



## **On Staffing: Advice and Perspectives from HR Leaders**

### **Chapter 15 - When Less is More: Eight Basic Essentials You Must Know About HR Business Process Outsourcing**

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#### **Overview**

It's ironic. As the staffing function continues to build prominence and attract both respect and interest among stakeholders as a promising factor in the company's competitive strategy, it has also become a target for those who would say, "Okay, let's see how much more you can get done with just a little (or significantly) less in your budget next year (or quarter)." Now that staffing is finally being acknowledged for its strategic potential, it's also feeling the added pressure of performing to and even beyond its limits.

In response, HR executives are increasingly turning to a fundamental principle that has its roots in basic evolutionary theory: specialization – letting those who do it best and most efficiently...do it. That way you can save your energy and resources for those activities that you do best. You get to have more, with less direct, personal involvement – and less investment. Since the dawn of time, species have been discovering that the more they share the job of surviving and thriving with others with the necessary specialized skills, their world runs that much more smoothly. And each creature gets the aggregated benefit without having to work quite so hard. In other words, get more benefit with less investment. Sound familiar?

While Charles Darwin certainly never heard of business process outsourcing (BPO), the great naturalist himself would probably appreciate the elegance of the practice's response to the evolving business environment. The principle is basic: Devote your resources, attention, and talent in what you're expert at and in what keeps you thriving (your core business). And then pass on the more tangential – yet essential – activities to the professionals who specialize in those. The objectives are met or exceeded (whether it is survival of the species or business viability and profitability) and the entire ecosystem is well taken care of and healthy, with extreme efficiency and very little waste.

There are, obviously, many differences between the specialization of species that evolve over millennia and business management innovations that evolve over the span of, say, a decade. For the purposes of this chapter one of the most important distinctions is that the participants of business evolution can actually impose a mindful approach to taking full advantage of all the new possibilities that business process outsourcing offers the organization. With evolution we have to work with what we get. With business process outsourcing, we have the power to make what we get work to its greatest potential – namely, enhancing HR capital productivity; reducing HR costs; and providing superior HR services – all achievable through specialization.

Another distinction between business process outsourcing and evolution is that by and large evolution isn't generally subject to criticism. Again: we get what we get. But the practice of outsourcing has attracted a small amount of critical commentary based primarily on a lack of understanding of how outsourcing promotes the vigor of the core business. To relinquish day-to-day control over the minutiae that comes as part of company's people function does not mean you also give up control over the quality of service or the expense associated with providing your valued employees with great service. Early adopters of business process outsourcing were among the first to discover that outsourcing HR services to the experts provides those quality and expense benefits, all the while releasing the HR function to join the rest of the company in doing

what it should have been doing all along: contributing to the organization's core business. And, because there is a single point of accountability between the corporate client and the outsourcer, the client still maintains the ultimate power – while letting go of the day-to-day details.

In a January 2002 report entitled, "Business Process Outsourcing at the Crossroads," Rebecca Scholl wrote,

The BPO market continues to show strong growth despite the economic downturn. Worldwide, BPO will grow from \$119 billion in 2000 to \$234 billion in 2005, at a 14.4 percent compound annual growth rate (CAGR)...the strong growth will pick up in 2003 as a new wave of "megadeals" is announced and as the midmarket begins to adopt the BPO model. BPO adoption will accelerate as providers begin to offer cheaper, more standardized, Web-based business services following the business service provider (BSP) model.

Terming the U.S. labor market as the nation's largest – and quite possibly the least efficiently administered – market, a November 2002 study from Wachovia Securities estimates that the administrative costs per employee is between \$1,300 and \$1,600 per employee, totaling more than \$244 billion dollars annually. As companies experience the combined pressures of competitive staffing (attracting and retaining essential talent in volatile economic and demographic times) and the need to make every dollar of every investment perform, Wachovia predicts that business process outsourcing will become an increasingly important component in a company's human capital management (HCM) plan: "...we project that the growing trend toward outsourcing noncore HR functions will accelerate as companies seek to not only save on expenses, but also seek to free HR resources to address areas of strategic importance. We believe that successful companies will try to upgrade their HCM systems in a manner that is similar to how companies upgraded their manufacturing, supply chain, and customer relationship management (CRM) systems." (Wachovia Securities, *A Guide to the Approaching Boom in Human Capital Solutions*, November 2002, Second Edition.)

