

**OUT OF SITE:
An Inside Look at
HR Outsourcing**

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Learning has no limits.

Creating an Integrated HR BPO Model¹

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More and more, global 500 CEOs and senior business leaders are looking to move their HR function out of the administrative doldrums and turn it into an effective strategic differentiator. The pressing question is how to make the leap from HR transactions to HR strategy? The growing answer: strategic outsourcing that provides transaction processing and services that liberate HR professionals and enable them to focus on a strategic path.

This chapter explores the market and industry forces that are currently reshaping the modern corporate human resources organization and the resulting changes as senior leadership of global organizations seek to adapt to the demands facing human resources professionals and corporate HR departments.

■ *Business Challenges: Driving Change in Global HR*

Heightened global competition, ever-scarce resources and a growing stream of new technologies are pressing executives of global companies to assess the strengths and weaknesses of their organizations and answer a set of fundamental questions. Today, the name of the game is focus. What business elements separate an enterprise from its competition? What core competencies distinguish a company in the marketplace? How can an organization focus more resources on functions central to the corporate mission? How can it manage critical but non-core processes more efficiently and cost-effectively? As the central point of managing, developing and maintaining a company's precious human capital, the human resources organization is at the crux of each of these issues.

Though often staffed by capable leaders and a well-educated workforce, most organizations lack the HR expertise to address a broad range of emerging issues, for instance, how to find and deploy skilled staff for international assignments in emerging markets or quickly absorb thousands of employees from a merger or acquisition and rapidly integrate them into a single ERP platform. To meet such challenges, a company's HR organization would need to quickly develop an understanding of business environments and local cultures as well as expertise in localized labor relations, payroll requirements and expatriate administration, among others. In the second instance, they need technical tools and IT support to swiftly and efficiently capture, record, and transfer personal employee data, histories, records and other sensitive information.

Since HR is typically viewed as a corporate back-office function that does not directly contribute to operating performance, another particularly intense challenge raises the level of difficulty: the constant, unrelenting pressure to reduce costs. While becoming ever more efficient, HR service delivery levels are expected to remain constant or even improve, which gives rise to the need for technology improvements such as decision-support tools and self-service platforms to lighten the burden of daily administrative tasks. Despite the real need, however, other core-critical strategic initiatives often bump HR from the capital table.

What the "new" HR is all about is helping global companies achieve more with less. The function is tasked with finding new and better solutions for handling basic transactions in staffing, recruiting, compensation and benefits activities. To move off the transactional treadmill, HR organizations must emphasize value-added human resources management over administration and focus on the development of human capital. This enables them to have a greater impact on corporate business strategy and deliver specific results-driven outcomes for operational managers.

■ *The New HR: Meeting the Test*

As shareholders look for increased corporate productivity and accompanying contributions to the bottom line, HR organizations are increasingly expected to make a larger contribution. Now, the "new" HR has the opportunity to launch strategic projects that add shareholder value and quickly equip HR professionals with the best tools to meet business needs such as:

- ▶ employee demand for "always on" service and easy access to information for greater control over their career planning;
- ▶ changing employee demographics that require new programs to proactively respond to changes in staffing levels, work and family matters, and similar people management issues;

- ▶ increased need by line managers for support in creating effective work teams and implementing change; and,
- ▶ the need for better information on human capital assets — a comprehensive, integrated view that enables CFOs and HR managers to gauge their efficiency and develop strategies that improve performance and foster continuous learning.

All of these challenges present the “new” HR with opportunities to meet the test, as well as deliver accurate information that can be used to analyze business problems across functional areas, identify the causes and create strategic solutions.

■ *Lessons from Experience*

In spite of being armed with an awareness of what needs to be done and eyeing the future potential of what every HR organization should grow to be, HR functions remain challenged in their efforts to focus resources on strategic activities. In most HR departments, current processes and infrastructure still force staff to spend too much time putting out daily administrative fires. We can applaud attempts at improvement since widespread efforts to strategically realign the function have been good, but we must also recognize that innovation requires more modernization over time.

To relieve HR of administrative work, some companies invest in web or interactive voice response (IVR) technology to let employees update benefit elections, 401(k) contributions, payroll, or other pieces of their HR information. But many implement only a few, isolated self-service features that often aren’t well integrated with other enterprise processes and systems. Scrambling to fill the gaps, HR staff are diverted from strategic work, and in the end, this piecemeal approach fails to realize the full savings desired.

