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Partners

# THE POWER OF HR SHARED SERVICES

City of Houston Saves Millions Through  
HR's Transformation





*The City of Houston's HR Director, Omar Reid, has a veritable success story on his hands. He's been in the job nearly 5 years, having joined in March of 2010 at the invitation of the then newly elected Mayor. At the time, he inherited a decentralized, inefficient scenario where carbon paper (lots of it) and typewriters still played a key role. Today, he leads a Shared Services model that is the pride of the City, having saved millions of dollars.*

*This article introduces the "burning platform" that drove the HR transformation from a decentralized model to shared services model and takes us through the three phases of the transformation.*

Before joining the City of Houston as its HR director, Omar Reid spent 26 years at UPS in various operational positions, gaining a strong grounding in technology, metrics, and engineering at the world's largest package delivery company. He also, at one stage, ran the fourth largest nighttime operation in the country. The lessons he learned there, about the value of measures and outcomes, stood him well when he took over the HR function for the City of Houston in 2010.

What Reid inherited was a perfect scenario of how not to run HR: no strategic focus, transaction based, lack of customer orientation, risk averse culture driven by fear and intimidation. "Each day was consumed with putting out fires," he remembers.

What surprised him most was that there were people who had been in the same job for 20 years. "They effectively never progressed from the positions they were hired into – so neither did the job," Reid explains.

This stagnation was the result of a severely decentralized HR function, whereby each department in the City had its own HR staff, with the result that there were enormous inconsistencies in how policies and standards were applied to the City's 61,000 current and retired employees and their dependents. These inconsistencies also exposed the City to significant liabilities across the 23 departments served, ranging from the police and fire departments, to parks and recreation, public works, and libraries.

The solution was to create a central HR function based on a Shared Services model.

## Transformation Driven by a Burning Platform

There was a “burning platform” facing the new administration in the form of a \$50-\$70 million budget deficit, which gave added impetus to the drive to fix HR. The Mayor and her team were quick to recognize the opportunity to save costs by restructuring the City’s Human Resources.

The targets immediately established included:

- centralizing HR
- reducing the City’s liabilities
- improving efficiency
- eliminating redundancies and duplications.

## Shared Services Model

Although Reid had not previously experienced Shared Services in action, a number of people on his team had come from private industry and advocated in favor of the model, which was soon identified as the most appropriate means of achieving the immediate targets. With the Mayor (City CEO) acting as the key stakeholder and sponsor, the next step was to reassemble Human Resources.

## Step 1: People – Redefining Roles and Responsibilities

The challenge was to re-orient existing reporting structures in departmental HR teams to a central office, which could then drive standard processes and procedures across the City.

The first step was to redefine roles and responsibilities and assemble a core HR team that would lead the new structure. “We interviewed for each of the newly defined positions, and reallocated staff to roles that were most appropriate to their skillset,” Reid stated.

In identifying the staff that would shift to central HR versus that remaining department-focused, any employee spending more than 51% of their time on HR work was moved to the central team, albeit remaining at their location. “This was important because we wanted to retain local relationships,” explains Reid.

As a result of this reorganization, the headcount of central HR climbed from 140 to 260.

## Challenge

One of the challenges Reid’s team faced was that there was little, if any, consensus around the improvements that would be gained as a result of centralization. Department heads were reluctant to give up control over HR, particularly as they were able to hire according to their own perceived need, without having to adhere to central standards. Reid’s leadership team committed that service would remain at least on the same level, if not improve. This went some way towards weakening resistance.

## Step 2: Process Standardization

Once the new organization was in place, the next step was to reassess existing processes, and redefine these to eliminate inefficiencies.

“We recognized there was an enormous opportunity to drive improvement and optimize our role by standardizing processes,” Reid explained. “And while we faced significant resistance, we were determined to prove that the resulting improvements not just in cost, but also quality of service and transparency would be worth it.”

The improvements thus introduced have had a significant impact, not just in limiting the City’s costs and risk exposure, but also in supporting the recruitment, retention, and development of a forward thinking workforce that serves the citizens of Houston.

“With a focus on customer service and accountability, we have made great strides in meeting – and exceeding – the expectations of our stakeholders,” states Reid.

