only two processes have reported efficiency gains since FY 2009/10: develop and manage HR planning, policies and strategies; and manage employee information

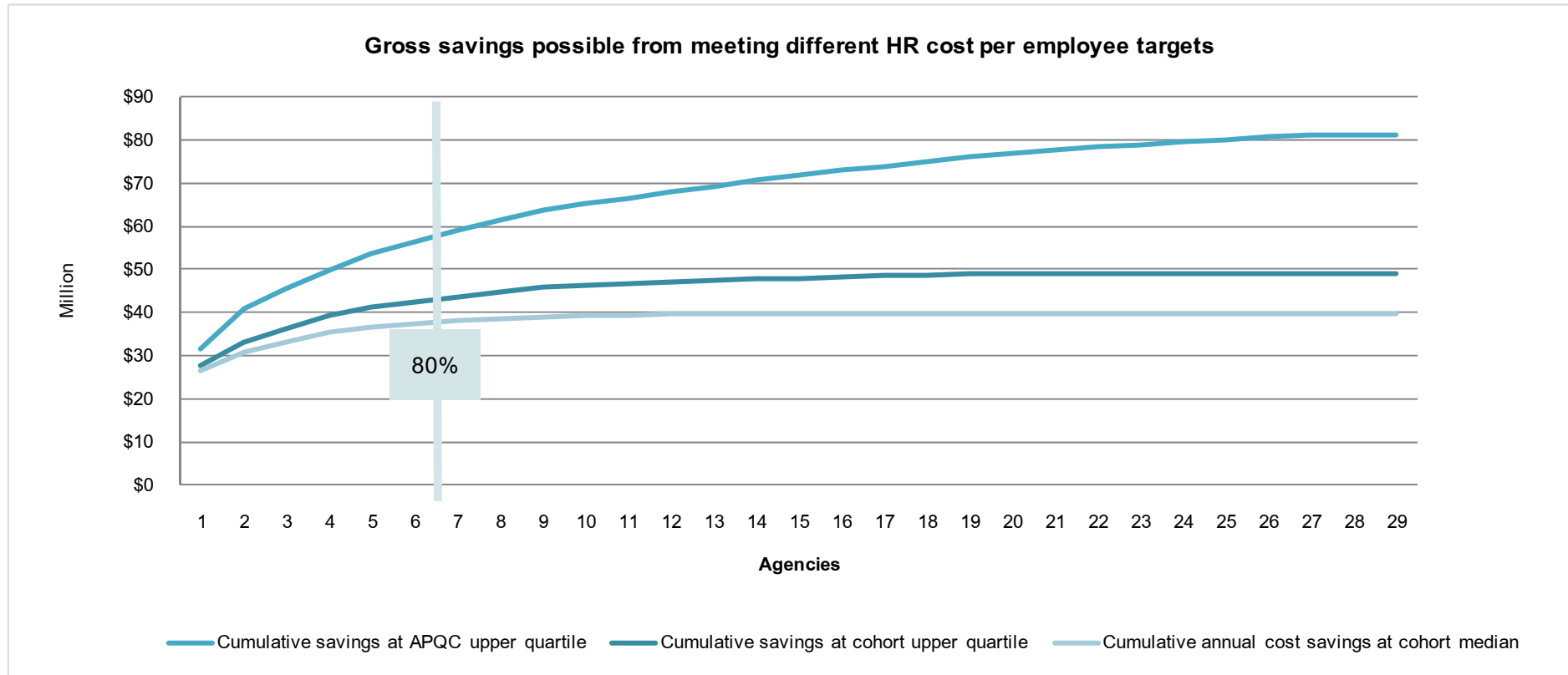
Reported efficiency has remained flat since FY 2009/10 for two processes: reward and retain employees; and recruit, source and select employees

Two processes have become less efficient since FY 2009/10: develop and counsel employees; and redeploy and retire employees

Variability in the cost of HR per employee exists across all cohorts, indicating opportunities to improve, regardless of agency size