Business managers still need fast, reliable information — whether it relates to measures of productivity, turnover rates, revenue-per-employee or cost to acquire new employees. But too often, needed information remains buried, hard to compile, or simply not available as input for critical decision-making. Many companies now have upgraded their HRIS systems to include better data collection, such as reading the extra two digits needed to accommodate dates in the new millennium. While technical improvements of this type are necessary, HR professionals are best helped by a complete tool set that fulfills a new, more strategic role.

Popular change management programs like total quality management (TQM) and corporate re-engineering require a great deal of time, energy and resources. Projects to solely re-engineer HR often suffer from a patchwork approach and a lack of adequate investment funds. As a result, many CEOs and CFOs regard these efforts as costly retooling of non-core activities that in the end fall short of meeting desired goals in improving shareholder value.

■ *Traditional Approaches to Outsourcing*

As early adopters of outsourcing with regard to some service delivery mechanisms over the past decade, HR organizations now see outsourcing as a direct means to sharply improve services (usually at lower cost), avoid capital investments, improve focus on core competencies, and strategically realign the HR function.

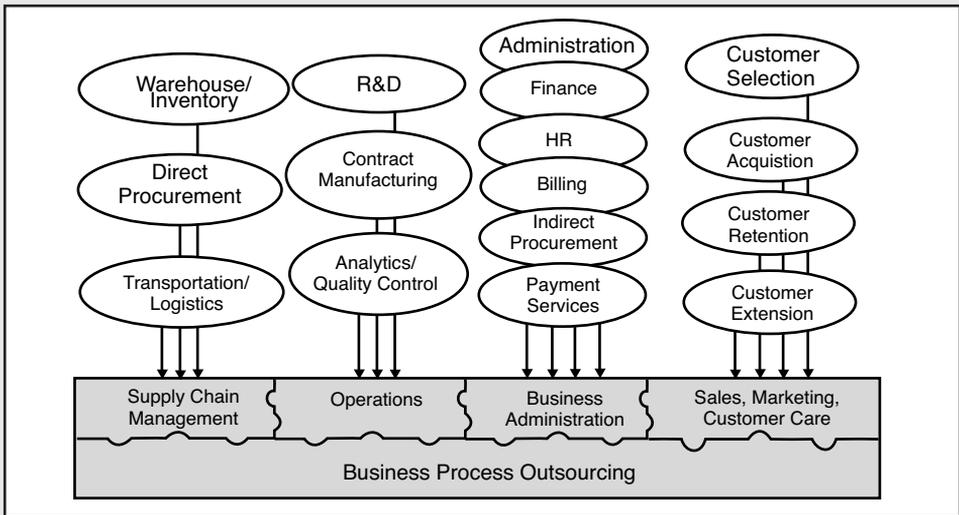
Ironically, because the HR function was quick to outsource in the past, it has now often become wedded to the traditional approach to outsourcing. The problem is that in its drive to outsource non-core processes, HR organizations parcel out the work in a piecemeal fashion to various outsourcing service providers — usually without first re-engineering interlocking processes. The traditional outsourcer re-engineers only the process it handles, rather than the entire HR function, so it lays new technology over a less-than-optimal process. Employing multiple outsourcers — even if best-in-class providers — generally precludes a uniform technology platform. The result is that HR staff must handle administrative work that falls in the gaps between outsourcers and struggle with the added task of coordinating third-party providers. Ultimately, HR organizations run the risk of missing the full savings and sharp improvements in employee services they expected to gain.

As an example, when the HR department of a global services firm employed five separate functional outsourcers to manage recruiting, training, relocation, benefits administration and payroll, the end result was that the HR team not only had to become the administrative integrator of the different companies, but also frequently took calls as a liaison between the company's employees and the service providers. In addition to managing the business responsibilities of the outsourcing relationship, the HR function still was seen as the final point of service delivery accountability by the employees.

The recent trend has HR service providers changing to market demand. Rather than work in a particular area of HR outsourcing, several have integrated their offerings to create end-to-end HR product offerings. This trend is the new reality, and the HR outsourcing market is clearly moving toward an integrated, full-scope service offering. In fact, according to recent research by Gartner, "The HR BPO market will grow from US\$25 billion in 2002 to US\$37.8 billion in 2007." The key forces in the exceptional growth of the sector are led by the corporate drive to focus on core processes, improve service levels and reduce transactional costs. Not surprisingly, these are the key challenges facing every HR organization.