Because business process outsourcing is still very much an emerging HR management tool, its potential is still not completely understood by the HR community overall. So in this chapter I have outlined the basic knowledge you must have about outsourcing so that you can take control over its ultimate value to your company's objectives, even to your own career.

### **Business process outsourcing responds to a company's big-picture strategic initiatives.**

HR decision makers who dismiss business process outsourcing as merely a tactical decision are missing the most important aspect of the value that outsourcing can bring to an organization. As we've already established, outsourcing allows the company to focus on its core business: what services it delivers to its clients and customers and what products it makes. Most companies are not expert at HR services, nor do they have the economy of scale that outsourcing services enjoy to provide the best array of HR services at the best possible costs – and in the most professional, consistent manner. So, at the very least, outsourcing this particular area frees up the company's time and intellectual capital to focus on what it really does best.

Additionally, world-class employers recognize that their reputation as being a great place to work supports their competitiveness. They can attract and keep great talent, which ultimately attracts even more great talent and provides great service and products. And, for their part, great and expert talent expects great and expert service. Outsourcing provides that great and expert service, delivered by professionals who are directly recognized and rewarded for the way they deliver their core business, which, in this case, is HR services.

Finally, the outsourcing company is your partner in productivity and profitability. In times of staffing uncertainties, when you must ramp up or ramp down at a moment's notice, scalability is a vital asset. Your outsourcing firm can respond to your staffing demands that may change as a result of acquisitions and/or divestitures. In fact, by outsourcing your HR business processes, you

position yourself to be better able to retain your core talent, all the while keeping your employee service quality first rate – and likely at a lower cost.

You can build flexibility into the contract to allow for ranges of volume, recognizing from one year to the next the business needs will present themselves within that range. If it goes below or above a certain volume, there is a process in place to renegotiate the impact of those changes. The best relationships in outsourcing are partner relationships, rather than vendor relationships, therefore the conversation and the terms of the agreement should always be responsive to the moment and the future – not the past and mistaken predictions. There is no contract that will accommodate every contingency that comes along, for either side, but contracts can be designed with the necessary mechanisms to address unforeseen changes.

### **Business process outsourcing supports the company's internal branding objectives.**

As the people contribution of a company has gained prominence over the past years – especially when the War for Talent and the demand for innovation coincided, many of the most progressive companies concluded that it wasn't enough to just be a "best employer." It was also important to have a distinctive internal culture that truly set it apart from its competitors. For this reason, the skeptics have assumed that outsourcing the company's people function would condemn the company culture into a one-size-fits-all model; and that it would be impossible for an outsider to assume the highly tailored and unique cultural nuances of its client companies – that is, relating to their employees with that certain flavor and flair that uniquely represent the company's overall personality.

Even in the best of companies, however, those cultural nuances are designed primarily to support and celebrate the excellence of those employees who directly contribute to the core business. The support employees – especially those who can't be directly tied to a company's year-end P/L performance – continue to be treated like, well, back-office employees – regardless of the company's much celebrated employee relations philosophy. Case in point: When was the last time you called payroll and thanked them for getting your check out on time and accurately?

When the internal branding message of a company is "all our employees are vital to our success," the outsourcing company can help the client employer demonstrate that value. The professionals hired by the outsourcing company provide excellent service to your valued employees. In its excellence, the service quality itself is a demonstration and reinforcement of the company's internal brand as best employer.

The best way an outsourcing company can help employee branding is by giving exceptional service and being as transparent as possible in the process. Outsourcing companies are capable of this and should be held to that standard.

### **Business process outsourcers attract, retain, and train high-quality employees.**

Few would actually admit it, but employers, especially those whose staffing resources are stretched to the limit, may be tempted to undervalue its support employees because they do not directly service the corporate profit imperative. And so, human nature being what it is, they are most at risk for downsized resources, training cut-backs, layoffs, etc. That reduction in quality the service employees experience will eventually show up in lower quality of service the employer's core business employees will experience.

But for the outsourcing company, those service employees are the core business employees. No longer are they relegated to back-office status. In the outsourcing world, they are the much-valued revenue producers. And outsourcing companies use the more progressive and aggressive ways to attract, motivate, incentivize, and promote those very people who may have once been undervalued or overlooked.

