

Michigan's HR Optimization Project--NASCIO Case Study

Executive Summary

Michigan's Human Resource (HR) Optimization Project was an interdepartmental initiative to increase the effectiveness and efficiency of statewide HR services delivery, by building upon the state's centralized HR management system. This project resulted in an enhanced self-service internet application, a centralized data store, a multi-tiered service center, and the redesign and realignment of numerous human resource processes. Beginning operations in August 2004, the system produced documented savings of \$2 million in the first year and over \$4.8 million in the second year, and remains on schedule to save \$28 million over the first five years - while delivering best-in-class service.

The project was a collaborative effort involving the State of Michigan Governor's Executive Office, the Departments of Civil Service, Management and Budget, and Information Technology, the Office of the State Employer, the Office of the State Budget, and the entire community of agency HR management offices throughout the state.

The overall objective was to encourage employees to resolve their own issues by providing direct access to HR information, while at the same time making responsive support available when needed. To maximize efficiency gains, a three part approach was used:

1. Web based self-service tools were expanded to enhance direct employee interface with the Department of Civil Service HR computer system.
2. These tools were augmented by an "intelligent" knowledgebase, called MI HR (pronounced "My-HR") Information, to provide employees with data tailored to their specified conditions of employment.
3. A multi-tiered service center was established to directly support employees and perform routine transactions as required, thereby optimizing HR systems and reducing resource allocations statewide.

On-line self-service serves about 47,000 active employees with internet access at work or home (estimated at over 85%), offering 70 plus menu items, including 12 areas with direct update functionality (like direct deposit and federal/state withholding), and 3 areas of open enrollment. Self-Service receives about 3,800 visits a day (not counting the 94,860 hits every pay period for on-line earnings statement information). The detailed on-line knowledgebase hosts almost 200 visitors and close to 900 hits per day.

Serving over 55,000 state employees, the MI HR Service Center handles as many as 1000 calls a day. In addition to 27 routine HR transactions that transitioned to the service center from agency HR offices, the center is now also the primary point of contact for statewide activities such as benefits open enrollment, W4 questions, and Medicare Part D inquiries.

Project success is well-quantified, especially for the services provided by the service center. Cost savings - this program was brought online ahead of schedule and under budget and is exceeding projected savings targets. Efficiency - group insurance open enrollment flawlessly handled up to 8000 calls and 6000 transactions in the first month, an example of the type of work volume previously distributed across the HR offices of all state departments. Customer service and quality - with an exceptional rate of return for satisfaction surveys, 97% of respondents indicate they are satisfied, or very satisfied with service, while all cases are closed within service level target time frames and the call abandonment rate averages 1%, independent of call volumes with minimal system down time. Finally, as envisioned, the system resulted in a fourfold increase in the use of enhanced employee self-service.

A new centralized model, \$6.9 million in cumulative savings achieved, a reduced overall number of HR positions, and consistently surpassed quality targets, all serve as indicators that this project was well planned, effectively designed and successfully executed.

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A. Description

The Department of Civil Service (DCS) is the central human resource agency for the State of Michigan Executive Branch and is the parent organization for the nominated program. DCS is responsible for issuing rules and regulations regarding the classification of all positions, rates of compensation, testing, performance evaluation, training and development, and conditions of employment. These rules and regulations guide DCS relationships with the HR offices of the 18 primary departments of the State of Michigan. The state employs over 55,000 people of which 72% are represented by 11 different bargaining units. DCS also provides service across the other two branches of state government when efficiency of collaboration does not compromise separation of powers.

Within the state, departmental organizational structures vary greatly, including highly structured and geographically dispersed organizations such as the Department of Corrections; smaller organizations such as the Department of Civil Rights; and organizations with greatly differing mandates such as the Department of Transportation, Department of Natural Resources, or the Department of Labor and Economic Growth. The variety of operational activities performed by these and other departments all rely on a crucial common task, managing their HR needs by functional application of the Civil Service Rules and Regulations.

