

The Role of Strategic HR in Financial Services



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By Tom V. Durgin

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EXECUTIVE SUMMARY

Human Resource professionals need to proactively help business in strategy implementation, especially in workforce planning. A successful workforce planning approach requires

- Ownership and dialogue with the business
- A comprehensive analytical framework
- Integration with the budgeting process

Workforce planning can help deliver a lean, engaged, and productive workforce. This paper will examine these concepts primarily through the experience of Capital One, a leading financial services company.

CAPITAL ONE AT A GLANCE

Capital One is a diversified financial services company with more than 21,000 associates in the U.S., Canada, and the United Kingdom. With some \$48 billion in deposits and \$106 billion in managed loans, it ranks (at the time of this writing) No. 187 on the Fortune 500 list. The company has received numerous rewards including:

- #1 on *Information Week's* Most Innovative Companies
- #4 on *Fortune Magazine's* Most Admired Companies in Consumer Credit
- #18 on *Training Magazine's* list of the Top 100 Training Organizations

It is against this backdrop that Capital One set out to create a strategic HR function that would allow HR to align employees, processes, and most importantly itself, with the company's strategic goals.

ADDING VALUE THROUGH HR FUNCTIONS

Ninety-one percent of CFOs think human capital management is critical to business success.

“Business partners want HR to add value to their companies,” says Prasad Setty, VP of Workforce Analysis at Capital One. In a 2006 survey of Chief Financial Officers from CFO On-line, CFOs were asked, “How important is human capital management for the success of your business?”

Forty-three percent responded it was “the most important factor.” Forty-eight percent described it as “one of the top two or three factors.” Only 7% said it was “important, but not a top factor.”

Yet Setty observes that in many companies only a small fraction of HR's budget is spent on strategic issues, as Figure 1 demonstrates.

Figure 1

A small fraction of HR's budget is spent on strategic issues

Annual Cost Per Process Area

Process Area	% of Internal Cost	% of Outsourced Cost	% of Total Cost
Planning & Policy	14%	7%	13%
Source & Select	13%	22%	14%
Develop & Counsel (Learning)	23%	32%	26%
Develop & Counsel (Performance & Employee Relations)	11%	8%	10%
Reward & Retain	20%	17%	20%
Re-deploy & Retire	8%	5%	7%
Manage Information	11%	9%	10%
Total	100%	100%	100%

Source: IBM Global Human Capital Study 2005

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Capital One | human resources

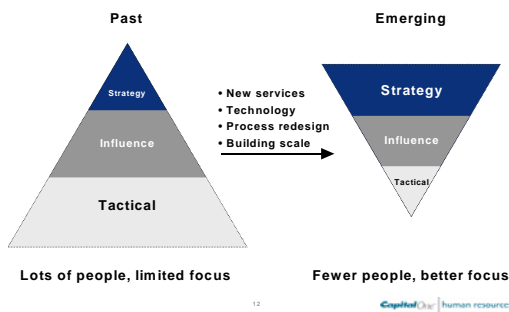
Source: IBM Global Human Capital Study, 2005

Despite the strategic importance of planning and policy-making, the overall HR resources devoted to it average only 13% of a typical HR budget.

To address this challenge, Capital One developed a vision of where it wanted HR to go in order to leverage it as a strategic player in the company's future.

Figure 2

We set out to create a strategic HR function



The essential core of the effort was to focus “flip” HR from tactical to strategic thinking.