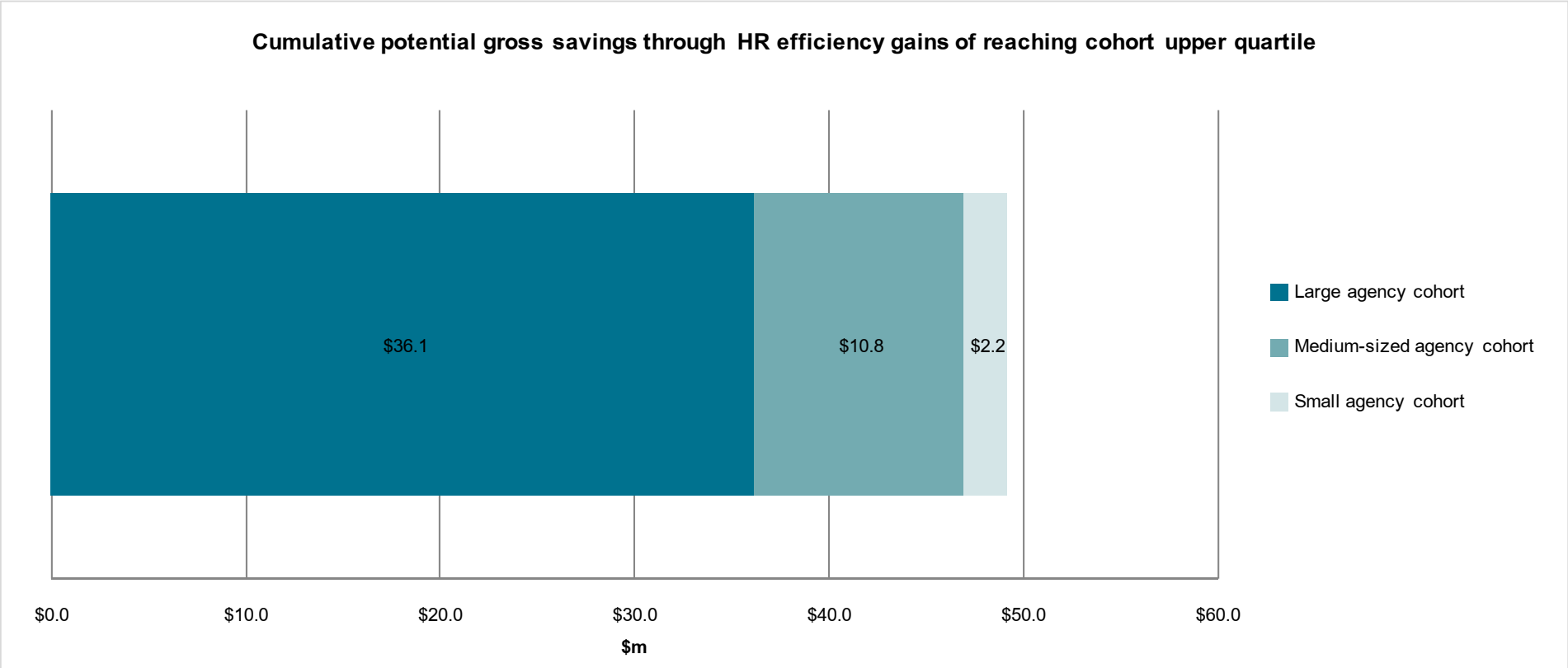
Annual gross savings of about \$40 to \$50m are possible if agencies below median or upper quartile efficiency met those levels in their cohorts



Annual gross savings of \$49.2 million are possible if agencies below upper quartile efficiency for their cohort (20 of 29 agencies) reached upper quartile efficiency

Annual gross savings of \$39.8 million are possible if agencies below median efficiency for their cohort reached median efficiency

Despite small agencies being the least efficient overall, the greatest potential for gross savings are in medium-sized and large agency cohorts



Small agencies are not the major sources of potential gross savings because they make up only \$9 million (or 6 percent) of annual HR service expenditure.

