



**SHARED HUMAN RESOURCES
PILOTS**

Final Report

August 2004



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Shared Human Resources Pilots

Acknowledgements

The Chartered Institute of Personnel and Development (CIPD) worked with the DTI to develop the High Performance Workplace Model for Small Businesses. This was used as a key element of the criteria for selection of proposals for providers to participate in the Shared Human Resources (HR) initiative.

Monitoring and assessment against this model, at the Key Performance Indicator 2 stage of the pilots, was undertaken by Mike Emmott, the CIPD Employment Relations Policy Advisor, and Professor Lynette Harris of Nottingham Business School, to whom thanks are due for their excellent report and case studies.

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Headlines of key findings

Most SMEs agree that employment issues are too serious to ignore but too expensive for them to address through external single delivery providers.

Most SMEs favour a tailored, personal approach to their needs, using a local HR service provider.

Some SMEs considered that having a low level of confidence in dealing with employment issues was a barrier to business growth.

The most effective marketing strategy has been initial telephone call followed by a personal visit.

Using e-mail to target an audience is only successful and cost-effective where the technology infrastructure is already in place, the provider's reputation is known and positive and professional HR advice, general or specialist, is available.

Unsolicited mail is the least effective marketing strategy.

There were demonstrable improvements in client levels of confidence in dealing with and awareness of employment issues, following the intervention of the service provider.

The average cost per client of providing the Shared HR service ranged from £2.5K to £3.5K

The average cost per client of providing support on specific employment issues varies considerably, depending on the nature of the intervention.

All providers have negotiated some form of ongoing support with many of their clients.

Most providers reported a positive experience from delivering one of the pilots.

Shared HR pilots

Management summary

The Department of Trade and Industry's (DTI) Shared Human Resources (Shared HR) initiative was developed in response to a recommendation from the Better Regulation Task Force (BRTF) – see Section 3, Context of Shared HR, that “The Government should run a range of pilots, with different providers and funding methods for a Shared HR resource for small firms”.

A press announcement¹ that the recommendation was being taken forward by the DTI generated a great deal of interest from providers with a wide variety of knowledge, skills and experience. They all shared the view that small businesses would benefit from their HR service but admitted that getting their product noticed was difficult in a market where these businesses tended to be reactive on employment issues.

These views helped to shape the thinking at DTI on the most appropriate way forward with Shared HR service provision. Three factors were considered to be critical for successful market testing:-

- A route to market that would attract interest and succeed in signing-up small businesses to a Shared HR service.
- A method of assessment that would identify areas of non-compliance and opportunities for improving employee relations and partnership in the workplace.
- A service delivery that would succeed in raising levels of employer confidence in dealing with employment issues, awareness of employment regulations and achieve compliance in those areas identified through the assessment process.

From 30 written proposals, 9 uniquely different providers, working in partnerships, were selected to run a Shared HR pilot from August 2003 to end March 2004. They were selected against three key criteria:-

- Consideration of their proposal against the Chartered Institute for Personnel and Development (CIPD) High Performance Workplace Model (HPW) for Small Businesses.

- Government guidelines on additionality.
- Sustainability to meet the long-term needs of the small business community.

Marketing was the first of three Key Performance Indicators (KPIs) and analysis at this stage showed that a personal approach through telephone call or visit was the most effective strategy for gaining entry to the business.

The use of technology for marketing, despite its speed and cost-effectiveness, did not yield encouraging results when used for “cold call” marketing. However, when used to introduce an opportunity or new service from a local provider of good reputation, the results were significantly different, with a high success rate at fairly low cost compared to other routes to market.

Around 170 clients were signed-up by the 9 pilot providers. Although this was a relatively small number, it was largely due to the short timescale of the pilots, a cap on the amount of available funding and desire by the providers to maximise the time available for service delivery.

The second KPI concerned an assessment of the pilots against the CIPD HPW Model for Small Businesses. This was carried out during the service delivery period and gathered feedback and commentary from the providers and a small sample of their clients.

Indications from the findings at this stage were that the HPW Model for Small Businesses was an appropriate and relevant base on which small businesses could build a framework of complaint HR policies and practices, at the same time giving scope for

development of a best practice approach to their employment issues.

The providers were enthusiastically supportive of the pilot initiative and their clients reported a growth in their confidence, knowledge and awareness of employment issues and regulations. In several cases, there were clear indications that participation in the Shared HR initiative had reduced the “fear factor” around compliance issues and the all too common belief that recruiting more people inevitably leads to an increase in the challenges associated with employment.

The third KPI provided evidence of impact and effectiveness from each pilot and enabled comparisons and contrasts to be made across them.

Confidence and awareness levels from all clients showed an increase from before and after the pilots, with the Employment Contract, Discipline/ Grievance and Equality and Discrimination emerging as the top three issues on which advice and support were being delivered through the pilot providers. The degree of intervention on each of these issues varied, but this was welcomed by the clients, who reported that they preferred a tailored approach to their needs delivered by a local service provider. On-line services, whilst valued by clients as a source of information, were not favoured as a means of overall service provision.

Analysis of the costs of service provision revealed an average of £2.5K to £3.5K per client. Costs of single-issue interventions varied considerably, depending on the nature of support. For example, in some cases this was merely checking compliance on employment contracts in other cases drafting

contracts for the client and providing training to meet future needs.

Participating in the Shared HR initiative proved to be a positive experience for all the providers and they gained invaluable learning as they tested marketing and service delivery models. In many cases, the experience served to reinforce the fact that small businesses need advice and support on employment issues, in an appropriate, timely and cost-effective way. It was widely acknowledged that transforming small businesses' attitude to HR issues from reactive to proactive was going to take time and that the key lay in understanding the individual businesses, demonstrating that understanding through appropriate support and enabling the businesses to assess the positive difference that compliant and best practice approaches to employment issues can make to their "bottom line".

This is the heart of the Business Case for Shared HR and is supported by the client feedback that the features they most valued from this initiative were those that provided a personal, local, tailored HR service provision.

The findings from the Shared HR Pilots initiative reveal a high correlation between the assessments of impact from the providers and evaluation of the client responses to the service delivery. It is clear from the evidence that a successful strategy to engage small businesses in the future will be modelled around an approach that provides appropriate, timely and up-to-date information channels and includes a personal interface with the clients, based locally, which delivers a manageable, appropriate and cost-effective service to meet small business needs.

Section 1 - Introduction

This is the full and final report on the outcomes of the Department of Trade and Industry's (DTI) Shared Human Resource (HR) Pilots for Small Businesses initiative. It follows an Interim Report to the DTI project sponsor that summarised key findings of the Shared HR Pilots as at end June 2004. At that time, some data and survey analysis was still outstanding.

The pilots were delivered between August 2003 and the end of March 2004, in response to a recommendation from the Better Regulation Task Force (BRTF).² See page 9, section 3 - The Context of Shared HR.

Around 170 clients were signed-up by 9 client providers.

Throughout this report, the providers are referred to by model descriptors that were assigned at the start of the project (see Section 5 – The Pilots – Set up and Delivery). This is because the project was testing a variety of models of marketing and delivery and not the actual providers. No assumptions are made about the best provider of a particular method being the only provider.

2. Employment Regulation: Striking a balance, May 2002. www.brtf.gov.uk/publications

Section 2 - Background facts and figures

At the start of 2002, 99 per cent of the 3.8m businesses in the UK were in the 0-49 employees bracket (56 per cent of employment)³.

The Small Business Service's Annual Small Businesses' Survey for 2003⁴ found that from a range of barriers or obstacles to achieving business objectives, 38.7 per cent of the businesses thought that "regulations" were, in some way, placing obstacles in the way of their success. In fact, 14.5 per cent considered this was their greatest obstacle.

Breaking this down further, the survey revealed that of the number of small businesses with employees, almost 48 per cent identified regulations as an obstacle and, of this number, almost 12 per cent reported that Employment Protection regulations presented particular obstacles for them.

Of the whole survey group, about half said they had not sought advice or information from external sources in the previous 12 months, about how regulations might affect them. Where advice had been sought, the three main

routes were the businesses' accountant (around 13 per cent), a trade or business association (just over 10 per cent) and public information sources (around 6 per cent).

In their report dated March 2004⁵, the Small Business Council Regulatory Interest Group (RIG) states that many small business employers lack an incentive to find out about employment regulations and few can identify any tangible benefits. It goes on to say that a widespread belief exists that regulations are difficult to understand and apply.

In 2002/3 there were 99,000 applications to the Employment Tribunal Service (ETS) and the 2003 Survey of Employment Tribunal Applications (SETA)⁶ showed that small workplaces (1-24 employees) were over-represented in the number of cases brought. The survey also revealed that, of businesses in that category, an average of 8 days was spent by management in carrying out work related to each case. For employers, the negative effects of this process were felt in interruption to their businesses, increased stress levels and low staff morale.

3. A Government Action Plan for Small Business – The Evidence Base. Small Business Service – January 2004

4. The Small Business Service's Annual Small Businesses' Survey 2003 – July 2004

5. The Small Business Council Evaluation of Government Employment Regulations and Their Impact on Small Business – March 2004.

6. Findings from the Survey of Employment Tribunal Applications 2003 (SETA) – DTI Employment Relations Research Series - No. 33 – August 2004.

Section 3 - Context of Shared HR

The Better Regulation Task Force was established in September 1997. It is an independent body that advises Government on action to ensure that regulation and its enforcement accord with the five Principles of Good Regulation; proportionality, accountability, consistency, transparency and targeting.