And their performance is measured accordingly. It's vital that the outsourcer's employees fully understand that they have moved from being in a support organization to a service delivery organization. That requires an entirely different, almost entrepreneurial, mindset. Not everyone can successfully make that transition. And it's up to the outsourcing company to be able to spot the ones who can versus the ones who can't.

The same expectations apply to the outsourcing organization as a whole. The outsourcing provider itself should be constantly testing the system to see if it delivers the same services better, faster, cheaper. The outsourcing company must subject itself to constant improvement. That's the way it provides the best array of services in a marketplace that's only going to become more competitive over the years.

### **Clients still retain control over quality and efficiency.**

Critics will tell you that outsourcing is an unproven business model -- empirical at best, at worst a sales job of empty promises polished to a high gloss. While the world of business process outsourcing continues to evolve and refine itself, we have been players of the outsourcing model since before we were even born when our parents outsourced prenatal care to a doctor. Our toys were outsourced to Hasbro and Mattel. Our education was outsourced to a variety of schools. And, now that we are adults, we outsource our entire food supply to a central source of quality control, services, supply – and at a substantially lower expense of time, effort, and potential failure should we be forced to grow, harvest, and butcher everything in our backyards. The neighborhood supermarket: Such is the beauty of outsourcing.

That's an outsourcing model we're familiar – and therefore comfortable – with. And even with this consumer-level model, we can exercise control over the quality of the product we get. If we don't like it, we ask for a replacement or a reimbursement. And if we're still not satisfied, we can outsource our grocery shopping elsewhere. Likewise, business process outsourcing agreements have imbedded in them a series of carefully considered protections for the clients. In fact, because of the state-of-the-art performance metrics available in this relationship, clients have even more control over their employees' experience than they would have were they to keep this service in-house.

Key performance indicators (KPIs) are critical pass/fail markers that establish whether the outsourcing company is delivering the promised service. These KPIs would include such essential values as payroll accuracy, the average time it takes to recruit and hire, how long it takes to resolve problems, and overall customer satisfaction – all of which is quantifiable and trackable. Should the outsourcing company fall short of the agreed-upon standards, real financial penalties kick into action. On the other hand, while service level agreements (SLAs) may not carry the same financial leverage, outsourcing companies and their clients devote a tremendous amount of time and energy identifying such elements that measure the quality of the employees' experience as they reach out for service from HR. Both SLAs and KPIs are taken very seriously by the client companies and the outsourcing companies as quality indicators. As the client of the outsourcing company, you drive the quality and level of service you want your employees to experience when they seek out help from the HR department. Depending on the particulars of the agreement you reach with the outsourcing company, you can receive statistical reports on the company's performance throughout the life of the contract.

### **Clients of outsourcing companies benefit from being associated with a larger group of clients.**

Critics of outsourcing say that the larger the outsourcing company, the higher the likelihood that service quality is going to get lost among the sheer numbers of the outsourcing company's own profit motive. To the contrary: outsourcing companies offer their clients efficiencies that come

with the experience of successful process design, as well as economies of scale that come with the ability to negotiate more attractive arrangements from vendors.

With outsourcing, standardization is actually a good thing. Outsourcing companies should focus on driving their processes toward 80 to 85% standardization and only 15 to 20% customization. The right outsourcing model says that strategy and policy stay with the client, and the outsourcing company handles everything below that line – which is the supporting processes and transactions. The years of experience and expertise that an outsourcing company offers its clients are reflected as highly refined processes. They're experts at doing what they do best, and they know what processes provide the best results. It's all they do, so they focus on innovation and leverage of technology in ways any single company cannot afford to.

Additionally, the more clients the outsourcing company has, the more each client company is able to enjoy the benefits of the aggregated spend. The outsourcer can gather the collected buying power represented by all the companies it represents, and then go out to the marketplace and get a better price for the HR service than any of its clients can get individually. Outsourcers are interrupting the supply chain for HR services and are driving new levels of service integration and radically new pricing.