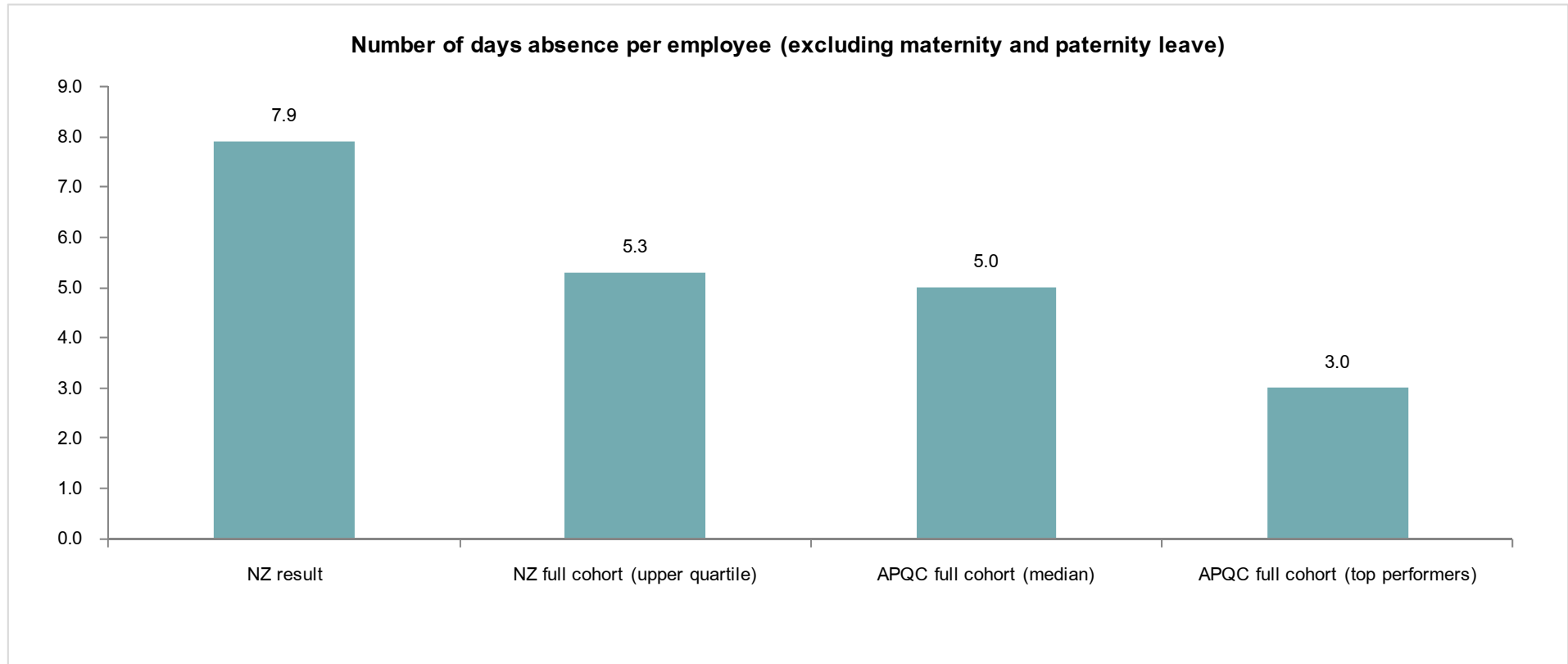
5. EFFECTIVENESS

Effectiveness findings report on the extent to which HR activities achieve intended or targeted results. This section compares NZ agency effectiveness with international comparators and examines changes in effectiveness since the previous reporting period.