In May 2002, the Task Force published its report *Employment Regulation: Striking a Balance*, which looked at how employment law impacts on business and made a number of recommendations on how the policy making process could be improved.

The Task Force found that many smaller employers would benefit from sharing an HR resource, allowing access to someone who could, for example, run recruitment exercises, draw up contracts, manage redundancies and deal with other employment issues as they arose.

The Task Force therefore recommended that the Government should run a range of pilots, with different providers and funding methods, for a shared HR resource for small firms. The Government accepted this recommendation.

Section 4 - Implementing the recommendation

Following a press release announcing that the report had been accepted and action was being taken to implement the recommendations, a high number of enquiries were received by the DTI from a wide range of providers who were interested in talking about their experiences in providing HR services to small businesses.

What they all said was that they had a valued product, which they knew organisations, wanted – once they were aware that it existed. They tended to be contacted only when there was a need for an issue to be contained or addressed; in other words, a “distress purchase”. The DTI considered that this was an issue about routes to market – how to encourage small businesses to think proactively about the benefits of good practice and compliant HR by developing policies, procedures and practices for issues or situations – even if they never happen?

That was the question the DTI had in mind when developing the Shared HR Pilots initiative.

In addition, whilst encouraging compliant HR practices, it was also considered to be important that the “softer” issues such as employment relations and partnership were addressed as part of the framework of personnel issues faced by businesses. These areas are important to ensure participative workforces, who feel part of the development and prosperity of their workplace.

Section 5 - The pilots - Set up and delivery

The project was set up in three stages to deliver the BRTF recommendation:

- Assessment of feasibility studies and selection of pilots.
- Management and monitoring of pilots.
- Evaluation and recommendation of pilots, to identify if there is a model for national roll-out from 2004.

5.1 Assessment and selection

To ensure there was a minimum standard for delivery, the DTI worked with the Chartered Institute of Personnel and Development (CIPD) on developing the High Performance Workplace (HPW) Model for Small Businesses (**Appendix A**). The model was used as one of the mandatory criteria for selection of pilots.

In addition to this, it was important that the proposed deliverable met Government guidelines on additionality. That is to ensure that funding was granted to providers who were testing a model of marketing and service delivery they were not currently offering as part of their portfolio.

There was also the question of sustainability. Given that the aim of the Shared HR initiative was to distil a model of marketing and delivery that would best meet the needs of the small business community in the long-term, there had to be a strong case from the providers that their model was sustainable to meet this aim.

Therefore, the three key mandatory criteria used were:

- Consideration of the proposal against the HPW Model for Small Businesses.
- Additionality
- Sustainability

Other criteria that were applied in the short-listing and selection process included proposed strategic partnerships, routes to market, implementation methods, delivery channels and unique selling principle.

The end result is that from 30 written proposals, 9 pilots were selected across the country, regional and sectors. They were all uniquely different in the models of route to market and service provision being piloted. Some made a charge for

services at full rate, some at a discounted rate and others free at point of access. All delivered their models in partnership with other providers. As the

models rather than the providers were being tested, descriptors to identify each model were developed as set out on the table below.

Shared HR pilots - model descriptors

MODEL	DESCRIPTION	COVERAGE
On-line HR	Computer based HR system that stores company files and sends prompts to under take personal reviews or course of action at the appropriate time. (Work-flow management.)	National and open to both members and non-members.
Well-being	HR solution through a well-being at work angle/work life balance.	Voluntary sector (one of the more regular users of the Employment Tribunal system).
Marketing	Computer + helpline HR services. Marketing hard to reach sectors like construction, either by marketing to them or evaluating effect on business performance of existing clients in these sectors	Market directly to small business and via third party intermediaries.
Broker/Voucher system	Brokerage system partnering with other organisations in geographical area. Combines tested delivery model with voucher system to encourage initial contact from SMEs.	Regional – open to all SMEs in Milton Keynes, Oxfordshire and Buckinghamshire area.
Diversity	Encourages SMEs to build own expertise but they can contact a range of ‘experts’ located across region. The only commercial profit-making organisation in the group of pilots.	Regional - South Wales. Service offered to clients free of charge.
Self-sufficient	Provides HR services to clients by actually undertaking work and then withdrawing from organisation once it is self-sufficient.	Sector - Printing. Client fees based on number of employees.
Theory/Practice	Scheme partners with academics and covers geographical area of social exclusion and high unemployment.	Local geographic - local authority borough.
Transferable	Uses a tried and tested method that successfully introduced an Health and Safety strategy and plan.	Sector based - Glass industry. Open to members and non-members. Provided free of charge to first 10.
Hard-to-reach sector	As designated European Capital of Culture 2008, there is a high potential growth in the tourism industry in Liverpool, with the attendant issues of recruitment and retention and general HR issues.	Sector/regional - Merseyside. Restricted to tourism in N-W. Less than 25 employees - £99.00 and for those between 25 and 50 £149.

5.2 Management and monitoring

Stage 2 of the project covered the period from start up of service provision, August 2003 to completion at the end of March 2004. During this period, the providers were required to submit quantitative and qualitative evidence for three of the four Key Result Areas (KRA) 1, 2 and 3 and their corresponding Key Performance Indicators (KPI) that were developed to meet the objectives of the Management and Monitoring stage. KRA/KPI 4 is met through the production of this Management Summary Report and the full Project Report, which is scheduled for completion at the end of September 2004. The KRAs/KPIs and the key findings to date are set out below:-

5.2.i

KRA 1 – Marketing Strategy

KPI 1 – Effectiveness of the marketing strategy in identifying the most appropriate route to market that achieves maximum sign-up of the target audience.

A template was developed to provide a consistent method of data collection for this important milestone in the project. The aim was to capture quantitative data on the percentage of businesses that expressed an interest and subsequently signed-up for the pilots, against an original target set by the provider and within a variety of possible marketing strategies. There was also a requirement to supply data on the resources (people and cost) used in the marketing strategy, so that comparisons could be made across the pilots on cost-effectiveness of marketing approaches and successful sign-ups. Key findings that emerged were:

Most successful overall strategy in terms of sign-up and cost-effectiveness: (For overall strategy, success is defined as achieving at least 50 per cent sign-up against target and most cost-effective when compared to the resources and time used across all pilot providers.)

Initial telephone call, followed up by personal visit. Overall success was also achieved by one provider's targeted e-mail campaign. However, this was only cost-effective because the technology infrastructure was already in place, incurring no set-up costs and the provider's reputation was known and positive, therefore increasing the opportunities for sign-up.

Most successful strategy for generating interest against target: (For the purposes of this pilot, success is defined as achieving a minimum of 0.25 per cent interest against target)

E-mail – 100 per cent. Voucher/Broker model. The infrastructure for regional communication via technology was already in place and successful in terms of the number of businesses accessing the website for advice. The provider was already well-known and had a strong database of retained consultants with general and specialist HR experience.

Most successful strategy that subsequently converted interest to sign-up: (For the purposes of this pilot, success is defined as achieving a minimum of 10 per cent sign-up from interest against target)

Telephone – from 62 per cent interest to 48 per cent sign-up. Personal Visit – from 58 per cent interest to 43 per cent sign-up. Evidence to support this also emerges from the first client survey, where it is clear that clients prefer the

“human touch” when dealing with people issues or considering whether to sign-up for a specific HR service. The fall off in numbers between interest and sign-up was largely attributed to businesses agreeing to a meeting then not ensuring the contact availability on the day, initial interest that is not responsive to follow-up calls or letters, businesses deciding that they will stay with their “trusted advisor” lawyer or accountant for general advice.

Most cost-effective strategy for achieving sign-up against target: (This is defined as most cost-effective when compared to the resources and time used across all pilot providers.)

E-mail, followed up by personal visit. Again, this was the voucher/broker system, where a team of 4 people spent 69 hours targeting 22,000 small businesses in 3 geographical areas at a cost of around £3.5k. No set-up costs were involved, which clearly had a positive effect on the costs involved.

Mention should also be made of the Hard-to-Reach provider, who spent under £2k, primarily on an advertising mail-shot, involving 11 people over a 62 hour period. Costs were contained here due to the fact that the main thrust of their marketing was made at an already scheduled event in the region, where they negotiated a share of the agenda for the day at no cost and successfully engaged the interest of the majority of their clients.

Most successful provider in achieving sign-up against target: (For the purposes of this pilot, the definition of most successful is outcome of marketing strategy when compared across all pilot providers.)

Diversity model. This was the only commercial consultancy involved in the

pilot. With 2 people in the business, they successfully exceeded their target, achieving 128 per cent, by a mix of personal visits and networking, all within the original budget. 129 hours was spent on their marketing activity at a cost of £8,659.

Least successful overall strategy in terms of sign-up and cost-effectiveness:

Unsolicited letter or e-mail, where this was used as a cold call for an on-line product. No interest was generated from either of these strategies. The providers expressed little surprise at this result but, having granted funding to one provider for the sole purpose of testing different marketing strategies, this is important evidence for informing future considerations of the best approach for communicating with and engaging small businesses.

Least successful strategy for generating interest against target:

As above. Used by 2 providers, there was no interest generated in either case.

Least successful strategy that subsequently converted interest to sign-up:

Advertising. This approach achieved a very small level of interest that did not convert to sign-up. One provider targeted 160 businesses with a mail-shot and received just 3 responses.

Least cost-effective strategy for achieving sign-up against target:

The cost of making personal visits has, on the whole, proved to be quite high when factoring in salaries and travel expenses so, it is clearly important for the provider to have identified the best initial approach to engage interest and subsequently follow-through having

developed the rapport. Personal visits worked well when the operational managers of the small business were engaged in the process at some point; either at the “knock on the door” stage or “door’s open” stage. Where they were least successful was when the initial approach was made to a Senior Manager and follow-up action was either not agreed at the time or the Senior Manager was not willing to offer an operational contact in the business.