### **Outsourcing helps HR link itself to larger corporate strategic interests.**

When outsourcing has assumed the routine, standardizable people processes, it also frees internal HR to be a more active player in more substantial, forward-moving corporate initiatives. At the very least, HR now has the time to deal with issues concerning organizational development, professional and personal development, incentives, promotional opportunities, and any other area that directly enhances the company's position or benefits those who work for the company. But if HR is constantly absorbed with payroll issues, policy problems, benefits, and other time-consuming interruptions, how can it concentrate on more value-add projects?

In this same vein, when HR is about to responsibly off-load 80% of its time-consuming activity to outsourcing, it also takes a big step toward marketing itself as a valuable strategic partner with the rest of the company. Over the decades HR has been laboring under the "bad rap" of being so absorbed with low-end minutiae that it hasn't had the time or capability to contribute to high-level discussions. With the additional time and focus capacity that outsourcing offers HR, the company's people function can demonstrate by its actions to the rest of the organization just how much it truly is able to contribute to the big-picture discussions.

The downside of this scenario is this: Now that HR executives have the time and freed-up intellectual bandwidth to focus on the larger, more substantial issues, they will actually be expected to provide more substantial contributions. There will indeed be some who will discover that they aren't up to the new challenges and opportunities available to HR after outsourcing has taken over the routine tasks. It's vital that senior HR leadership assess the skill sets of their people leaders to make sure they're up to the fresh challenges and opportunities. There will be those who are up to the new expectations but merely need some additional development opportunities to rise to the occasion. And they should receive any training they need. And then there will be others who discover they don't have the aptitude or interest to upgrade their capacity to contribute in the HR arena. It's better that you know now.

### **Business process outsourcing can become a promising HR career path.**

It's perhaps natural to assume that business process outsourcing can be a haven for employees who are comfortable with routine and prefer back-office living. But that assumption would be wrong. Over the next few years HR outsourcing will emerge as an exciting career path for high-potential HR careerists who want to be valuable players in an aggressive business model built on profitability, productivity, and high service levels. There is plenty of opportunity for HR

professionals to demonstrate their acumen in an exposed environment where HR service is the product line.

Choosing a career in HR outsourcing allows you to work in an organization that is revenue producing; requires that you perform by the same rules and regulations as other service providers; that emphasizes constant process improvement; is highly measurable; allows you to attain deep content knowledge in one specific area and then offers you the opportunity to move on to other functional areas to build additional knowledge; and which then allows you to one day enter the corporate environment as a seasoned HR executive – that is if you want to. For many people who work in the outsourcing business, it will be difficult for them to walk away from the rewards that come with performing in a revenue-producing role.

**Considerations surrounding finding and retaining a business process outsourcing company are more complex than a simple lowest-bidder scenario.**

The lowest bid is not necessarily the best way to choose an outsourcing company. Cost savings is definitely an important item, but you may be spending more money later in wasted time, frustration, poor service or a bad relationship that is strictly oriented toward the bottom line. Even more important than the issue of cost are the two questions: Can this outsourcing company provide the service it says it can? And are its people the kinds of people you would want to work with every day?

As we've already discussed the ideal client/outsourcer relationship should be a partnership, rather than a customer/vendor relationship. With an ongoing, shifting emphasis on what is reasonable, what's fair, what's most appropriate to the client's changing needs, and what's win/win, the actual dynamics of the relationship itself extend far beyond the question of who will come in with the lowest bid.

In any services that you want to procure, consider capability; references and relationships with the outsourcer's previous clients; consider the outsourcer's rapport and style compatibility with the rest of the team that would be working with. At the end of the day, you work with people, get to know and understand the people you would be working with. The teams on both sides should be able to come together, work on issues, and problem solve collaboratively from the very beginning.

Are they easy to work with, do they help you solve your problems? Do they constantly refer back to the contract? Or are they comfortable inside the gray areas of uncertainty and opportunities for creative solutions? Would you want to have a long-term relationship with these people individually and with the company as an organization?

**Conclusion**

The evolution of business management has always been driven by responding to and making the most of the changes that surround us – economically, socially, technologically, and by industry. Only recently, particularly as a result of the added emphasis on technology and innovation, has the role of staffing truly emerged as key contributor to a company's vitality and prospects.

In today's business world, every single person should count toward a company's achieving its strategic objectives. The emergence of business process outsourcing offers more than just a solution to problems faced by HR today. It is a dynamic and proactive tool to prepare for the opportunities as they evolve in the future.