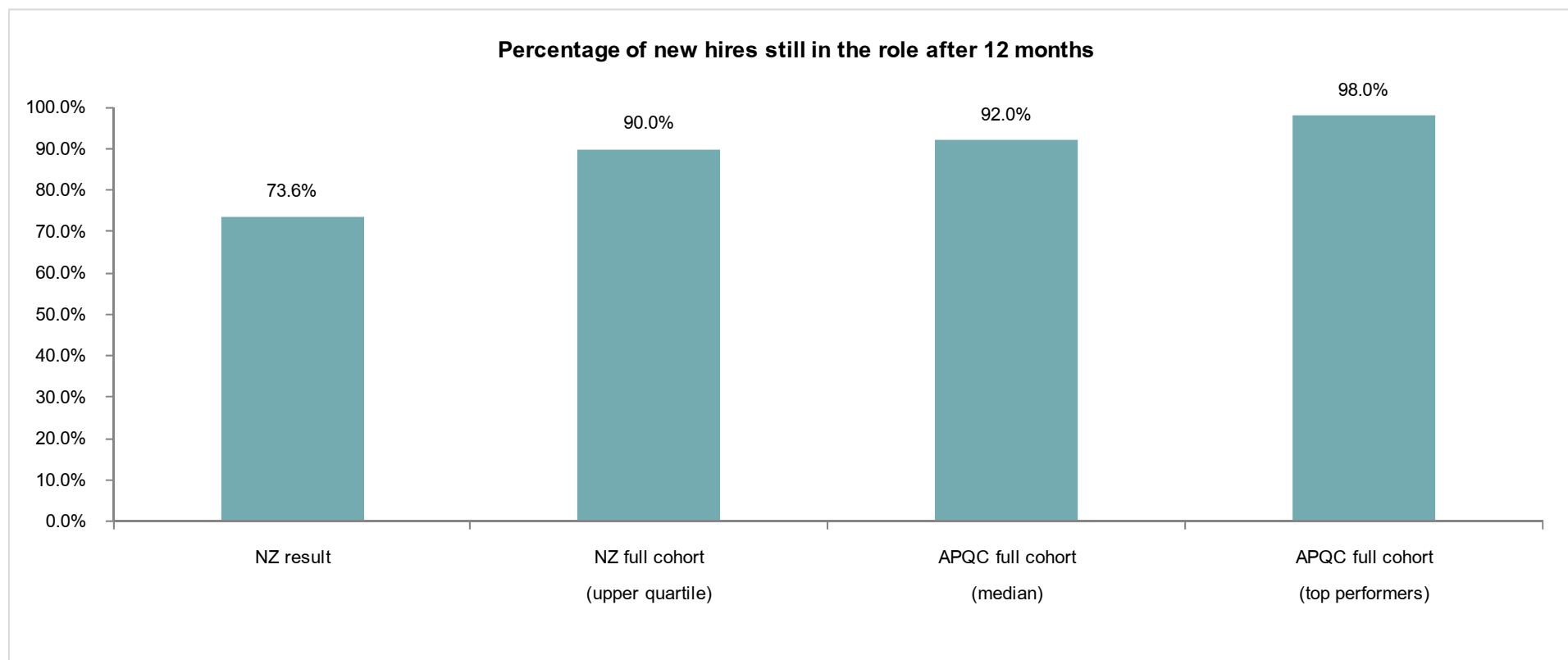
HR effectiveness findings are based on three metrics:

- Days of sickness absence per employee (excluding maternity and parental leave), where a lower number is considered more effective.
- Retention of new hires in the same role after 12 months, where a higher number is considered more effective.
- HR MPI score, where a higher score is considered more effective.

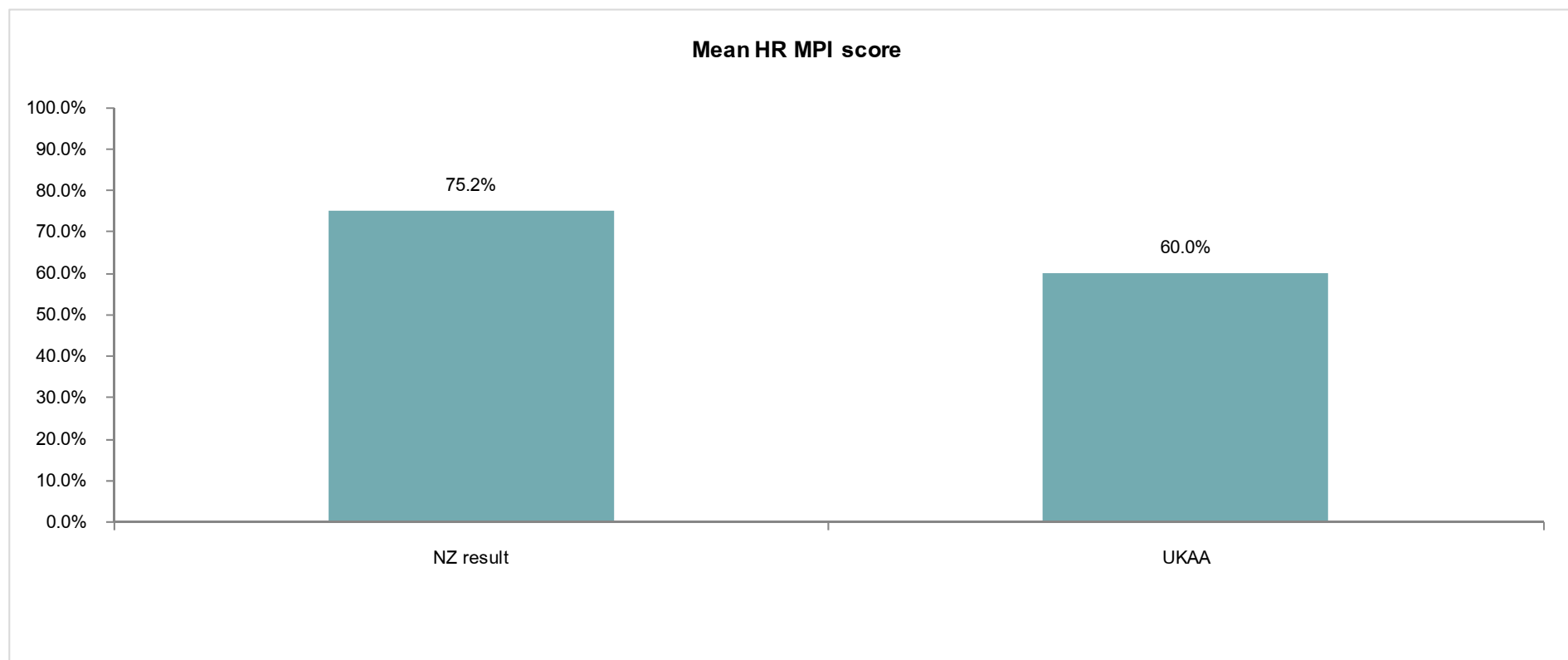
Sickness absence levels in FY 2011/12 are above international comparators