Some of the City’s achievements as a result of HR’s transformation include:

- 7% reduction in City safety incidents (through a “Zero Incidents” safety culture)
- process improvements as a result of revamping the Employee Self Service portal
- leveraging social media to network, connect with and widen the pool of diverse and highly skilled work candidates
- implementing an award-winning wellness initiative
- introducing city-wide compliance training.

## Results

The jewel in the crown has been the City's benefits program. This covers not just the City's 21,000 current staff, but also retirees and their dependents totaling 61,000. In the past, the cost of providing healthcare was around \$300 million a year, with annual increases of 10%.

Today, as a result of a transformed health benefits plan and robust wellness program, the City faces not just lower total costs but the annual rate of increase has held at a steady 1.1% for the past 39 months.

"Our main actions are around emphasizing prevention instead of treatment of disease," he stated. "Anything we can do to keep our staff out of the emergency room turns into dollars saved for the City and more money to invest in serving our citizens," explains Reid.

One of the new policies involves offering free medication to employees suffering from diabetes and high cholesterol, which has had a significant impact on lowering costs of treatment for both conditions. Next year, asthma medication will also be offered. The arguments are clear and compelling: "Asthma costs us \$8.2 million dollars a year for treatment at emergency room and urgent care clinics," says Reid. "In contrast, it will only cost us \$256,000 to offer free mail order care and medicine."

It's policies like these, enabled by a robust central HR organization and policies, which are driving real bottom line improvement, improved employee satisfaction, and a happier workforce.

"Local accountable care, whereby we contract directly with a local healthcare provider at a fixed cost per employee per year, is definitely the right solution for the public sector," says Reid. "It gives the provider skin in the game, makes it easy for staff to take preventative action, and is more efficient."

Another initiative, this one based on talent management goals, led to redefining the performance appraisal system based on smart goals. Having witnessed real stagnation in City jobs, it was important to attract and retain quality staff by offering a career, not just a job. HR took steps to work with each and every employee to identify their objectives, and support them in meeting these targets. As a result, staff are happier, and the City

has access to better data around their performance, which is useful in terms of deploying talent where it is most needed.

It has also had an impact on seasonal recruitment costs. For example, the City's Parks & Recreation department typically hired 600 extra staff in the summer months to maintain lawns and pools. In the past, this additional capacity was addressed through the recruitment of temporary staff. Today, through the shared services framework, HR can leverage existing resources to redeploy them to where they are needed most. "Our ability to shift resources from where they are at less than full capacity allows us to better manage our workloads and has saved a significant amount of money," says Reid.

## Step 3: Technology Adds Capability

People and Process come first, Reid acknowledges, but Technology is the third enabler for a successful HR service. A number of improvements have been rolled out over the past few years. Some of these relate to letting go of expensive and unnecessary add-on solutions, for example the third party open enrollment solution that costs \$650,000 a year to run. "We decided to use the Human Capital Management Module within SAP instead, and have saved the annual fee by eliminating that vendor," Reid says.

The HR team has also made more use of Interactive Voice Response to deal with employee queries, rather than have people answer the phone. As a result, not only is the existing process more cost efficient, but as an added bonus, the HR team now has more transparency over the number and type of queries that come in. "Being able to analyze the type of calls we get means that we can deal with them more efficiently," says Reid, "as well as pre-empt queries by addressing them in the communications we send out."

## Key impact: self-service

The single greatest technology driver is the self service functionality that is now the lynchpin of the City's IT infrastructure. Today, City employees can solve many issues themselves, without escalating them to HR. Adding "mobile" as a capability is already offering real returns, and will continue to do so, says Reid. The municipality of Houston is the first, in fact, to move all staff training onto the cloud by working with the vendor of its learning management system, he reports. So where in the past training required an instructor on site or access to a City machine that sat behind a firewall, the new solution enables employees to access training through their mobile devices. This saves time and money and has greatly improved employee satisfaction. Reid is currently working on a plan to move performance reviews onto mobile devices too, so that employees can access these at any time.

## Summary

As the second largest employer in Houston, the municipality has enormous responsibility in managing public monies efficiently to ensure the best use of its resources.

Before the shared services model was adopted, the ratio of HR staff to employees stood at 1:38. Today, after five years of process improvement and innovation, the ratio stands at 1:119, while improving the quality of service. Omar Reid is proud of what he and his team have achieved, and looks forward to building on this foundation by further delivering excellence through innovation, efficiency and customer service.