The HR Optimization Project team was charged with increasing the effectiveness and efficiency with which statewide HR services are delivered. As with any redesign process, the greatest challenges were presented by change. The HR Optimization project faced change in all three traditional project areas – People, Processes, and Technology.

While shared service centers are fairly common within the private sector, they are far less prevalent in the public sector. Understanding the opportunities created by implementing centralized call center facilities, the team's goal was to create a multi-channel, single source service center that would provide continuous internet access where it would be most useful, coupled with a staffed call center for those employees lacking comfort with or access to the internet. The strategic model used to organize objectives included creating:

- A single centralized HR knowledge repository
- On-line availability of HR policy and procedure information in easily understandable language
- A single point of contact for general HR support
- Process realignment that allowed individual agency HR offices to focus on specialized strategic issues while the service center addresses routine issues

A traditional project approach was used, the concept was approved and a project team created. Scope was planned and defined, requirements finalized and a plan developed. "As-is" and "To-be" models were created and a gap analysis completed based on the business requirements that defined the project. Essentially, the team had to ask people about what they did and how it could be done more effectively. Most challenging however, was navigating through this process with people who knew that in many cases success would impact their own jobs.

Working together with representatives from the agency HR offices, the project team identified target processes and procedures and designed new ways to redistribute tasks so that position costs could be saved in accordance with budgetary requirements. These redesigned processes were then married with technology that was new to the conventional HR environment.

In all, 76 full-time equivalent positions were eliminated from human resources areas across the 18 agencies in the first year of operation. This goal was met without terminating employees. Through attrition and placement

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of individuals in vacancies outside of HR, an additional 62 positions and the associated budget will be eliminated over the next four years.

Employees in eliminated positions were given the first opportunity to fill MI HR Service Center staff positions, both to ease the transition to a centralized process and to take advantage of their institutional HR knowledge. A new customer service classification was created and a best practice review was completed to build selection criteria that would match the best candidates with the new positions needed to staff the service center.

Working with the HR community and relying on subject matter experts, the project team analyzed, redesigned, tested, and reviewed all process changes. Wherever optimal, technology and automation were incorporated to achieve maximum gains as the service center came on-line.

“This was a great opportunity for IBM to implement what is historically a hosted solution, in an onsite environment,” explained Adam Jelic, IBM Business Consulting Services Project Manager. “We knew that we faced a number of unique challenges with this project. The state’s focus on communications and their comprehensive change management plan allowed us to overcome the often overlooked and critical challenge of effectively managing the cultural change.”

The technical demands of the HR Optimization Project required the integration of several existing systems with new applications in order to create an effective MI HR solution. Content management of the knowledgebase is achieved through an existing Vignette solution and relevant information is presented to the employees based on their defined conditions of employment and as interpreted using IBM’s WebSphere middleware. The knowledgebase also links employees to the existing HR web portal, Self Service, in order to perform online HR transactions.

These components are integrated with an IBM configured Siebel application that is used by contact center staff answering phone calls from employees. The Avaya telephony system provides standard menus, queuing of calls and basic information regarding ‘hot topics’ to assist in answering frequently asked questions before the caller is placed in a queue. The Siebel application provides the contact center with the ability to create, track and resolve calls and cases. The NICE call monitoring and recording system is used by management both for quality assurance and training for customer service representatives. In order to provide the most accurate and up to date information to customers, the system retrieves information from the existing Lawson Human Resources Management System daily. The MI HR solution also provides standard reporting and metrics for continuous improvement of the service center and the customer service representatives.

When presented with the increasingly common challenge of achieving greater results with fewer resources, the Optimization Project team and MI HR staff created a unique and highly effective solution. Rapidly and under close scrutiny, a shared service center was designed and built, processes reengineered, and a complete solution implemented and deployed on time and under budget while achieving or exceeding all savings objectives.