What is driving this growth is that companies are eager for one-stop shopping for payroll, benefits administration, compensation, training and development, resourcing, organizational development, relocation, expatriate administration and general HR services. Rising demand for a better way to coordinate outsourcing efforts and realize their full benefits has created a new role in the market — that of the business process outsourcing integrator. In contrast to a piecemeal approach to outsourcing, an integrated approach delivers the very tools necessary for the "new" HR approach. Gartner's BPO Model, shown in Figure 1, describes the four main areas of service offerings provided by the outsourcing market.

Figure I. Gartner's BPO Model.



Source: Gartner Research

■ *Emergence of Integrated Business Process Outsourcing*

To gain breakthrough performance and strategically transform the function, HR organizations need an integrated solution from the perspective of both processes and systems. As outsourcing to multiple providers precludes this, the task of integrated business process outsourcing is to create the seamless effect of a single outsourcer.

Skilled in project management and technical disciplines, the providers of fully outsourced HR services integrate, consolidate and coordinate HR process to maximize results. The creation of such a new role is essential because without an integrated approach, companies often don't achieve maximum process improvements and savings.

■ *Top Drivers for BPO*

In the past, enterprises have outsourced many non-core, non-critical processes such as mailrooms, cafeteria and janitorial services. More recently however, according to the Gartner Group, a number of prime factors, led by the need to focus on the core business, have emerged as the top drivers to business process outsourcing. The evaluation of core and non-core functions now includes an evaluation of the cost of owning the

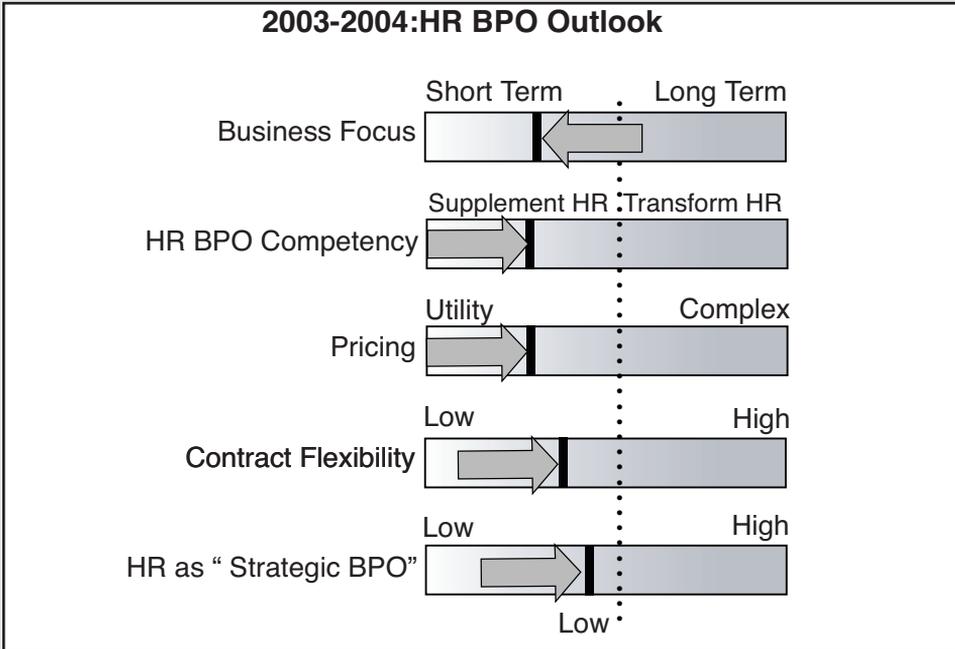
technology and associated support costs for delivering internal services. All of this is leading to an increased willingness to outsource non-core transactional processes across the enterprise.

Gartner sees the leading driver behind the growth in the BPO market today as an increase in the number of companies that are reviewing their internal operations with a view toward focusing only on core competencies. All other internally provided services can then be assessed in terms of how efficiently and effectively they are delivered as compared to what is available from external providers.