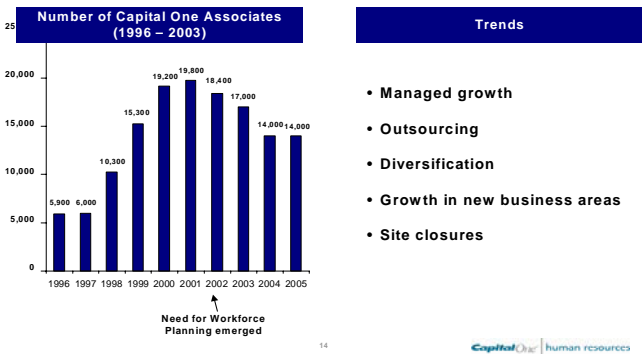
THE CAPITAL ONE CASE STUDY

Three premises will be examined in the case study:

- Dynamic organizations need advanced workforce planning
- Planning can deliver a lean, engaged, and productive workforce
- Workforce planning positions HR to address key business challenges

“The complexion of our workforce changed rapidly over the past five years,” notes Setty. “It became clear a few years ago that the time for workforce planning had come.”

The complexion of our workforce changed rapidly over the last 5 years



Managed growth became vital in a fast-paced environment that included increased outsourcing which

led to some site closures, and diversification that led to growth in new business areas. “We did not have a structure process to plan for workforce needs.”

THREE MAJOR ISSUES CONVERGED:

- A reactionary approach to workforce dynamics
- “Siloed” conversations on staffing issues
- Staffing plans disconnected with budgeting

The convergence produced:

- Two sets of numbers (HR vs. Finance)
- Sub-optimal staffing decisions
- Unanticipated long-term consequences

Because Capital One is a dynamic company, it requires a sophisticated approach to workforce planning. The workforce planning needs of “stable” organizations are much different. They include:

- The ability to project retirement and attrition
- The need to hire to backfill
- Retention of institutional knowledge

The required approach to these issues is relatively low in complexity, focuses on a few key parameters, and engages in long-term planning, five years and more.

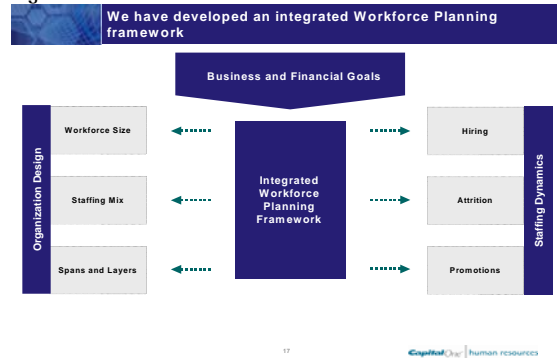
Dynamic organizations must:

- Understand future business goals
- Align organizational design and staffing to business needs
- Understand long-term consequences
- Accommodate quick changes

The required approach for to these issues is highly complex, multi-dimensional, is based on scenario modeling, and runs on the same cycle as business

planning. Capital One developed an integrated workforce-planning framework that would allow HR to move from a tactical to a strategic role.

Figure 3



CROSS-FUNCTIONAL TEAM APPROACH

A cross-functional team was assembled to develop a four-step process to deliver on the goals of the framework.

1. Project natural workforce evolution

To do this Setty's team used historic data to project the evolution of the workforce. This helped create a compelling case for action that won the approval of stakeholders.

2. Develop scenarios tied to business goals

Business leaders throughout the company were interviewed, and from these interviews organizational design principles were developed. In order to remain flexible and accommodate quick changes, alternative designs were also created.

3. Finalize workforce plans

Setty assessed the impact of the new approach to workforce planning on staffing dynamics and then obtained the consensus of the company's business leaders to go ahead.

4. Implement and monitor

HR policies and practices were aligned with the workforce plan, tied to budgets, and progress was

monitored according to the organizational design parameters.

The team included members from four distinct functional areas within the company.

Business leadership team

This team was engaged as a team and as individual leaders. It validated and had ownership of the workforce plans.

HR generalists

The HR team sponsored the initiative on behalf of their "clients," and acted as stewards of the workforce plans. And were tasked to lead the implementation effort.

WORKFORCE ANALYSTS

This group actually developed the workforce planning process and tools. It consulted with the business units on a project basis, and then transferred their knowledge to the client organizations.