B. Significance to Improved Government Operation

The HR Optimization project is a recent example of the statewide vision and leadership that Michigan is taking with regard to Information Technology (IT) and its strategic deployment to meet business challenges. Encompassing both inter-departmental and public-private partnerships, the project team included carefully selected individuals with specific business and technical skills. This implementation exemplifies the benefits of organizational alignment that runs from transaction level activities through strategic vision. The outcome of carefully integrating technology and business process is a service center that operationalizes the State of Michigan Cabinet Action Plan goal of “Better Government.” This goal calls for state agencies to streamline

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services and implement innovative technology to reduce time, mistakes, and costs. MI HR has demonstrated success on all of these fronts.

The MI HR service center centralized more than 40 HR transactions across 9 different categories including new hire benefit set up, benefit open enrollment, payroll updates, and other personal data modifications. Processes were simplified and standardized to minimize the opportunity for errors. MI HR Information (the new online knowledgebase) was established so that information presented would be tailored to specific employment conditions, taking employees more directly to the information they want and making it accessible twenty four hours a day. These innovations alone meet the challenge offered in the Cabinet Action Plan.

The team also recognized that there are times when human interaction is required but that a methodology was needed to provide service in a measurable, repeatable manner that would be responsive to changing needs. The customers of the MI HR Service Center had high expectations and understandable concerns. The legacy model of customer support in HR was familiar but not optimized for efficiency; general HR activities were duplicated across the state but not necessarily done with frequency at any single location. Additionally, information was stored in multiple locations requiring greater effort to maintain it and increasing the chance that someone would access out of date or conflicting information. With the MI HR solution, information resides in a central repository simplifying maintenance and ensuring consistency.

Now, employee needs are met through general support that can be accessed online at any time, or with expert assistance during expanded hours during the week. A significant fear, that the "personal touch" would be lost, has been alleviated by augmenting secure online access to the information employees need with personal interaction when they prefer it. This approach has also enhanced the ability to accommodate a wider variety of disability issues through a more flexible service model.

Management, in turn, has seen almost \$7 million dollars of direct cost savings to date, significantly more than the projected savings goal set for this project. These savings were gained through the thoughtful application of technology and implementation of redesign efforts. By deploying a more efficient system the State of Michigan has been able to respond to the reality of tightening economics by delivering necessary, and in some cases enhanced, services with a reduced workforce and while redeploying subject matter experts to meet strategic business needs.

These achievements have been recognized by others not only for their innovation, but for the repeatability of the developed model. Project success has garnered national recognition and engaged industry attention. The project team has shared its experience and methodology with other state and government groups through presentations at conferences such as the Annual National Association of State Personnel Executives (NASPE) Conference and the Lawson Customer User Exchange. These venues have provided opportunities both to talk about the HR Optimization process and to receive input from other business sectors regarding their experiences. This contact has even led to international interest in the MI HR service center. For example, in March of 2006 project team members hosted a delegation from Singapore intent on learning more about the Michigan model.

The success has also drawn recognition within both business and technological communities, resulting in the Agency Award of Excellence from the International Public Management Association for Human Resources, an Award of Merit from the National Association of State Personnel Executives, and most recently, a Laureate Medal in the Computer World Honors program.

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From crystallizing a project vision to creating a first class project team and delivering a call center solution meeting all defined critical success factors; this project has achieved its goals by all technical measures. Ultimately however, it has been the balance of transitioning to centralized services that takes advantage of economies of scale and the ability to deliver the responsive customer support that employees expect and deserve, which has been the greatest measure of the project's success.

C. Benefits

The most immediate benefit has been putting state employees more directly in control of their state employment experience, with on-line access to their records and basic transactions, on-line access to detailed and easy-to-use reference resources, and expanded-hour direct access to knowledgeable Customer Service Representatives to help navigate the system at whatever level is most comfortable for that employee.

Realized efficiency gains from a management perspective include the freedom for agencies to redeploy staff from administrative and HR support roles to more strategic uses, specifically to help other parts of their agency meet operational objectives. Subject matter experts who remain in the agency HR offices can now shift their attention to specialized tasks that support their department. In general, agencies now have increased resource flexibility allowing them to complete more complex activities with greater efficiency than under the legacy support model.