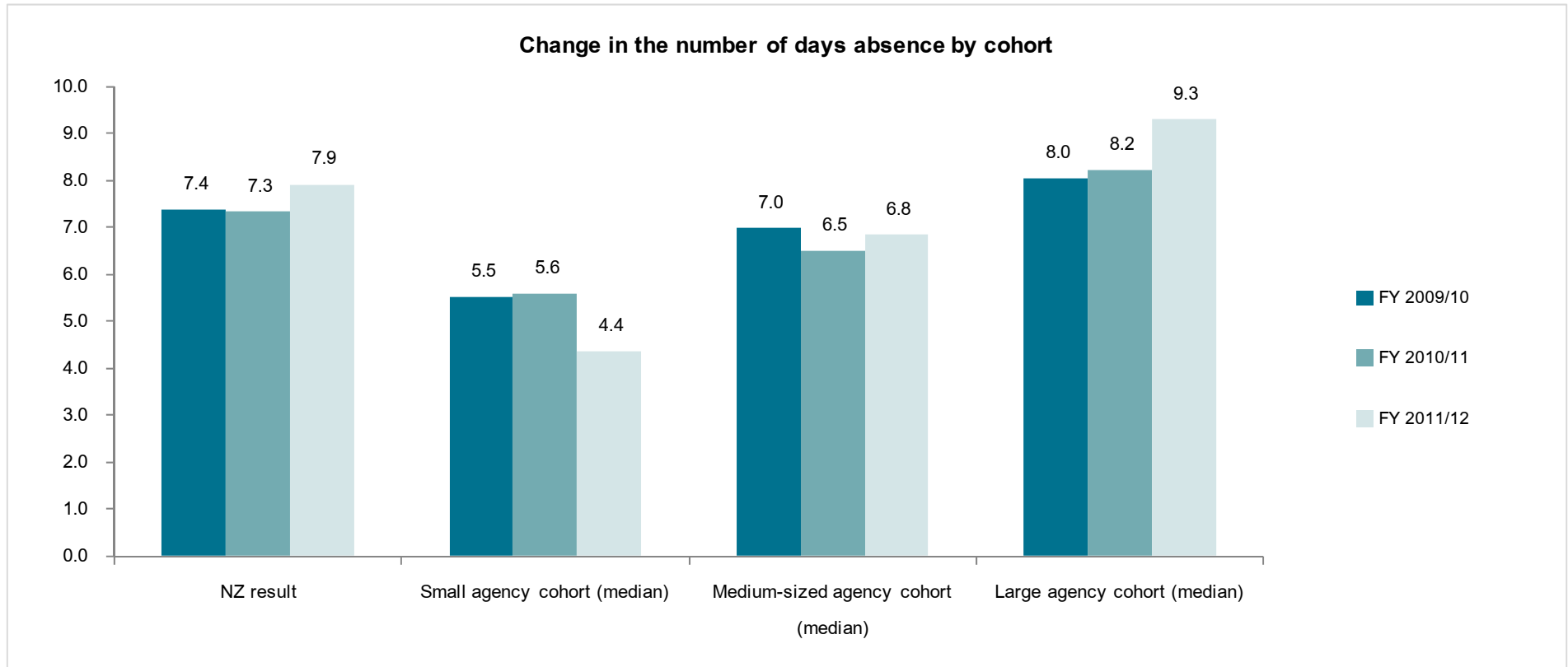
In FY 2011/12, the proportion of new hires in the same role after 12 months is lower than international comparators