BUSINESS ANALYSTS

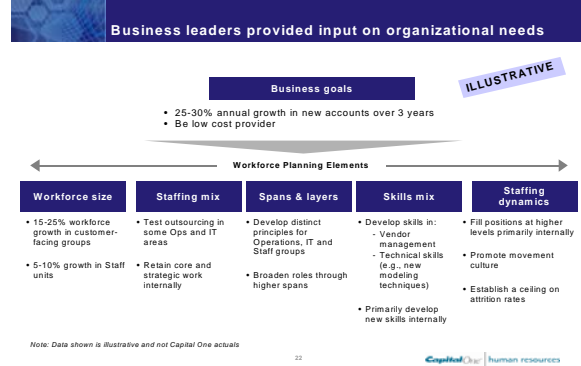
Planning and finance analysts were the core of the team. All members learn the workforce planning process and tools, and update staffing models as business goals change.

Setty says this cross-functional team model is a "successful workforce planning approach."

The planning model was linked to business goals.¹ The goals were a 25 to 30% annual growth rate and to become a low-cost provider. There were five elements to the workforce planning process designed to achieve the business goals.

¹ All data that follows are illustrative and are *not* Capital One actual data.

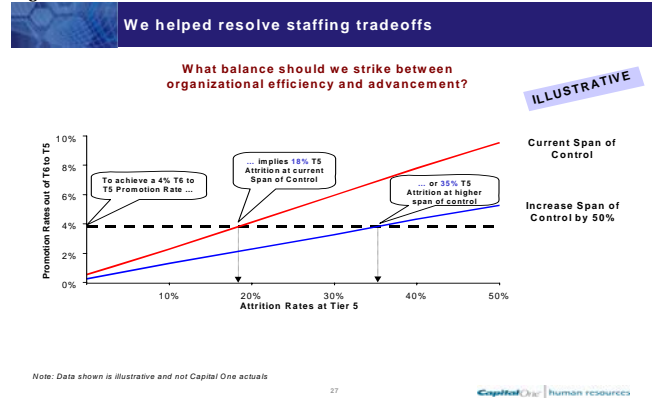
Figure 4



Key to the success of this effort was staffing: Staffing mix and staffing dynamics. “We optimized the staffing mix,” with a plan developed internally and customized by business unit. The plan used a ‘what-if’ scenario for modeling, and optimized the mix of internal and external human capital. The model can assess the impact on staffing budgets. A “layered” organizational design was developed based on guiding principles from business leaders. It was customized for Marketing, Operations, IT, and Staff groups so that the model laid out the number of positions available at each level for each unit. To maintain flexibility, some managers in some layers might take on ‘stretch’ roles for a time.

Setty’s team also helped resolve staffing tradeoff issues by asking “What balance should we strike between organizational efficiency and advancement?” Since a stated goal was to establish ceilings on attrition rates, this was a challenge, met by exercising varying degrees of control over promotions rates, as this figure shows.

Figure 5



Progress towards workforce planning goals is monitored and reviewed periodically to ensure that promotion and attrition targets are met.

THE IMPACT WAS POSITIVE AND REAL

“Workforce planning has had a profound positive impact upon our business. The cumulative impact of implementing wider spans of control across multiple tiers of management has produced major cost savings while creating more challenging roles. Integrating workforce planning into the capacity planning process allowed us to grow into our target spans of control while retaining our leading associate morale.” President of a Capital One business unit

The impacts on the company were positive and measurable. Workforce planning enabled Capital One to maintain stable executive headcount levels, broaden its span of control over staffing issues, and set a “floor” for promotion rate, which, when communicated to associates, had a positive effect on retention. As a result, says Setty, workforce planning has gained traction at Capital One. The process Setty and his team pioneered is repeatable and scalable. It has produced a trained group of analysts, and has produced an integrated approach to people strategy. Other business units and staff groups have developed their own workforce plans, organizational efficiency has improved, and integration with budgeting in progress has been achieved.