"The public sector offers enormous opportunities for shared services," he says. "HR has operated as a pilot of sorts for Houston. There are plenty of opportunities to apply similar strategies to other support services across the municipality. All in good time."

Redundancies contributed significantly to cost. As a result of the risk-averse culture, it was not unusual to have more than a dozen people sign off on forms before they hit Reid's desk. *"If I tell you that in 2010, City staff were still using typewriters and carbon paper, that gives you an idea of the situation I faced,"* explains Reid.

# Chazey's Viewpoint - How To Align HR Transformation With The Enterprise Agenda

Chazey Partners has many decades worth of experience in helping entities across both the public and private sectors transform support services. Below is an outline of best practices for service objectives, and tips on running a transformed delivery model. We also list some things you should be aware of before embarking on the journey.

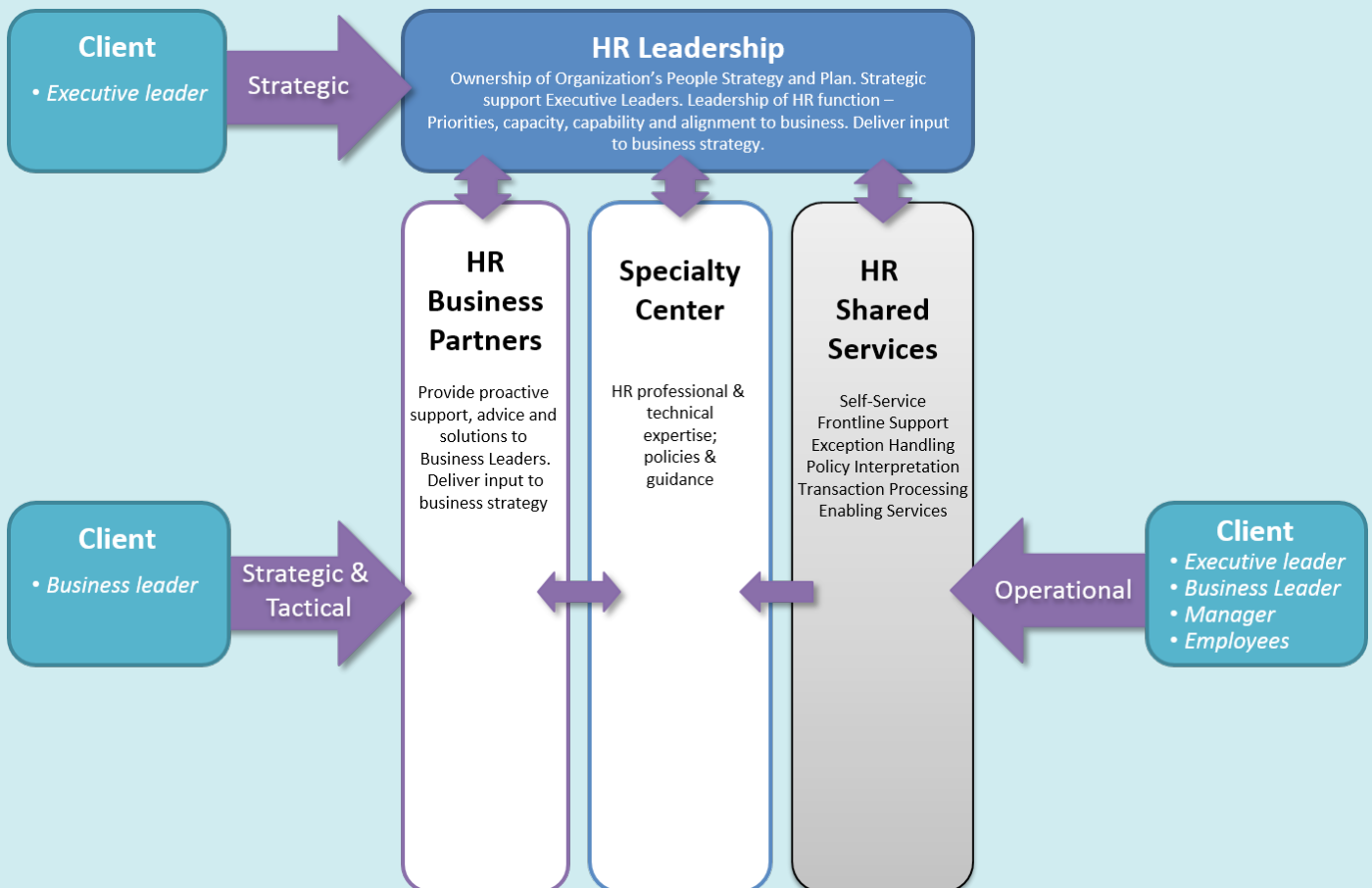
## Transformation Objectives

HR transformation is about aligning the HR function with the enterprise. In other words, transformed human resources will support the enterprise in achieving its strategic objectives. In the course of this transition, non-value adding work is eliminated wherever possible. Most successful HR shared services have focused on three objectives:

- transaction effectiveness, generally achieved through shared services
- specialty services, often defined as centers of expertise, which provide solutions to specific challengers (often IT enabled)
- strategic alignment, delivered through an HR business partnership that supports the enterprise with a modern people strategy

## A Transformed Operating Model

A transformed HR function uses multiple approaches to deliver support. So, apart from the actual transactional element (packaged as shared services), it also offers specialist advice and compliance support, leverages enterprise knowledge to drive efficiencies, and supports strategic decision-making. A transformed model thus operates as a value adding enabler of enterprise strategy (see figure below):

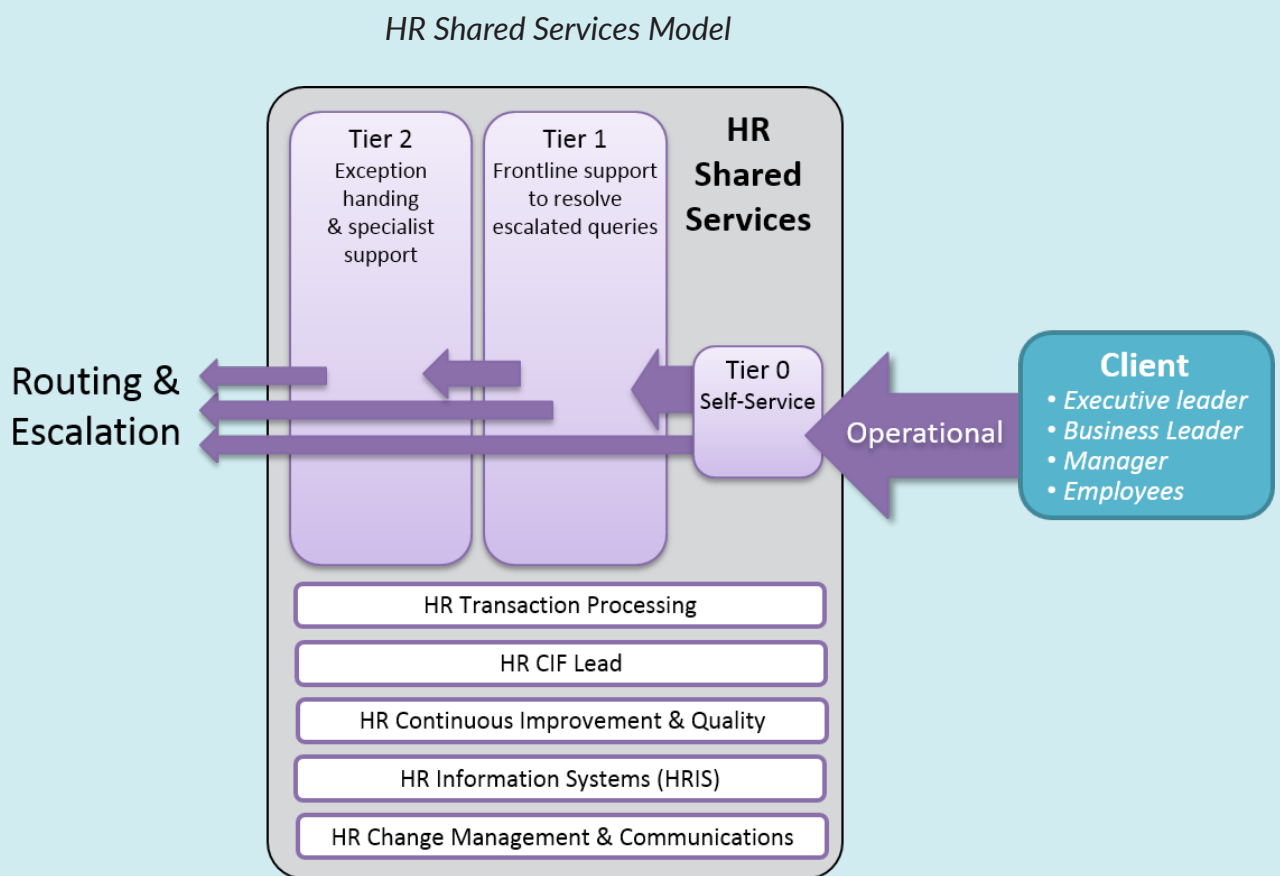


A transformed HR Operating Model

- **HR Leadership:** Take ownership of organization's People Strategy and Plan. Offer strategic support, HR priorities, capacity, capability and alignment to business. Deliver input to business strategy.
- **HR Business Partners:** provide strategic and tactical support to the business leaders
- **Specialty Center:** A pool of HR professionals with deep functional specialty who work with the Customer to design and develop HR solutions to support business requirements, using intelligence from the SSC and Business. The Center also proactively identifies trends and interfaces with Training, Leadership, and Organization Development
- **HR Shared Services:** The operational hub of a transformed HR services model is the Shared Service Organization, responsible for delivering the policies and programs developed in the Specialty Center and designed around service level "Tiers".

## HR Shared Services Model

The Shared Services Model would be further enabled with a tier system and the following 5 key units (see the figure below):



- **Transaction Processing Unit:** separated from frontline support and other aspects of client contact management, similar to the current unit, but with expanded scope, and also embedded and integrated within the one SSC
- **Client Interaction Framework Team:** directly responsible for the successful design, implementation and operation of a Client Interaction Framework that meets the requirements of all key stakeholders and customers
- **Continuous Improvement & Quality:** dedicated team that provides project management and process expertise and tools, to enable service deliver to continuously optimize and improve
- **Change Management & Communications:** responsible for supporting the transformation of the HR Service Center and the wider organization's HR team, leading organizational, process and cultural change activities, and the establishment of a customer service culture

- **HR Information Services:** reporting to organization's Information Technology, although probably through a dotted line relationship, to the HR Service Center, this is a formal role to ensure that the maximum benefit is extracted from the available HR information systems, leading project and support initiatives around system capability and configuration