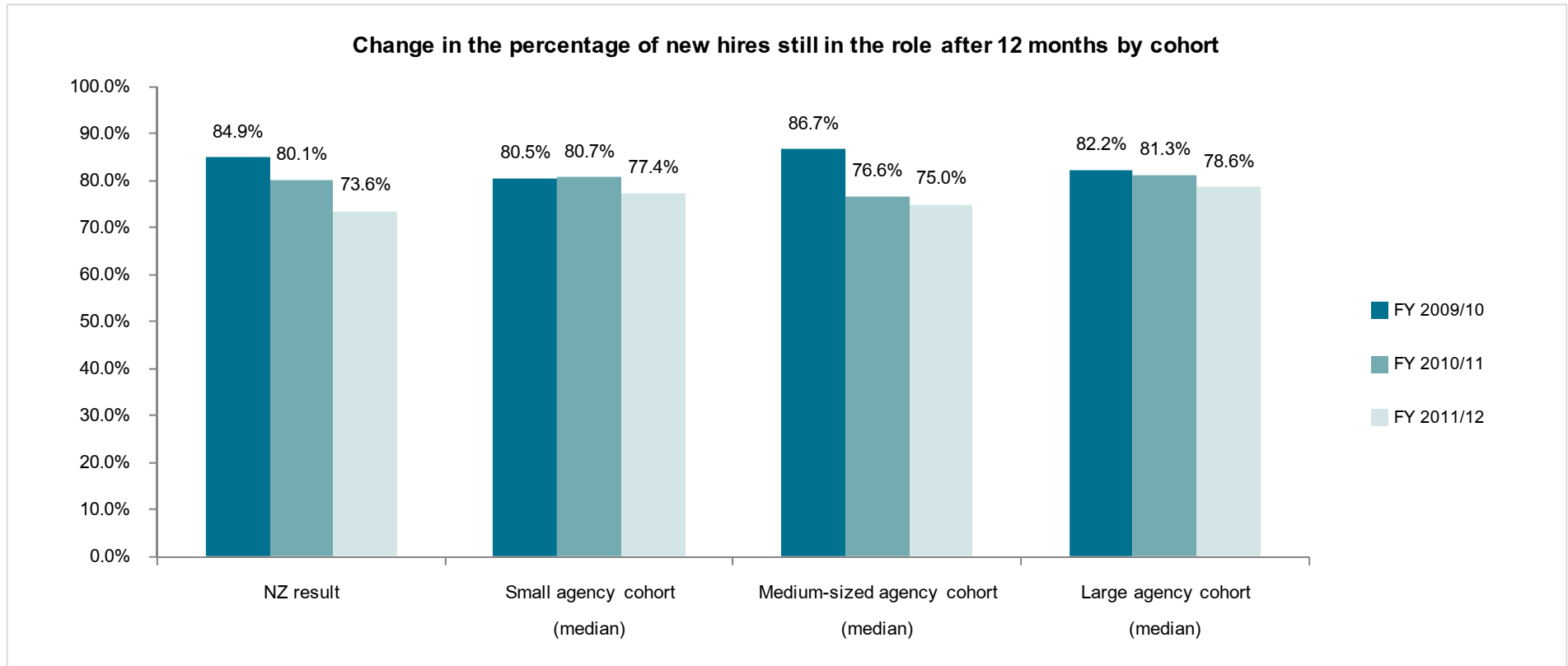
NZ agencies report a 15.2 percent higher overall MPI score than international comparators