CONCLUSION

“We have three key learnings from our experience,” says Setty. First, be practical – address the key business challenges. Second, use dialogue – engage business leaders in the discussion. And third, be “fresh” – develop

“rolling” workforce plans that accommodate rapid change.

Above all, a carefully constructed workforce plan liberated HR from its former role as a tactical resource and allows it to become a strategic partner in an organization’s business success.

Based on the Human Capital Institute webcast, *The Role of Strategic HR in Financial Services*, November 6, 2006

PRESENTER

PRASAD SETTY
VICE PRESIDENT OF WORKFORCE ANALYSIS
CAPITAL ONE

Prasad Setty is Vice President of Workforce Analysis at Capital One. The Workforce Analysis group is an internal consulting group that applies information-based strategies to optimize human capital value. Partnering with HR generalists, the Workforce Analysis group helps Capital One’s business units and staff groups develop a lean, engaged and productive workforce. Prasad pioneered the initiative to apply systems dynamics principles to organizational issues within Capital One. This led to the development of an integrated Workforce Planning process that combines organization design with staffing dynamics. The Workforce planning process has since gained traction as a strategic service that Human Resources provides to the business. Under his leadership, other initiatives are under way to further innovate on workforce analytics including a study of leading indicators of associate engagement and attrition. Prior to Capital One, Prasad was a consultant with McKinsey & Company. He holds an MBA from the Wharton School of Business, an MS in Chemical Engineering from Carnegie-Mellon University, and a B. Tech. in Chemical Engineering from the Indian Institute of Technology, Madras, India.

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Jana Fallon is the Director of Assessment and Selection for Prudential. In this role, she is responsible for the development and execution of the Prudential Staffing assessment strategy. This includes designing, implementing and driving the deployment of talent assessment programs across the enterprise to ensure the company is positioned to select winning talent. Prior to joining Prudential, Jana worked for American Express, where she held the role of Director of Talent Acquisition, leading a recruiting team across the US who filled more than 4300 positions per year. Additionally, as their Director of Assessment and Selection, she led the hiring and development assessment function for the enterprise. In that role, Jana led the development and validation of global programs such as a talent interview management system and assessment skills training program; common architecture assessment programs used across the globe for positions ranging from call center and financial advisor representatives, travel agents, and sales professionals; competency model development and implementation; and the corporate talent management strategy for attraction and selection of top talent.

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Sharmila Venkata is a Senior OD Consultant with Regions Financial Corp. Ms. Venkata has significant experience in the areas of personnel selection, individual assessments, performance

management, job analysis and competency modeling, employee development, the development and validation of employee selection tests, organizational design, program evaluation, strategic staffing and team functioning. She is currently the project manager for competency model development in the company and responsible for the corporate selection and assessment programs.

MODERATOR

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THE HUMAN CAPITAL INSTITUTE

Prior to joining the Human Capital Institute, Bill was the Founding Director of AIRS Human Capital Solutions, and served as Director of Training and Curriculum Development from 1997 to 2003. An early Internet adopter and advocate of its far-reaching potential, Bill developed his practical experience by establishing an Internet-centric executive search practice focused on telecommunications. This endeavor helped lay the groundwork for the significant contributions he has made to the core curriculum of AIRS. Bill earned a BS Degree from the Newhouse School of Public Communications at Syracuse University and spent 10 years as a journalist working for several media organizations, including ESPN and the Rocky Mountain News, before entering the recruiting industry.

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ABOUT THE HUMAN CAPITAL INSTITUTE



The Human Capital Institute is a catalyst for innovative new thinking in talent acquisition, development and deployment. Through research and collaboration, our programs collect original, creative ideas from a field of top executives and the brightest thought leaders in strategic HR and talent management. Those ideas are then transformed into measurable, real-world strategies that help our members attract and retain the best talent, build a diverse, inclusive workplace, and leverage individual and team performance throughout the enterprise.

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