Another main driver of growth in this trend is a desire by enterprises to improve service delivery levels. Business process outsourcing gives companies an opportunity to do so while removing the requirement for the capital expenditure that would normally be internally needed to improve those service levels. Together with a trend by organizations to extract as much cost savings as possible from internal operations, this move frees up scarce capital that can then be applied to more strategic initiatives.

Not surprisingly, the factors listed in Figure 2 paint a consistent picture about the challenges facing the modern HR organization and ultimately point clearly to the need for the acceptance of the outsourcing business model as a means for transforming HR into a more strategic function.

Figure 2. Challenges Facing HR BPO.



Source: Gartner Research

■ *The Importance of Metrics*

When human resources does not provide the quantitative measurements to support the basis of the service delivery, it can be difficult to drive change and transformation. It's been said, "You can't improve what you don't measure." It's also difficult to determine fact from fiction. In any outsourcing relationship, it's critical that the partnership have a comprehensive set of metrics, by process area, to ensure that both parties are making fact-based decisions. Anecdotal comments and imperfections will rule the day unless the outsourcing team, both client and provider, have the performance metrics to support their delivery. Consider a company of 100,000 employees. If the outsourcer processes payroll twice a month and has 99 percent accuracy rate, that still means there were 1,000 employee paychecks that were incorrect. This is always an issue for the individual who gets the erroneous pay slip, but it can be extremely harmful to the partnership, if the data doesn't exist to understand the entire picture.

Providing cost savings is a major driver in most outsourcing relationships, however, improving the service comes quickly on its heels. When using an HR outsourcing integrator it is preferable to have a set of baseline performance metrics for each process as your benchmark for improvement. Comprehensive metrics around volume, timing, quality and customer satisfaction serve as the primary basis from which to improve the existing service and to identify opportunities to rethink and re-engineer entire programs. Moving the service delivery to a superior level requires measuring the efficacy of the people, process and technology. Sophisticated HR integrators understand the importance of this and provide the tool set as part of the ongoing service delivery model.

■ *What to Look for in a BPO Integrator*

How does the BPO integrator affect the drive toward HR transformation? First, it integrates delivery of transactional and administrative activities across all HR processes. At the same time, the ideal model adds capabilities that complement and complete best-in-class HR service components. It forges new working relationships with the client's existing vendors or recommends new best-of-class providers, and it rationalizes the client's formal contractual partnerships, supported by performance-based metrics for mutually set goals. The model then applies new tools and technologies to improve products and services, implementing best practice information and technology across services to create more streamlined processes and cost-effective solutions.

Sophisticated vendor interfaces manage the flow of HR transaction information from a central vantage point. Accountable for the services it directly provides and for the performance of the entire network of providers, the BPO integrator offers a single point of contact for comprehensive, integrated and flexible HR services.

When a company finds a capable BPO service integrator for all non-core HR functions, it enjoys maximum return on its outsourcing investments. Companies should be prepared to examine prospects until they find one with the right capabilities that can

meet the increasing demands in HR, provide a fixed-cost structure and quickly deliver a broad range of competencies and expertise.

■ *How Integrated Outsourcing Works*

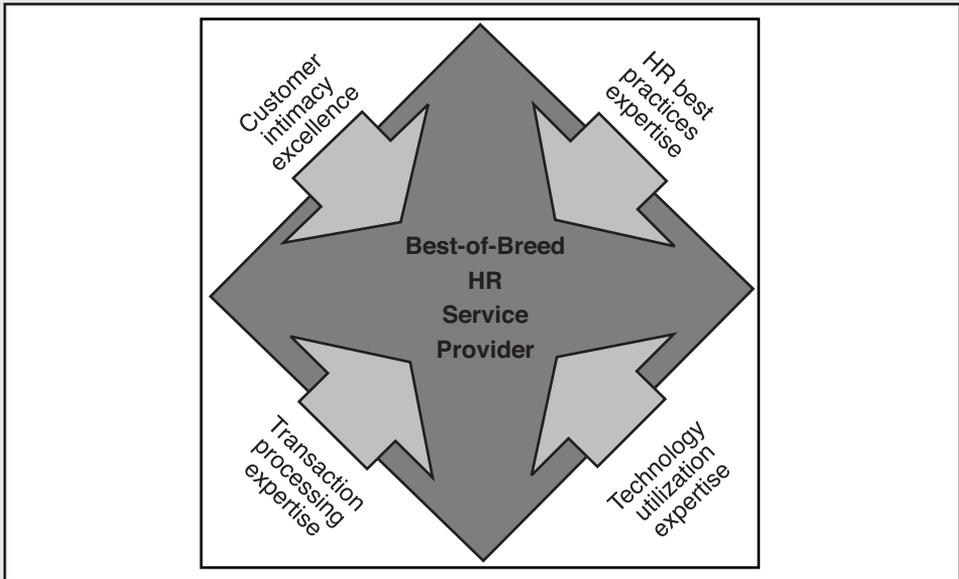
For breakthrough performance, the company and BPO integrator must function as a partnership, sharing risks and rewards. This relationship aligns the commercial interests of both parties to create a win-win situation based on mutual gain. In a changing business environment, this partnership approach enables both to reassess goals regularly and adapt to changes.