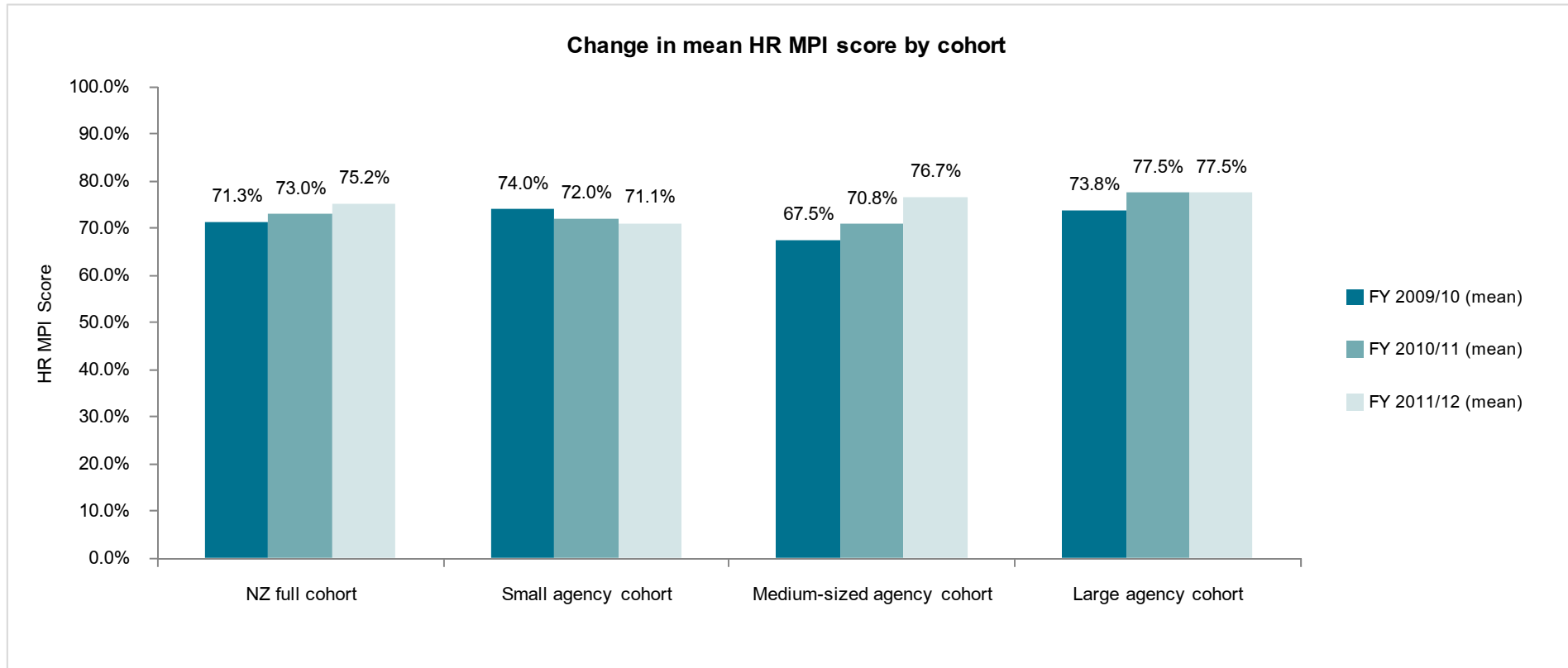
Overall, sickness absence has remained flat since FY 2009/10