Least successful provider in achieving sign-up against target:

Marketing. Only one of the three marketing strategies they used yielded any interest – the “trusted advisor” strategy. Indications from the provider were that if sign-up was achieved this would have a major spread and positive impact nationally. The approach used, involved the “white labelling” of an on-line product for use by the “trusted advisor” who would incorporate their own branding. In all likelihood, the combination of the trusted advisor’s existing services and the website would bring this closer to the model found to be most attractive in encouraging SMEs to sign-up for an HR service.

5.2.ii

KRA 2 - Assessment against CIPD High Performance Workplace Model for Small Businesses

KPI 2 – Identification of level of awareness of and compliance with employment legislation, set within a framework of good practice HR policies, practices and procedures.

Essential to the monitoring process across the pilots was to carry out a back check against the CIPD High

Performance Workplace Model for Small Businesses. This aimed to examine what use providers had made of the model and suggest how it might need to be adapted as a basis for a wider programme of support for small firms. For this reason, the CIPD Employment Relations Policy Advisor, Mike Emmott and Professor Lynette Harris of Nottingham Business School were commissioned by the DTI to visit all pilot providers and a small sample of their signed-up clients. Included in their brief was the requirement to identify suitable case studies, covering both the positives and negatives of the pilots, so that real learning could be distilled from the provider and their client’s experiences that would inform future dialogue on this subject. The work was carried out between February and end March 2004 and the key findings are highlighted as follows:

The assessment found that the High Performance Workplace Model for Small Businesses was highly relevant both to the context of small businesses and as a framework on which to base any future HR support to them.

There was much enthusiasm for the pilots by the providers and their clients and this was reinforced through a number of quality case studies, which demonstrated high satisfaction with the services provided and improvements in levels of awareness of people management issues by the clients.

Among the clients visited, the most widely reported changes were those involving compliance issues and many had worked with the provider to put basic policies and processes for managing employees in place. The assessment did, however, make the point that durability of these changes was difficult to predict. Encouragingly, there were

some clients for whom the experience of participating in the pilots went further than addressing compliance issues. In these cases, there were clear indications of increasing levels of confidence, awareness and knowledge of employment issues and this, in turn, was reducing the some of the fear that existed around recruitment issues and which might constrain them from increasing their workforce and, therefore, growing their business.

Most of the information gained from the assessment confirmed the perception that small businesses tend to adopt an incident-led approach to HR issues and, without access to internal HR expertise, they are disadvantaged in terms of developing knowledge of how to apply procedures as well as handling employee relations problems as they arise. The pilots had provided these businesses with an invaluable opportunity to improve their knowledge to the extent that they felt more confident in applying what they had learned in the day-to-day operation of their business.

This increased knowledge and confidence came through in the case studies where clear examples of putting learning into practice was evident, at the same time as having the comfort of knowing that HR expertise was available if required. Added to this, the case studies explicitly showed that effective HR support needs to provide substantially more than compliance and crisis management.

The availability of a plethora of on-line web-based services was identified as a useful source of information about employment issues but restricted both in its ability and value in meeting all the needs of the small business employer and to changing their attitudes and behaviours.

5.2.iii

KRA 3 – Impact and effectiveness of Shared HR Service Provision

KPI 3 – Evidence of improved business performance through increased levels of awareness and compliance, employee satisfaction, internal management/employee relationships and an evolving culture of good practice HR.

Two methods were used to capture evidence for this indicator.

Firstly, two surveys were distributed to the providers' signed-up clients, one at the end of March and a follow-up survey in July 2004. The surveys were designed to assess the before and after service delivery stages by looking at issues of client confidence and awareness with employment issues, the number and type of issues being addressed through the pilot and information about the level of service being received. The follow-up survey also sought to identify their views and intentions on HR issues post-pilot.

Secondly, a template was developed for the providers to complete, that would gather information about costs of service provision, progress made using information from pre and post client assessments and, importantly, how the providers themselves felt about the experience of delivering one of the pilots.

Client Survey 1 – March 2004

The survey was sent to all signed-up clients of 8 pilots (the on-line model provider was not included as funding was granted for the sole purpose of

contributing to evaluation of their own product). 164 surveys yielded a response of 84, therefore a 51 per cent return.

Key findings from Client Survey 1 (Appendix B)

Across the board, findings show increases in levels of confidence and awareness on employment issues and regulation pre and post service delivery, which is supported by data on the number and type of employment issues delivered by the providers. Twelve employment issues were extracted from the CIPD High Performance Workplace Model for Small Businesses as fulfilling the basic minimum requirements of HR compliance and good practice.

On the question of confidence with employment issues on a day-to-day basis, of particular significance is the fall in the combined responses for "Not Confident" and "A Little Confident" ratings before the pilot (29 per cent) to just 3 per cent at the end of the pilot. "Moderate Confidence" was rated at 51 per cent before the pilot and 21 per cent at the end. Combined levels of "Confident" and "Highly Confident" saw a sharp increase from just 20 per cent before the pilot to 76 per cent at the end of the pilot.

When asking the clients to take a longer-term view of their confidence levels, this resulted in broadly similar responses.

On the question of awareness of employment regulations, there appeared to be higher percentage of "Moderate Awareness" at the start of the pilot (59 per cent) when compared to "Moderate Confidence" with employment issues (51 per cent) but a lower level of "Above Average/Full Awareness" (12 per cent)

before the pilot compared to "Confident/Highly Confident" with employment issues (20 per cent). The end of pilot rating for "Above Average/Full Awareness" was broadly similar to employment issues at 73 per cent.

The higher starting level of awareness of regulations tends to accord with the majority of free comments made by the clients within the survey about recognising the importance of compliance and the type of issues that were addressed by the HR service providers. For example, many of the clients (56 per cent) indicated they had sought advice on the employment contract in the 12 months pre-pilot, 73 per cent were receiving support on this issue through the pilot and 80 per cent stated that it was a priority on sign-up. The Employment Contract was the top rated employment issue from the 12 that were identified in the CIPD High Performance Workplace Model for Small Businesses. The second highest issue was Discipline and Grievance, on which 46 per cent sought advice in the year before the pilot, 61 per cent were receiving advice and support through the pilot and 54 per cent indicated it was a priority at start-up.

The fact that the Employment Contract and Discipline and Grievance emerged as the top two issues reinforces the need for SMEs to access appropriate support that will ensure their compliance with employment regulations.

It is interesting to note that the clients saw non-compliance issues, Appraisal, Training and Improving the Way you Work with your Employees, as the top three issues in their business plans for the following 3 years. Whilst the reasons for this shift in focus were not requested, many of the clients had

identified that they were aiming to have positively changed their compliance with regulations (39 per cent) improved their working practices, systems and records (32 per cent) and increased their confidence and awareness of HR and Employment Law (20 per cent) as a result of participating in the Shared HR Pilots. It is possible, therefore, that having established a high level of confidence that their compliance issues had been addressed they could look to considering other employment issues that would enhance their employee relations and improve efficiency and productivity in the longer-term.

Clients were also asked whether their provider had helped them to identify their business needs. 82 per cent said YES and 18 per cent said NO. Of the 18 per cent who responded NO, the reasons were generally that the business knew what its issues were, had already identified their weaknesses and actually told the provider what they needed. In these cases, it may be that the clients actually challenged the outcomes of the pre-service delivery assessment or, having considered all the issues that emerged from the assessment and given the timescales of the pilot, selected those issues that were the highest priority for them at that time.

Only two clients stated that the service was not meeting their needs.

When asked about the service level quality at the time of the survey in March, 5 per cent reported Improvement Required, 32 per cent reported Good, 54 per cent Excellent and 9 per cent Exceptional.

Clients were also given the opportunity to make general comments about the Shared HR Pilots. A selection of these

comments, representing all the pilots, is attached as **Appendix C**. There was a high percentage of clients who made the same point that the employment issues they were dealing with were too serious to ignore but too expensive to address through other external single delivery channels. Most placed a high value on the Shared HR initiative and recognised the positive difference it was making to their businesses. There was also a unanimous hope that further similar support would be provided. Overall, they welcomed the fact that they could access the service locally.

Client Survey 2 – July 2004

The second client survey was undertaken 3 months after the pilots had ended. It sought to identify changes in levels of confidence and awareness on employment issues and regulation following the end of service provision and to gain an insight to their future intentions.

The survey was sent to all those clients who had responded to the first survey. A total of 81 surveys were sent, yielding 47 returns and a response rate of 58 per cent. Although this second survey collected data from a much smaller number of clients, the findings are important for the overall picture that has emerged together with changes, thoughts and perceptions in the three months post-pilot.

Key Findings from Client Survey 2 (Appendix C)

There was a slight downward shift in levels of “Confident/Highly Confident” on day-to-day operations and employment issues since the first survey, from 76 per cent at the end of the pilot to 65 per cent at this stage.

“Moderate Confidence” had gained at 29 per cent compared to 21 per cent. It was, therefore, encouraging that the slippage had not resulted in a higher level of low confidence at the end of the pilot.

Taking a longer-term view, the results were broadly similar.

On Employment Regulations, the response was slightly lower in the highest categories of “Above Average Awareness/Full Awareness” at 61 per cent compared to 73 per cent at the end of the pilot. However, as with Employment Issues, this shift did not result in an increase in the lowest levels of awareness but had increased the “Moderate Awareness” category to 37 per cent from 26 per cent.