- **Global Business Process Owners:** these roles do not include responsibility for day-to-day operational management of processes, instead it is a value adding role to take processes to a higher level on organization business-wide basis; improving the effectiveness and efficiency of the processes, across the organization, in a consistent and as standardized way as possible, while still recognizing that there will be some necessary exceptions.

### Ten Lessons Learned Before You Start...

1. Recognize that HR impacts everyone, stakeholders can be more entrenched, and HR projects typically require a more robust change management strategy than other back office transformations (such as finance)
2. Engage the client throughout the prioritization, design and building of your solution to ensure that the gains are sustainable and real
3. Ensure that HR processes are compliant across all jurisdictions and are fit for purpose.
4. Recognize that HR has a number of different customers with different requirements.
5. Drive a seamless service within HR to satisfy all levels of service requirements in the enterprise.
6. Communicate so that the enterprise is aware of and informed about support options under the new HR model.
7. Capture the actual activity and effort of legacy staff and re-deploy them into productive capacity to help prevent the growth of shadow operations
8. Up-skill Line Managers (for People Management) so they are more proactive and accountable.
9. Ensure that HR Business Partners are trained and skilled in delivering strategic (not operational) support to their clients
10. Understand that there may be a need for large-scale capital investment to get the right technological infrastructure.





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### About Chazey Partners

Chazey Partners is a professional management advisory business that is committed to adding significant value to our clients through a partnership approach. We bring together a unique wealth of expertise and real life experience in Business Transformation, Shared Services & Outsourcing, and Technology Enablement. We pride ourselves in having built, operated and turned around some of the world's most highly commended and ground-breaking Shared Services Organizations, and for implementing many highly successful multi-sourced (shared services and outsourced) delivery solutions. Over the last 20 years, we have delivered numerous programmes globally, in the US, Canada, UK, Continental Europe, Ireland, India, Eastern Europe, South America, Singapore, Australia, China, Middle-East and Africa. Our experience covers both Private and Public Sectors, providing expertise in a wide spectrum of business functions, including Finance, HR, IT, and Procurement.

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