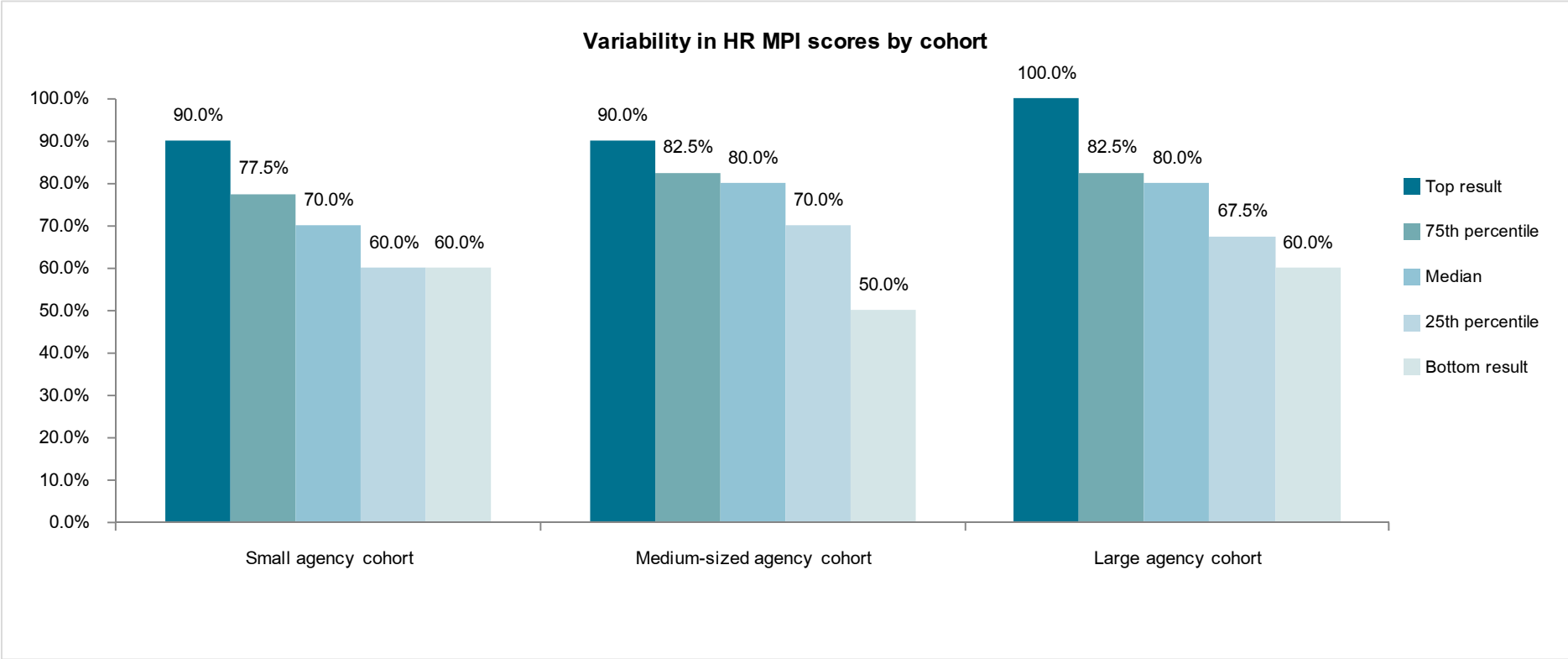
All NZ cohorts have reported reduced retention of new hires in the same role after 12 months since FY 2009/10



Overall, MPI scores have increased since FY 2009/10, with the greatest reported gains in the medium-sized agency cohort



MPI score variability shows opportunities for improvement and knowledge-sharing across agencies, regardless of size



Professional development for HR staff and action plans for employee engagement are the two largest development areas for the HR function

Opportunity to improve professional development for HR staff.

Only 31 percent of the NZ full cohort said they have a comprehensive professional development programme in place for professional HR staff that ensures that they receive at least five days of continuing professional development per annum.

Opportunity to improve understanding of employee engagement

Only 38 percent of agencies reported that they have undertaken an engagement survey across all key service areas within the last three years and are implementing an action plan that targets areas of vulnerability.

6. QUALITY OF MANAGEMENT INFORMATION

These findings report on known HR data quality issues, limitations of the indicator set in providing insight into HR service performance, and opportunities for improvement. The introduction section in the summary BASS report includes common quality of management information findings across all functions that are not repeated in this chapter.

Quality of Management Information

The quality of the data underlying the metrics is of a high standard, and information can be meaningfully compared. HR data is collected and stored centrally by agencies, making high-quality data readily available. Agencies aligned data returns with common definitions and data collection practices.

Payroll costs are not included. In this report, the payroll process is included within the Finance function for comparability with international benchmarks. However, operationally, most agencies consider the payroll process to be part of the HR function.

While results are broadly comparable, results need to be understood within the context of each organisation. While agencies have common features, each has their own functions and cost drivers. For example, some agencies may have higher recruitment costs due to the need for more specialised skills or higher training costs due to greater need for specialist technical knowledge. Agencies should use the benchmarking results as a guide to relative performance, and conclusions regarding efficiency and effectiveness should be made in light of each agency's operational context.

HR practitioners are working with the Treasury to develop an HR capability maturity model (CMM) to replace the HR MPI. User feedback on the quality of BASS management information indicates low satisfaction with the UKAA-based HR MPI and strong interest in using a Hackett-Group based HR CMM in future reporting periods. A similar exercise was conducted in FY 2011/12 with CFOs for the Finance function, the results of which can be found in this year's BASS Finance chapter.

More information

A glossary of terms, definitions and source material can be accessed via the main report, available on the Treasury website: <http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

A full set of BASS data can also be accessed via the Treasury website:
<http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Questions about the findings in this report should be directed to BASS@treasury.govt.nz