Where confidence had changed (77 per cent of responses), a number of reasons were given by the clients. In essence, this was due to increased levels of understanding, better understanding and the knowledge that they had addressed their compliance issues. 23 per cent of clients stated that their confidence levels had not changed.

Where awareness had changed (75 per cent of responses), the overwhelming reason given was that this was due to increased awareness of the importance of employment issues (43 per cent). Not all clients gave reasons for changes that had taken place. 25 per cent of clients stated that their awareness levels had not changed.

In asking clients whether any changes in employee relations had resulted from the HR service, it was acknowledged that a 6 month period was too short for noticeable changes to be experienced. 60 per cent of clients said they had not

experienced any changes but of the 35 per cent who had noticed a change, this was largely due to increased employee awareness (11 per cent).

To build on the data collected for the 12 employment issues from the CIPD High Performance Workplace Model, clients were asked to identify any issues they had sought advice on since the pilots had ended. Discipline and Grievance emerged as the top issue at 30 per cent, with the Employment Contract close behind at 28 per cent and Absence and Turnover at 23 per cent. This reinforces the importance that the SMEs were continuing to place on addressing the two compliance issues.

Clients were asked if they knew where to go for advice on employment issues at this stage and 94 per cent responded “yes”. Of this number, there was a fairly even split between those who had signed up for further services with their provider (49 per cent) and those who had not (51 per cent). Further probing of those who had not revealed a wide variety of identified sources of advice and support, from the pilot provider (15 per cent) to ACAS (11 per cent), Trade Associations (11 per cent), Government sources via the Internet (9 per cent) Business Links (6 per cent), Croners (6 per cent), Trusted Advisors (2 per cent) and Chambers of Commerce (2 per cent).

A back check on general views of service delivery revealed a slight increase in the “Exceptional” category from 9 per cent to 11 per cent and an increase in “Excellent” from 54 per cent to 60 per cent. Perceptions of “Good” service had slightly decreased from 32 per cent to 25 per cent and “Improvement Required” from 5 per cent to 2 per cent. However, one client

stated the service was unacceptable and the reason given was that the provider had not followed through following an initial consultation.

Statistical comparisons between client surveys 1 and 2 are combined in **Appendix E**. Extracts from client survey 2 are attached as **Appendix F**.

Providers' Assessment of Impact and Effectiveness

Key findings

The average cost per client of providing the HR service ranged from £2.5K to £3.5K. It should be noted that, at most, the delivery covered a 6 month period. One or two pilots started later than August 2003 and the Hard-to-Reach pilot was delayed until December due to funding issues but still ran for a complete 6 months. All providers spent the first few weeks on marketing activity, therefore, in some cases the actual period of delivery would have been less than 6 months. That said, it should not be assumed that a longer delivery period would increase the costs. Where non-compliance in employment issues is identified, as was the case for the majority of clients in this project, the service deliverables will be front-loaded to bring the client up to a level of compliance. Thereafter, the emphasis will tend to be on maintaining compliance, for which lower costs would be anticipated.

However, when looking at the costs provided for delivering each of the 12 employment issues, there is a much wider divergence in the figures. For example, the cost of providing advice and support on Employment Contract issues ranged from £300 to £4,000. Closer scrutiny of the actual model of

service delivery provides an explanation for this difference. Some providers offered a minimum level of advice where employment contracts were already in place, some sign-posted the client to on-line support through templates and, at the extreme, there was the actual production of employment contracts for the client.

All the providers reported that they had agreed some form of ongoing working relationship with their clients. Two of the providers have negotiated additional funding from an alternative source to continue their own pilot for a further six months.

All but one of the pilots, on a scale of 1 – 5 (high), rated the impact the pilots had on their client confidence with employment issues as 4. The remaining pilot rated 5. These ratings accord with the independent client survey confidence levels.

Key learning points for most providers include, the diverse starting points and objectives for each business, the range of working practices within the companies and the varying levels of expertise within each business. Also, the challenge of persuading small businesses to take HR issues seriously came through with some consistency. One provider made a very succinct comment on the general issue of HR and the small business by saying that SMEs are tactical purchasers, who want bite-sized interventions – they do not want to “eat the elephant”.

When asked to give one word to describe their experience of delivering the Shared HR Service the following list gives a useful insight to the whole experience:

Taxing, Rewarding (x3), Exciting, Confidence, Potential, Re-affirming, Positive.

A more detailed assessment of the key findings and learning points from the individual pilot providers follows.

Individual Pilot Assessment and Evaluation of Shared HR Service Provision

On-line HR

Aspects of the pilot that worked well:

- Willingness of small businesses to participate, due to national, regional and local affinity network.

Aspects of the pilot that did not work well:

- The on-line product did not meet the needs of small businesses in terms of being user-friendly. Protracted negotiations with the developers to revise the product caused a loss of interest in the participating companies. The developers eventually declined the opportunity to fund the necessary re-development work and the original product is not now being taken forward.

Key learning points:

- Technical specification needs to meet original scope of product.
- Low level of Information Technology knowledge in small businesses and diversity of working practices.
- Insufficient time to address the issues that arose between the project phases and dealing with small business concerns about the hosting of employee records on-line.

Action proposed to build on the learning:

- Sign-up agreement with an alternative partner to develop an on-line product

that offers a small business focused approach to their core market.

- Continue to investigate the HR market place for partnership opportunities to their membership and wider small business market, based on the knowledge gained from the pilot.

Feedback for Government:

- Small Businesses tend to be willing to store their accounting records electronically but are more reluctant to store employee records in this way. Addressing this issue will enable small businesses to compete and regulate themselves effectively against employment legislation.

Well-being

Aspects of the pilot that worked well:

- Successful in signing up small businesses that remained committed to the process through the life of the project.
- Of seven businesses signed-up, six remained active for the duration of the project and it is hoped they will continue to work with the provider in the future.
- Evaluation carried out by an academic partner has shown that organisations found the pilot approach to be helpful and productive.

Aspects of the pilot that did not work well:

- Unable to sign up the 10 organisations originally planned.
- One business was not in a position to continue working with the provider due to it going through a period of fluctuation and being unable to commit to a "best practice" approach at the time.
- Time constraints meant they were not able to develop the comprehensive range of information resources that

were originally planned. Also, the borough-wide training events were less successful than they had hoped.

Key learning points:

- The measurable impact that can be achieved in a short timescale is limited.
- Time needs to be allocated for marketing the product.
- Although the funding has ended, relationships with businesses continue.

Action proposed to build on the learning:

- Continue to work with organisations for the next two years.
- Develop an organisational marketing strategy as part of their business plan.
- Aim to build an exit strategy into future projects.

Feedback for Government:

- The DTI should specifically address the needs of the voluntary sector, which generates a disproportionate amount of employment tribunals, and has very specific needs in terms of HR.
- They should also ensure that websites, helplines and written resources are backed up by training and face-to-face support which will provide managers of small businesses in the voluntary sector and elsewhere with the skills and confidence to respond to changes in legislation and deal with the majority of HR issues.

Marketing

Aspects of the pilot that worked well:

- A marketing strategy through trusted advisers showed encouraging results although experience has shown it takes an estimated 18 months to be fully effective in achieving sign-up.
- Using designated client managers.

- Keeping up to date with changes in legislation.
- Understanding the needs of the client's business.

Aspects of the pilot that did not work well:

- One-to-one sign-up of small businesses proved to be very time consuming and not cost effective
- "Cold calling" by e-mail was ineffective.

Key learning points:

- Using trusted advisers has the potential for much wider coverage of the small business market.
- Small businesses only see the benefit of HR when they are in crisis e.g. employment tribunals.
- Education is needed to prove to small businesses that HR provision is beneficial to the bottom line for their business.

Action proposed to build on the learning:

- Continuing discussions with trusted adviser companies
- Suggest education through Regional Development Agencies.

Feedback for Government:

- Continue to raise awareness of the business benefits of HR provision – preferably through a Regional Development Agency route.

Broker/Voucher system

Aspects of the pilot that worked well:

- Simple, efficient and non-bureaucratic processes.
- Diverse routes to market (Single email alert, route to market providers and Account Management).
- Account Management Action Planning and regular email contact.
- The customer really enjoyed being empowered to choose their supplier!

Aspects of the pilot that did not work well:

- Demand moved too quickly, with insufficient supply of funding, and some publications picked up on the opportunity too late.

Key learning points:

- Many small businesses find it difficult to relate to Improvement Frameworks, as they tend to think tactically, not strategically!!
- Understanding customer aspirations, lifecycle and attitude to best practice is key to defining how far up the best practice adoption ladder a small business is likely to progress!
- The language of the HPW model is considered to be corporate. A separate small business model needs developing, which is relevant and applicable.

Action proposed to build on the learning:

- Modularise delivery.
- Profile Customers.
- Simplify the model.

Feedback for Government:

- The key message is the adoption ladder issue. It is not possible to move small businesses into taking a more proactive approach to managing their HR processes overnight. A cultural change needs to be effected, and this needs to be predicated on roles for market makers, deliverers, route to market players and the media.
- The market will only be truly freed-up by providers understanding their customers, inspiring them to take action (by highlighting the potential opportunities and threats), and understanding the current reasons for not seeking external advice to support them in their endeavours.

Diversity

Aspects of the pilot that worked well:

- Networking at local events on a regular basis – building rapport and developing business relationships.
- Range of support offered. Expertise of providers and experience of small business sectors. Regular 1:1 meetings; measuring progress against original plan with timescales. Consolidation through workshops – opportunity to meet other businesses and learn from each other. As it was a Pilot the provider selected clients who they knew would demonstrate commitment to the Project.
- 1:1 meetings, the capability to offer all-round service, consolidation through workshops and access to other deliverers if required.