In researching the benefits of deploying a shared service center, the project team recognized the importance of establishing service level metrics that would be both meaningful and challenging to the customer support staff. In addition to setting clear performance objectives, the team wanted the ability to measure progress and provide for constant improvement of service. It was determined that measurements would be made in close proximity to the calls, in real-time where possible, and would be linked with training and education in order to close the feedback loop between growth and outcomes. By integrating quality assurance software with the entire process, the service center is able to:

- Record incoming calls
- Track associated transactions
- Provide managers with live monitoring of calls
- Use actual customer interactions in training customer service representatives to meet established performance standards

In addition, once a call is completed confidential quality of experience surveys are sent to every customer. The results speak for themselves:

- An exceptional rate of return for satisfaction surveys
- 97% of respondents satisfied, or very satisfied, with their experience
- All cases closed within target time frames
- An average of 8,000 calls and transactions per month
- Up to 1,000 calls in a single day during high activity periods, such as benefits open enrollment
- A call abandonment rate that averages 1%, independent of call volumes
- All calls answered within 30 seconds
- A fourfold increase in the use of enhanced employee self-service, using the internet/intranet gateway.

Statistics demonstrate that the Service Center is meeting its objectives and customers say they appreciate the team's hard work.

"The goals of increasing efficiency and saving money, while at the same time maintaining high customer service ratings, required us to fundamentally change the way we deliver HR services in the State" remarked State Personnel Director and Project Manager James Farrell. "In collaboration with our partners in the HR and

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IT communities, we took this opportunity to streamline business processes and to leverage and apply technology in a strategic manner to meet our goals. With the dedicated efforts of many, we delivered the project ahead of schedule and under budget and are receiving consistently high levels of satisfaction from our MI HR customers.”

D. Realized Return on Investment

As noted throughout this nomination, the return on investment is broad-based, and establishes a foundation for future savings that can become pervasive to state government. The project, completed ahead of schedule and under budget, was predicted to save \$2 million in its first year. The service center has achieved that objective and not only remains on target to save the originally projected \$25 million in its first five years of operation but, with almost \$7 million dollars in cumulative savings through fiscal year 2006, is on target to exceed that goal by more than 3 million dollars. Cumulative savings are calculated from the number of positions eliminated each year and are based on salary and benefits savings using a weighted average starting at \$68,100/year for year 1, \$72,400 for year 2 and adjusted for economic projections looking forward. These savings are calculated after the operating expenses (approximately \$3 million per year, \$2 million in staff costs and \$1 million in IT systems and support) for the Service center are deducted and funding for the scheduled position reductions are removed from agency line items by the State Budget Office each fiscal year. Additionally, the standardization and centralization of core statewide HR functions are expected to create further advantages for state agencies with the expanded use of the shared services model and the capacity of the MI HR service center.

The hard-number savings are realized primarily as a result of staff reductions--76 positions in the first year and an additional 62 positions in the next four years. Additional unmeasured economies will also continue to accrue from cost avoidance, such as the reduction of general and administrative overhead, and also from the time savings and more efficient use of monetary and staffing resources experienced by agencies and personnel throughout the state. Significantly improved response times and better service to employees are other key benefits not reflected in the financial calculations.

As experience has been gained with the processes planned for MI HR, additional support capability and responsibility has been transferred to the center. Support for employee inquiries related to a statewide dependent audit and responses to retiree benefit questions including implementation of Medicare Part D coverage are examples of added responsibilities. Further explorations include the use of electronic document management within the service center, and pilot testing a post process document storage and retrieval system so that it can be included within processes, where appropriate. This pilot has allowed the deployment of additional technology in a well defined production environment, which will in turn promote identification of new process efficiencies and ultimately lead to simpler data management and faster, more seamless access to information.

This intensively collaborative effort moved from design to full operation in just over one year, delivering the planned services ahead of schedule and under budget. The success of this project will continue to pay dividends regardless of future variations in budget and resource environments. Project success was built in part by establishing a foundation of trust and opening new lines of communication between central and agency HR offices and, as all parties become comfortable with the new processes, additional functions may be transferred to MI HR or similarly conceived service centers and this success will breed greater savings, and successes.