There are two key points that must be considered in truly transforming human resources in conjunction with integrated BPO. First, when using a BPO integrator to provide services and manage multiple vendors, HR must work with the provider to re-engineer internal processes and realign HR as a true strategic partner. Companies that attempt this through traditional “best-in-class” outsourcing usually fail to meet the goal because this approach only looks at individual functional components and misses the wholesale gains needed across all processes to unshackle the HR organization and enable it to take on a more strategic role. In contrast to the best-of-breed approach, integrated business process outsourcing takes a holistic approach, re-engineering all HR processes for maximum efficiencies (see Figure 3). Integrated BPO thereby quickly brings significant improvements in service, cost and customer satisfaction. Any subsequent changes in HR policy are seamlessly integrated.

Second, an integrated BPO provider should know the client’s markets inside out, including any cultural and regulatory factors connected with foreign operations. It must offer world-class best practices, continuous improvement, value-generation, and a customer-oriented service approach. Once the partnership begins, the provider must keep abreast of expected changes and growth opportunities in the client company so that it can expand its operations well ahead of time in order to handle new business requirements seamlessly.

■ *Characteristics of the Model BPO Integrator*

It’s clear how managing outsourced functions through a BPO integrator elevates HR as a strategic partner. Consider the advantages that the company, employees, shareholders, and customers gain when outsourcing provides an integrated, comprehensive solution. The company gains cost-effective HR operations that attract, develop, and retain its human capital assets. Without outsourcing, HR spends roughly 70 percent of its

Figure 3. Competencies Required to Deliver HR BPO Services.

Source: IDC, 2002

time on administration, record-keeping, compliance and other routine tasks. With integrated BPO, it reaps cost-effective administrative services that improve employee productivity and satisfaction. Human resources staff is free to perform strategic work and support line managers in efficiently managing human capital. Generally this work results in a more satisfying career than handling the day-to-day issues that arise in HR.

Employees can depend on more and better service from HR, including quick response to inquiries. Able to access and maintain their HR information through self-service tools, they are more self-reliant. And, while the company becomes more virtual, employee morale and loyalty improve because programs are in place to recognize their changing needs.

Shareholders and customers see higher productivity translate into competitively priced products and services, increased profitability and higher shareholder value. Shareholders can count on a sustained competitive advantage, and customers can benefit from better products and service.

■ *Conclusion: Choosing a Powerful New Strategic Weapon*

Within the next few years, the highest performing companies will rely heavily on integrated business process outsourcing to transform HR. They will use BPO to align HR and business strategies, re-engineer and manage administrative transactions, and free HR staff to focus on business needs. And they will profit from integrated tools and technologies for sound decision-making and better employee services.

Companies that take full advantage of BPO currently report cost savings that average 20-30 percent over previous cost structures. But beyond savings, these companies also rapidly gain access to competitive skills, functional expertise, improve service levels, increase their ability to quickly respond to changing business needs and, ultimately, dramatically improve business capabilities critical to their companies' success.

As more organizations are learning, people are one of the few sources of sustainable competitive advantage. With that knowledge, more C-suite leaders have taken the concept and partnered with outsourcers not just to re-engineer support processes, but also to transform entire enterprises. The clear winner in this process is the HR organization. As they lead the charge toward strategic transformation, the HR executive that employs business process outsourcing as a strategic weapon will liberate and empower their HR organization. It is only then that HR can handle its real job: human asset management that maximizes people and dollars to improve shareholder value.

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■ Endnotes

- 1 An earlier version of this chapter was originally published in the *IHRIM Journal*, Vol.VI, No. 4, July 2002.