Aspects of the pilot that did not work well:

- Only used networking.
- The timing of the training (late afternoon) was difficult for some clients because of distance and workload.
- Time constraints for some businesses. Not all clients were able to participate in workshops.

Key learning points:

- The range of different starting points and objectives of the clients.
- The range of working practices within the companies.
- The varying levels of expertise within companies. The provider learned a great deal about the operations of small businesses.

Actions proposed to build on the learning:

- Adopting a 'best-fit' approach to the level of support provided and keeping the paperwork simple.

- Adopting a flexible approach and using relevant examples of the benefits of good practice.
- Offering varying levels of support. The provider integrated some of the learning into their own small business.

Feedback for Government:

- There is demand from small businesses for consultancy work and ongoing support on an ad-hoc and regular basis. Provision needs to cover personal contact as well as on-line/telephone support. The small companies benefited from interaction with other companies. A range of support needs to be in place – 1:1 meetings, surgeries, workshops and on-line/telephone support. Support to companies who are committed to putting in place practices which lead to high performance needs to be offered as well as assistance to companies whose objective is minimum compliance. Perhaps a reduced level of support until specific milestones are met could be devised. Service needs to be flexible to meet different and changing needs of companies in terms of size and objectives.

Self-sufficient

Aspects of the pilot that worked well:

- Recruiting companies from a basis of knowledge and reputation of the Trade Association provider.
- Regular contact, visits and training courses.
- Trade Association website and sector specific knowledge, together with the availability of an HR support person.

Aspects of the pilot that did not work well:

- “Cold Calling”
- Small business managers are busy running their operations and HR is not a priority. There are other distractions.

Key learning points:

- HR is not a priority for small businesses and the provider underestimated the difficulty of recruiting clients to participate.
- Benefits of networking.
- Low standard of employment law knowledge among the small businesses.

Actions proposed to build on the learning:

- Improve marketing. In hindsight there were, perhaps, too many presentations accentuating the industry specific advice available from the Trade Association.
- Provide more networking opportunities
- Provide training earlier.

Feedback for Government:

- Helpdesk support is vital. Access to the provision of training and coaching should be considered and a more structured approach to HR issues using industry specific health check benchmarking would be a positive benefit in the sectors.

Theory/Practice

Aspects of the pilot that worked well:

- Most clients took advantage of more than one service offered.
- Client feedback was consistently positive.
- Some interest was generated by the provider engaging potential clients in conversation during local journeys/routes to work.

Aspects of the pilot that did not work well:

- Initially some clients were sceptical and found it difficult to believe that the pilot was offering services either for free or at significantly reduced rates.

- Neither the provider nor their partner was efficiently prepared for the marketing and contacting of prospective delegates for the workshops.

Key learning points:

- Incorrectly assuming that clients benefiting from 1-2-1 on-site consultancy would want to participate in group seminars. Evidence that emerged showed this was not always the case, so the provider was not fully prepared for an additional marketing exercise.

Actions proposed to build on the learning:

- It would have been helpful to have a database of all companies in the London area employing less than 50 people. This would have made the mail-out much easier.
- The provider would spend more money on advertising our services in local papers and local radio, especially relating to the seminars. The cost would be small relative to the potential marketing benefits.

Feedback for Government:

- A really positive initiative and the provider would be happy to participate in future initiatives along the same lines. If more funds were available, to roll out this kind of initiative nationally, the provider believes it would be of great help to small businesses.

Transferable

Aspects of the pilot that worked well:

- Employing an external marketing facility to sign up companies was extremely beneficial.
- The networking forum was extremely popular, the cd rom was well sought after and the newsletter held the momentum of interest.

- Developing close relationships through regular contact with the project participants.

Aspects of the pilot that did not work well:

- The timing of the project made it initially more difficult to sign-up companies. It was only after the Christmas period was over that companies began to take a real interest

The telephone advice line was under utilised.

Key learning points:

- Importance of the right industry information.
- Importance of defining evaluation criteria.
- Not all organisations had access to up to date computer systems.

Actions proposed to build on the learning:

- Databases have been cleaned up and contain relevant information on individual companies.
- Ensure that project specific evaluation and its robust means of data capture is in place prior to project delivery.
- Offer resources in multiple formats.

Feedback for Government:

- DTI should offer a similar sustainable support service with access to HR templates on their website that companies could adapt to their own requirements. Also provide access to legislation updates in a user-friendly format and educate organisations on free resources where employment advice is obtainable.
- This provider has secured further funding and continuing partnerships to maintain a pilot initiative for a further 6 months.

Hard-to-reach sector

Aspects of the pilot that worked well:

- Word of mouth marketing and the road-shows that were arranged in conjunction with partners. Having “gained entry”, conversion to a sign-up was easy.
- The face-face interaction has played a very important part in retaining the interest of businesses, confidence in the consultants and that the assistance they are giving is of a high quality. Actual tangible achievement and development has enthused the businesses to continue working through the action plans onto areas such as training and development, handbooks.
- The face-face interaction has allowed the consultants to build excellent rapport and trust with the businesses, the online service, although slow to develop at first, continues to grow as a communication tool. The availability of the consultants by telephone at times to suit the business and by e-mail too has really made the service convenient for this sector.

Aspects of the pilot that did not work well:

- Radio advertising, getting the initial “foot in the door” and complications in the closure of the provider organisation during the pilot which led to liability implications for the consultants and an inability to formalise contracts.
- The on-line site has not been utilised as much as they would have hoped in the initial pilot stages due to lack of time, resource to populate the site and continually to update it, although it has been used increasingly towards the end of the pilot as businesses gained in confidence.

Key learning points:

- Setting up an HR consultancy from scratch is time consuming. Creating awareness of the product is costly and again, takes time.
- The provider knew that the face-to-face elements of the service would be important for its sector (and micro-businesses in general), but they were unprepared for just how invaluable their clients found this aspect. A genuine rapport has been built with the client. The provider can work with them to develop their own HR skills and understanding and they have been able to highlight other valuable business-benefit initiatives that go beyond their own service offering. They are currently undertaking a lot of information and signposting activity, for example, working with local colleges and organisations to highlight the benefits of work placement students within an organisation, working with experts in relation to Health and Safety issues and also with the Learning and Skills Council regarding their Skillworks training and development subsidy for small businesses. Working face-to-face has allowed greater knowledge of people within the businesses they are supporting and their wider business and people issues.
- They anticipated some difficulties in “gaining entry” to some businesses, but were surprised at the level of cynicism existing in some businesses. Many felt that this would be another costly and time-consuming initiative, with little obvious benefit and were resistant to some of the necessary HR measures needed to improve their business.

Actions proposed to build on the learning:

- Given the success of the consultancy, the excellent relationships built between the clients and the HR consultants, the provider is very keen to develop the service further. They have linked with more stakeholders who can assist them in taking their sector specific product to even greater heights. The organisation they are linking with already has the infrastructure in place to improve delivery mechanisms and service levels to existing clients as well as to roll out the service further across the region in the first instance with a view to national roll out in the future. Additional partners will also give them greater marketing possibility and product endorsement.
- They plan to maintain the face-to-face elements of the sector specific service, particularly with new clients who need the extra assistance and reassurance. They predict that existing clients, over time, will become more confident and capable in HR and training matters and will therefore need less face-to-face contact, relying more on the website and telephone access to the consultants and information.
- They have learned that giving priority to the issue of making it easy for clients to be involved with the service and its resulting actions as early as possible was essential. Also, they regard it as important to always have the clients' convenience in mind, keep information to a minimum and ensure it is relevant. Much of the success of the providers' model of service delivery has been directly attributable to the industry knowledge, skills and expertise of the HR consultants, who have a great deal of relevant experience of the industry sector they are supporting.

Feedback for Government:

- The provider believes that Shared HR services should be one of the funded business support services offered in the DTI's new product range.
- They also believe that the DTI should work with organisations like their own to showcase success stories. They believe there is a need to create case studies that clearly highlight the positive impact on bottom line, productivity and employee/customer satisfaction that employing best HR practice makes.
- This provider has secured further funding and continuing partnerships to maintain a pilot initiative for a further 6 months.

Section 6 - Conclusions

KRA 4 – Sustainability of Shared HR Service Provision Model

KPI 4 – Identification of successful and effective marketing strategies, service provision against identified need (implementation methods and extent to which deliverables met), client satisfaction and potential for ongoing engagement.

Conclusions

Although the pilot timescale received some criticism, from both providers and clients, it should be noted that the project sponsor, DTI, made it clear from the outset that the timescales would enable a flavour for workable, cost-effective solutions to emerge and did not raise expectations that outcomes such as bottom-line improvements and culture change would be achieved.

From the overall pilot evaluation there is no one model that emerges as totally suitable for national roll-out. A hybrid model, which takes account of the most successful and cost-effective strategies in marketing and service delivery, is

more appropriate. The pilot model that most closely matches success and cost-effectiveness is the Voucher/Broker model and, if a similar model were to be adopted as the preferred approach, it would need to utilise an existing infrastructure of communication and delivery channels to meet these two criteria.

A flowchart and business model that reflect the findings of the Shared HR Pilots initiative are attached as **Appendices G and H.**

It is hoped that consideration of any further action in providing informational or operational support on HR issues to small businesses will be shaped by the findings in this report on the Shared HR Pilot initiative.

