

Potential for HR Efficiency

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Efficiency is one of the most commonly used terms in the business environment, but the exact meaning of it depends on context, individual background and surroundings. Summing up the different approaches, efficiency is the extent of achieving business goals with minimum costs or resources. Regarding the current economic situation, business efficiency growth is considered the most positive effect of the crisis. According to the expert's estimation ("Expert" No. 38 (771)/Sept. 26, 2011), the cumulative rise in the efficiency of the Russian economy during the crisis period was in the range of 15 percent to 20 percent. Where was "the extra efficiency" source hidden and how did companies come to such a significant increase of output during the crisis period? However strange it may sound, the source of the efficiency increase is right in day-to-day operations, in the business processes.

It is obvious to everyone that most companies faced the crisis unprepared, with unbalanced headcounts and costs, and thus were forced to use the most common means of solving operational problems: staff and cost reductions. But according to the systematic approach, reduction is not the method, but rather a positive consequence of business processes optimization. Unfortunately the lack of time and the race for quick results may turn the process of business optimization into a patchwork that itself is far from being optimal.

The crisis period showed us that most companies still have unnecessary personnel reserves for business process optimization. Traditionally, finance/accountancy and IT functions, which are historically the most automated and therefore have the least labor cost, are at the forefront of optimization activity. By contrast, the HR function, often on the cutting edge of implementing changes and organizational development within the company, may tend to overlook themselves as regards the functioning of internal HR processes. The current "waiting" mood of the economy seems like a proper time to look at HR processes.

Enhancing HR efficiency is not the "insight" thing, but most companies tend to postpone the efficiency evaluation for better times, which might not ever come. In almost every type of business, human resources budgets constitute a significant part of management expenses and production costs. Increasing chaos in overlapping HR business processes could lead to unexpected cost escalation in a critical situation.

The results of the Ernst & Young Compensation and benefits survey for 2011 show that only 48 percent of companies conduct regular assessment of their HR function efficiency, while only 36 percent of companies monitor productivity and 33 percent use the HR module of the ERP system. In terms of innovative and high efficiency tactics, these numbers don't sound very optimistic. That is why searching for additional domestic resources within the firm has become the leading aim for efficient managers. The key to success in this case lies in a systematic approach to optimizing business processes, focusing on the HR function. There are three test questions that can help every manager realize that the boost up times for the HR function have come:

- Does your HR management system support a smooth and efficient functioning of business processes?

- Are the metrics used for evaluation of HR management performance aligned with HR business processes?
- Is the organizational structure of HR function efficient?

If the answer to any of these questions is "no" or "not available," it is time for HR efficiency enhancement.

Typically, the start of efficiency evaluation is a process mapping exercise, which normally takes several weeks and requires investments of time and attention from all HR team members involved as well as the commitment of business leaders. An external HR consultant could ensure that the mapping process is unbiased and facilitate the discussion around the process. Examination of the key processes and information flows related to the employee lifecycle within an organization is often the preferred way of determining whether the HR function is actually living up to the proclaimed high efficiency level. This exercise will look at processes in their current state and examine the deviations, issues and pain points. The most valuable result of the process mapping exercise is the description of the HR business-process "as it is." This result offers an opportunity to conduct a benchmark analysis of the HR process key indicators specific for every industry, including organizational and functional HR structure and the number of employees. At this stage, the core part is to define the proper HR performance indicators to measure, which play the determining role for the frame of reference. Only after all these steps can we compare the achieved performance level to the best market practice or monitor HR performance indicators in dynamics.

The next step to high efficiency is to define key requirements to HR management system to support the HR medium- and long-term objectives, which flow from the company's business goals and corporate strategy. An accurate alignment with the business's goals and objectives is the passport to success for HR management efficiency in general.

Last, but not least, is developing a target description for the HR management system with a visual representation of "to be" HR business processes. This model includes a description of the main goals and results, inputs and outputs for every HR process, the role description and areas of responsibility for the process participants. According to best practice standards, this model is provided with:

1. the calculation of financial effect of introducing improvements to existing HR management system;
2. the "road map" — the further actions in implementation of improvements. Finally, the management becomes well-equipped to drive on the road to efficiency enhancement.

Most common outcomes of the exercise include, but are not limited to: information flows streamlined, cross functional communication improved, financial and labor cost reduced, processes standardized and represent the best market practice, areas for technology deployment defined and in many cases, the basis for a shared service center implementation prepared. An additional and priceless benefit of HR efficiency enhancement is an increase of the employees' motivation as they become able to switch from the transactional to the tactical and eventually the strategic level.

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