Pauline Henderson
Project Manager
Shared HR Pilots

August 2004

Appendices

Appendix A

The DTI High Performance Workplace Model for Small Business

Developed by the Chartered Institute for Personnel and Development

Applications to be included in the pilots should demonstrate that the service they provide meets the requirements of this High Performance Workplace Model for Small Businesses.

Essential elements to be included in services

The pilots need to deliver shared HR services in a way that allows small firms to concentrate on running their business. Help in handling issues about employment rights will be a key component of the pilot but the aim should be to place legal compliance within a framework of good employment practice, taking into account the specific circumstances and needs of the individual firm. The service should

provide advice on practical ways in which employers can respond to legal requirements, where possible using ways which produce business benefits as well as reducing the likelihood of tribunal claims. Clients to have “ownership” of the pilots and not to feel that they are being treated as guinea pigs.

The service should offer practical advice and support on a wide range of basic employment issues. **These will include as a minimum:**

- recruitment and selection
- the employment contract
- discipline and grievances
- communications and consultation
- flexible working
- equality and discrimination
- absence and turnover
- appraisal
- pay
- training
- redundancies/dismissal.
- Partnership working¹

Design of the service - It should **as a minimum:**

1. Partnership working - seeking to treat employees fairly and establishing relationships based on openness and trust - can occur both in firms where unions are recognised and in those where they are not. More information on partnership working and the support available for forming partnerships at work can be found on the DTI website, dti.gov.uk/partnership.

- provide or ensure that employers have in place, basic systems, including records and other paperwork dealing with rules and procedures, not only to ensure compliance with their obligations but also to ensure fairness and consistency of treatment and make clear what is expected of employees;
- offer authoritative advice on employment law and best practice
- ideally provide a named contact who is either HR qualified or a very experienced generalist with a background in managing HR issues. Individual contacts should desirably have experience of their specific sector and/or be locally based;
- provide clients with “business solutions”;
- **Include a written agreement with the client for the duration of the contract which specifies level of service to be supplied, (eg access, number of hours per week), priorities and target outcomes.**

The pilots will test a range of types of service offering different levels of costs and benefits. It is inappropriate therefore to specify the precise HR practices to be put in place, or detailed methods of service delivery

Additional services

Some providers may wish to offer *additional help and support* in specific areas of HR practice likely to be a value in particular sectors or organisations. Examples might be training and development and IIP; pay systems; health and safety or corporate social responsibility (including e.g. volunteering

and work experience). Such services may be valuable in attracting users in specific sectors and might be offered as additional services at extra cost to the client. They will need to avoid displacing the main focus of the pilots, which is to raise the standards of people management and foster good employment relations in small firms.

Marketing

The service will need to meet clients’ individual needs if it is to overcome conservatism and possible resistance from small firms. It will be important to manage expectations and make clear what services will and will not be provided. Positioning will be important. The service should be presented as helping small firms to recruit and retain good people as well as stay out of trouble by reducing the risk of damaging tribunal claims. The aim is to support high performance working, which will benefit both business and employees.

Background

The Government has accepted the Better Regulation Task Force recommendation to run a range of pilots, with different providers and funding methods, for a shared HR resource for small firms.

Research funded by the Chartered Institute of Personnel and Development (CIPD) has underlined the links between the way people are managed and business performance. The evidence confirms that good employment relations are at the heart of business performance and that where small firms have adopted a range of effective HR policies and practices – often with external support – these are the same practices that produce motivated employees and high levels of

performance for larger employers. In establishing these pilots the DTI has therefore decided to ensure that the shared HR services included in them should offer these policies and practices. Advice and help in dealing with employment regulation will give small employers more time to devote to their business. Good HR practice will help improve business performance by increasing employee satisfaction and promoting positive relationships between management and employees.

What kind of help and support do small firms want?

Small firms are interested in securing outside help in dealing with employment issues if they could secure it at a reasonable price. This includes the legal and procedural aspects of managing their workforce across the whole spectrum from recruitment to termination. Although often this interest is often in response to fears that they will, through ignorance or inadvertence, fall foul of employment regulation, many also want to be "an employer that people want to work for".

Focus groups of small businesses and their advisors have been held to test this model. Participants saw the value of using an individual who understands their sector but whose experience is wider than that of a single firm. They considered that in most cases the resources required to support a shared HR service will be front-loaded ie once the service is up and running, less day-to-day effort will be needed to maintain it. The basic model they are looking for is one of initial diagnosis with subsequent check-ups as required. Problems might arise at unpredictable intervals but once basic systems were in place, 3 or 4 visits in a year should normally be enough.

They confirmed:

- small firms cannot justify the cost of a full-time HR manager but that not having the advice they provide could prove more expensive;
- some element of face-to-face contact will generally be essential, if not critical to the effectiveness of the service. It needs to offer more than a legal helpline or one-off advice on specific queries;
- **comprehensive shared HR services, supplied by for example a bank or large employment law firm was seen to be attractive, not least because it was seen as "freeing the employer up to do his real business";**
- **support for the idea of a network of agencies pooling resources from a range of sources to provide an effective and comprehensive HR service;**
- **the need for more effective signposting of existing sources of provision**

Research undertaken by the IPD in 1994 into people management in over 300 small and medium enterprises reinforces the intention that the pilots should offer a service that provides help in building good employment relationships as well as ensuring compliance. It found that :

- it is not appropriate to treat small firms as if they are homogeneous;
- small businesses agree that modern personnel practices and principles are as important to small businesses as to larger ones;

- HR systems in many small firms are essentially reactive and need to be linked to business objectives;
- small firms expect those who offer them support to understand the need for a rapid and flexible response to markets;
- small companies judge the success of their business in terms of not only profit but also lifestyle, their reputation with their customers and a commitment to their staff.
- **be delivered by an HR professional or experienced generalist with a background in managing HR issues who would provide the service throughout the duration of the pilot;**
- **aim to see that changes are "owned" by firms taking part;**
- **Include a written service level agreement with the client for the duration of the contract;**
- **frame marketing messages in language suited to the needs of small employers.**

Checklist

The main features of the model described above can be briefly summarized as follows. The shared HR service should:

- **offer customised help and practical advice for small firms in putting in place and maintaining a sound framework of HR policies and practices which supports business performance as well as reducing the likelihood of tribunal claims;**
- **offer "business solutions" advice and support a wide range of basic employment issues, including advice on the significance and application of legislation in the circumstances of the individual employer to the satisfaction of the client;**
- **provide advice on establishing "partnership" relations based on fairness and trust by addressing the scope for greater use of team-working, giving employees more responsibility and autonomy, and a management style based on helping employees achieve agreed objectives;**

Appendix B

Shared HR pilots – client survey 1 responses

No. of surveys sent to Pilot clients	= 164
No. of surveys returned	= 84
No. of surveys incomplete/void	= 3
No. of surveys from which data collected	= 81
Response rate for whole survey	= 51%
Date survey despatched	– 1st March 2004
Closing date for responses	– 26th March 2004

(Note that shaded numbers refer to questions in the survey)

Day-to-day operations

- 2.1 What was your level of confidence in dealing with issues relating to your employees before the pilot?
 2.2 What is your level of confidence now?

	2.1 Before the Pilot	2.2 End of Pilot
Not Confident/ A Little Confident	29%	3%
Moderately Confident	51%	21%
Confident/Highly Confident	20%	76%

Longer-term business plans

- 2.3 What was your level of confidence in addressing future issues relating to your employees before the pilot?
 2.4 What is your level of confidence now?

	2.3 Before the Pilot	2.4 End of Pilot
Not Confident/ A Little Confident	39%	2%
Moderately Confident	44%	22%
Confident/Highly Confident	17%	76%

Employment Regulations

- 2.5 What was your level of awareness at the start of the Pilot?
 2.6 What is your level of awareness now?

	2.5 Before the Pilot	2.6 End of Pilot
Not Aware/Little Awareness	29%	1%
Moderate Awareness	59%	26%
Above average awareness/Full awareness	12%	73%

Employment Issues on which advice and support required in past, present and future.

(Figures in bold indicate the top three employment issues for each question)

Employment Issues	2.7 Advice sought in 12 months pre-pilot	2.8 Support currently receiving from HR Pilot	2.9 Issues that were a priority at sign-up	2.10 Issues to be addressed from business plan in next 1 – 3 years
Recruitment and Selection	28%	34%	30%	65%
The Employment Contract	56%	73%	80%	52%
Discipline and Grievance	46%	61%	54%	48%
Communication and Consultation	16%	28%	27%	53%
Flexible Working	16%	24%	14%	47%
Equality and Discrimination	22%	41%	24%	42%
Absence and Turnover	23%	30%	19%	43%
Appraisal	16%	35%	18%	67%
Pay	32%	13%	13%	48%
Training	27%	22%	28%	71%
Redundancies and Dismissal	43%	35%	25%	38%
Improving the way you work with your employees	16%	39%	38%	68%

2.11 What are you aiming to have changed at the end of the pilot?

Main Groupings for all responses	%
Compliance with Employment Law.	39
Improved working practices, systems and records.	32
Increased confidence and awareness of HR and Employment Law.	20
Professional approach to employment issues.	12
Improved Employee Relations	8

2.12 What impact will this have on your business?

Main Groupings for all responses	%
Improved Employee Relations.	42
Compliance with Employment Law.	20
Increased confidence and awareness of HR and Employment Law.	17
Clarity and understanding of HR across the business.	12
Increased efficiency/productivity.	11

3.2 Did your pilot provider help you to identify your business needs and priorities?

YES	NO
82%	18%

3.3 If YES, is the service you are currently receiving meeting your business needs?

YES	NO
98%	2%

3.6 Do you have a contract or agreed programme of work with your Service Provider?

YES	NO
61%	39%

3.7 At this stage in the pilot, please give a general view of the level of service being provided to you, on the following scale:

Unacceptable (1)	Improvement Required (2)	Good (3)	Excellent (4)	Exceptional (5)
-	5%	32%	54%	9%

Appendix C

Extracts from client survey 1

What are you aiming to have changed at the end of the pilot?	What impact on your business will this have?	Additional comments
Improved consultation. Flexible Working.	We are always looking to develop employment relations and feel this will be very beneficial to us and our team.	This is an invaluable service which if rolled out across voluntary sector would enable more effective growth in projects that lack resources to fund HR.
Our employment contract, plus introduce an application form.	Make my life happier! In the long term cost us less when things go wrong as the "terms" will have been detailed better.	Because of the problems we had, we knew our contract and recruitment procedures needed updating and we have used this money for that. Plus, I prefer the down-to-earth attitude of HR providers to solicitors!
All documentation issued to employees.	Place the business on a firmer footing in terms of new legislation.	As a company, we have found this pilot invaluable in helping us to determine clearly and concisely what we have to do to both safeguard our company from new legislation as well as providing our employees with the clearest most accurate documentation possible. The high level of new legislation hitting UK business requires special treatment. A similar project aimed at Health and Safety issues would be welcomed.
Carried out thorough risk assessment of all our activities, altered working practices, instigated policies detailing safe working practice, revamped out H & S policy, developed working plan for the future.	This will have a massive impact on our Charity in terms of meeting legislation and, hopefully, improve our ways of working.	This grant is invaluable to charitable organisations like ourselves, who seek to channel all monies into the charitable objectives whilst keeping administrative costs to a minimum. Sorting our H & S issues will give great peace of mind in terms of meeting legislation requirements and seeking to do all we can to maintain the well-being of all our employees. The grant will make a big difference for us.

What are you aiming to have changed at the end of the pilot?	What impact on your business will this have?	Additional comments
Contract of employment compatible with need to employ part-time workers.	Confidence to expand employment, knowing provisions and constraints are legal and fair.	As a business employing mainly part-time women, trying to ensure "rights" and "legal requirements" are complied with is a total nightmare!! This opportunity to address some specific new requirements and to ensure existing understandings were, in fact, still current has been a huge benefit to us. We face the future with greatly increased confidence in our ability to do the right thing for our employees.
To be more confident, increased knowledge of HR matters and employment law. To know that we cover all issues fairly and accurately.	Happier employees = increased profits! More support and development for employees making our company the one they want to work for.	Feel the initiative is a great idea. More small businesses need support with HR matters as it is such a minefield. Throughout the pilot I have been well supported and encouraged to contact for any issues.
Better developed employees. A better understanding of new legislation relating to consultation. Better retention of employees.	Improve the bottom line. Improvement in quality. Better communication between management and shop floor. More motivated employees.	Pilot scheme needs to run for longer in order to give the organisations time to benefit from the service.
Revised contract of employment.	A more professional approach to all HR matters.	We would never have achieved a company handbook in such a short time without this project. It made a very difficult task easy.
Employees will be informed of their legal rights and contracts. Up to date training.	I feel we will be legally better off. Good training and informed staff bring obvious benefits.	Normally a service like this is not available to a business of our size so we have to muddle through. The issues we are dealing with are too serious to ignore but too expensive through the normal channels. I have to say this has been a god send to us.

Appendix D

Shared HR pilots – responses to client survey 2

No. of surveys sent to Pilot clients	= 81
No. of surveys returned	= 47
No. of surveys incomplete/void	= 0
No. of surveys from which data collected	= 47
Response rate for whole survey	= 58%
Date survey despatched	– 5th July 2004
Closing date for responses	– 6th August 2004

(Note that shaded numbers refer to questions in the survey)

Day-to-day operations

2.1 What is your level of confidence in dealing with issues relating to your employees now the DTI Shared HR Pilots have ended?

Not Confident/ A Little Confident	Moderately Confident	Confident/Highly Confident
6%	29%	65%

Longer-term business plans

2.2 What is your level of confidence in addressing future issues relating to your employees now the Pilots have ended?

Not Confident/ A Little Confident	Moderately Confident	Confident/Highly Confident
6%	33%	61%

Employment Regulations

2.3 What is your level of awareness now the Pilots have ended?

Not Aware/Little Awareness	Moderate Awareness	Above average awareness/ Full awareness
2%	37%	61%

Overall Confidence and Awareness

2.4 Has your confidence changed since the Pilots ended?

YES	NO
77%	23%
Reasons given for change in confidence	
Increased understanding.	23%
Established point of contact for advice.	13%
Knowledge that compliant.	19%
Better informed.	19%

Note: Not all clients gave a reason.

2.5 Has your awareness changed since the Pilots ended?

YES		NO
75%		25%
Reasons given for change in awareness		
Increased awareness -importance of employment issues.	43%	
Written documents to refer to.	9%	
Increased pro-active approach to HR.	15%	
Ongoing advice from HR specialist.	4%	

Note: Not all clients gave a reason.

2.6 Have you noticed any changes in your employee relations as a result of receiving the HR service?

YES		NO
35%		60%
Reasons for change in employee relations		
Easy access to HR documents by employees.	6%	
Increased employee awareness.	11%	
More attentive to employee needs.	4%	

Note: 5% did not respond but stated it was too early to notice any change. Not all clients that responded YES gave a reason.

Employment Issues – Advice and Support**2.7 Since the Pilots ended, have you sought advice on any of the following employment issues?**

YES	NO
60%	40%

(Figures in bold indicate the top three employment issues for this question)

Employment Issues	%	Employment Issues	%
Recruitment and Selection	13%	Absence and Turnover	23%
The Employment Contract	28%	Appraisal	13%
Discipline and Grievance	30%	Pay	9%
Communication and Consultation	9%	Training	13%
Flexible Working	9%	Redundancies and Dismissal	19%
Equality and Discrimination	13%	Improving the way you work with your employees	13%

2.8 Do you know where to go for advice on employment issues now?

YES	NO
94%	6%

If YES, have you signed up for services with your Pilot provider

YES	NO
49%	51%

If you have NOT signed up for services with your Pilot provider, where would you go for advice if you needed it?

Identified source of advice/support	%	Identified source of advice/support	%
Govt. sources via Internet	9%	Business Links	6%
Trade Association	11%	Pilot Provider	15%
Croners	6%	Trusted Advisor	2%
ACAS	11%	Chamber of Commerce	2%

Note: These were the only sources identified by the clients.

2.9 What is your general view now of the level of service that was provided to you during the Pilot?

Unacceptable (1)	Improvement Required (2)	Good (3)	Excellent (4)	Exceptional (5)
2%	2%	25%	60%	11%

Appendix E

Shared HR pilots – combined responses to the key questions from client surveys 1 and 2

Day-to-day operations

Level of confidence in dealing with employment issues before the pilot, at end of pilot and three months' post pilot.

	Before the Pilot	End of Pilot	3 months' post-pilot
Not Confident/ A Little Confident	29%	3%	6%
Moderately Confident	51%	21%	29%
Confident/Highly Confident	20%	76%	65%

Longer-term business plans

Level of confidence in addressing future employment issues before the pilot, at end of pilot and three months' post pilot.

	Before the Pilot	End of Pilot	3 months' post-pilot
Not Confident/ A Little Confident	39%	2%	6%
Moderately Confident	44%	22%	33%
Confident/Highly Confident	17%	76%	61%

Employment Regulations

Level of awareness of Employment Regulations before the pilot, at end of pilot and three months' post pilot.

	Before the Pilot	End of Pilot	3 months' post-pilot
Not Aware/Little Awareness	29%	1%	2%
Moderate Awareness	59%	26%	37%
Above average awareness/Full awareness	12%	73%	61%

Employment Issues on which advice and support required in past, present and future.

(Figures in bold indicate the top three employment issues for each question)

Employment Issues	Advice sought in 12 months pre-pilot	Support currently receiving from HR Pilot	Issues that were a priority at sign-up	Issues to be addressed from business plan in next 1 – 3 years.	Advice sought since pilot ended.
Recruitment and Selection	28%	34%	30%	65%	13%
The Employment Contract	56%	73%	80%	52%	28%
Discipline and Grievance	46%	61%	54%	48%	30%
Communication and Consultation	16%	28%	27%	53%	9%
Flexible Working	16%	24%	14%	47%	9%
Equality and Discrimination	22%	41%	24%	42%	13%
Absence and Turnover	23%	30%	19%	43%	23%
Appraisal	16%	35%	18%	67%	13%
Pay	32%	13%	13%	48%	9%
Training	27%	22%	28%	71%	13%
Redundancies and Dismissal	43%	35%	25%	38%	19%
Improving the way you work with your employees	16%	39%	38%	68%	13%

Appendix F

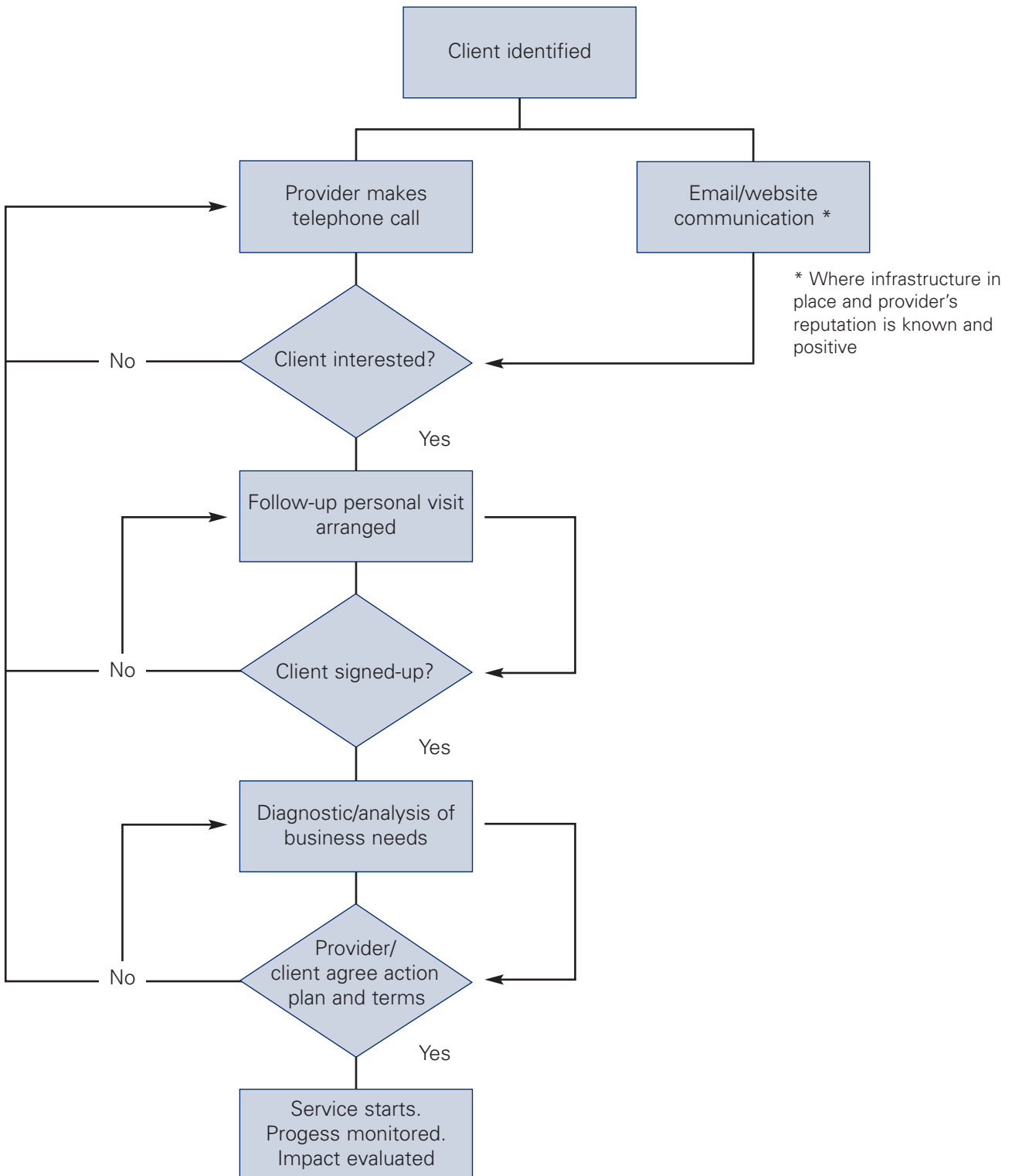
Extracts From client survey 2 Feedback

Reasons given for change in confidence since Pilots ended.	Reasons given for change in awareness since Pilots ended.	Noticeable changes in employee relations as a result of receiving the service.	Additional comments
Have a greater understanding of many HR issues.	Have a greater awareness of the range of HR issues.	Employees now have easily accessed documentation.	I thought the exercise was an excellent use of money and I would like to see this type of service extended.
Established a point of contact for advice.	Written documents to refer to.	More professionalism among colleagues.	Staff fully aware of their obligations and responsibilities.
I had very little confidence before the Pilot started. Since its conclusion, I have opened a new outlet and employed 5 new staff, therefore, the theory explained by the pilot has been put into practice.	The application of policies has increased awareness.	More understanding between employees and employer of rights and responsibilities.	The one-to-one nature of the pilot was a key factor in the successful pilot project - making the advice tailor-made and relevant to our business needs.
I know that our contracts, policies and procedures are up-to-date and have confidence in dealing with HR issues.	I am more aware of issues and also more aware of the support services available.	All staff now have updated contracts and staff handbooks are now written.	Thank you. This small grant has enabled us to review existing practices and improve our HR services when we have no dedicated HR person.
Confirmation that we are operating within current legislation.	Was not aware of some issues before the Pilot.		A positive approach to the raft of Government legislation.
Improved.	I have sought advice on further complex issues and put into practice what I've learned.	I have had comments on how well organised I am!	
	I read more HR topics in local/national papers.	We have a Company Handbook and all employees now know about the issues tackled in the handbook and that these issues will be handled consistently by the management.	

Reasons given for change in confidence since Pilots ended.	Reasons given for change in awareness since Pilots ended.	Noticeable changes in employee relations as a result of receiving the service.	Additional comments
The pilot reinforced our understanding of current HR related issues and gave us confidence that our systems and strategy were on the right track.	Have become aware that HR issues can cause serious problems if not properly administered and there is a need to source specialist support.	We have been more attentive to employee requirements and "off the cuff" comments, which have made us concentrate more on how current procedures satisfy employee/operational needs.	
More confident to implement structures and also to know I'm right with what I'm doing.	Know more about HR and have learnt more about regulations and also where I can get information.	Staff are more likely to ask questions and know they will get an up-to-date reply.	
Information received and systems put in place.	Before, a lot of awareness was press scaremongering and rumour. The pilot has provided accurate information and balance.	I believe they are now clearer as to their rights and better systems regarding time-off/sickness and holiday.	Small businesses need greater information and clarity on HR areas. Many are reluctant to employ because of the regulation and responsibility, some of which could be removed by better education.
We have used our new systems and experienced favourable benefits.	Our staff now see us as a more professional business and we are now attracting a much better calibre of applicants for vacancies.		The impact that the provider has had upon our business is exceptional. We now have a much more professional approach to HR management. We would welcome some further support to enable us to ensure that we continue to progress as a growing business.

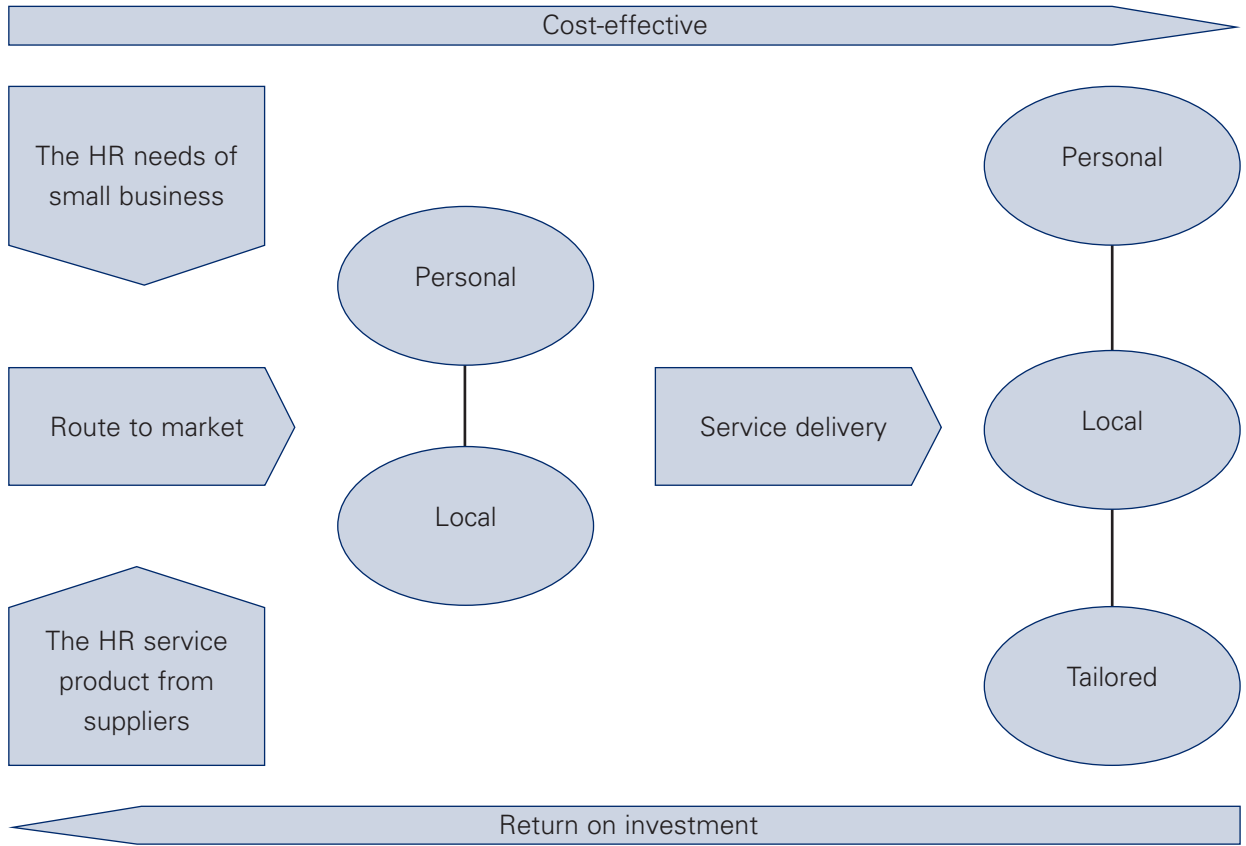
Appendix G

Shared HR pilots – flowchart of route from marketing to service



Appendix H

The model of Shared HR service provision





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