

Achieving Post-Outsourcing Success

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Many companies fail to realize the full financial and strategic benefits of outsourcing because in their enthusiasm for "what goes" they devote insufficient attention to "what stays." HR leaders need to understand that outsourcing success means having the courage to transform the make up, organizational design, and strategic priorities of HR. For the retained HR, this represents a once-in-a-lifetime opportunity to enhance its value to the business.

According to a recent survey by Hewitt Associates (Hewitt Research Study, 2004), more than 60 percent of companies outsource part or all of HR administration. By contracting out technology maintenance, data management, HR customer service, and other HR processes, companies aim to reduce costs, improve service levels, and free up time for their HR leaders to focus on critical business issues. As the HR outsourcing industry matures and brand name companies such as Prudential, Sony Electronics, Proctor and Gamble, and

What Is HRBPO?

HRBPO is the integrated delivery and operation of five or more HR processes with an emphasis on process, service levels, and quality of information. In an HRBPO arrangement, the third party becomes the single point of contact for all HR transactions and HR customer service. Employees, managers, and HR professionals have one place to go (web-enabled desktop) to execute transactions and retrieve data and one place to call (the HR contact center) for questions about HR policies and programs. Although the HRBPO may be serving a client from a variety of locations, using different technologies, and coordinating a network of vendors, the infrastructure is invisible to the employees and managers.

Sun Microsystems sign multiyear HR business process outsourcing (HRBPO) agreements, more companies are exploring broad-based HR outsourcing.

The focus now is on the new HR function in the post-outsourcing world. Many companies fail to realize the full financial and strategic benefits of outsourcing because in their enthusiasm for "what goes" they devote insufficient attention to "what stays." HR leaders need to understand that outsourcing success means having the courage to transform the make up, organizational design, and strategic priorities of HR. For the retained HR, this represents a once-in-a-lifetime opportunity to enhance its value to the business.

Why Companies Outsource HR

Outsourcing is increasingly part of business strategy, particularly at high-growth firms. Cost savings is an important part of the equation, but in a recent survey at least half of executive respondents said that a "better focus on core competency" and "improved business processes" were among their top three reasons for outsourcing (Hewitt Research Study, 2004). The most common reasons for outsourcing, whether it is benefits, payroll, employee data management, or all HR administration, include:

1. *Focus on the core business.* Companies that outsource can free up staff from HR administration to focus on more strategic work: activities that are integral and differentiating to the business.
2. *Drive cost savings and efficiency.* By outsourcing, companies can reduce operating costs and minimize the need for additional capital expenditures such as technology purchases and upgrades. According to a recent report by the Yankee Group (Fersht, 2005), companies with more than 10,000 employees can expect a savings of 20 percent from HR outsourcing.

3. *Improve service experience.* Outsourcing HR enables companies to provide new capabilities and services for employees, such as 24/7 access to their benefits via the Internet, decision support tools, and improved customer service. Also, in broad-scope HR outsourcing, processes can be seamlessly integrated across multiple HR areas (hiring, compensation, benefits, learning, etc.) to match how managers and employees access HR information and to eliminate the silos that are common in many HR organizations.

4. *Build flexibility and responsiveness to business needs.* Outsourcing can help a company be more flexible and responsive to changing business needs by providing additional capability, capacity, and unit cost predictability. For example, highly acquisitive companies have found outsourcing an invaluable way to scale their organization while providing unit cost predictability for HR costs tied to supporting the acquired populations. This is critical in helping the business ensure that integration costs are anticipated and managed rigorously.

Sony Electronics Inc. is one company that moved to outsourcing HR administration for a number of reasons, not solely to reduce costs. An outdated technology infrastructure, inefficient HR processes, and nonstandardized HR tools across businesses and locations were all drivers behind the decision. According to Patricia Boggi-Gibbons, VP of e-HR and Benefits, "managing HR operations detracted from our true role as people and talent strategists, and many other companies are coming to the same conclusion. We became convinced that the HR outsourcing model was the wave of the future."

What HRBPO Means for the HR Organization

HRBPO gives companies the opportunity to transfer all administrative, customer service, and technology infrastructure work to an outside partner, so that they can devote energy to strategy, design, and consulting to the business. Based on Hewitt's research (HR Analyzer database), the typical pre-HRBPO company devotes between 40 and 50 percent of its HR FTEs to routine transaction processing, data entry, and responding to employee and manager questions (Lawler, 2004). When that work shifts to the outsourcing provider, HR needs to make smart

decisions about overall HR headcount, the role of the retained HR organization, and the critical skills and competencies needed.

What Goes to HRBPO

In HRBPO, the vendor provides centralized HR administration and customer service, maintains the employee portal and supporting technology infrastructure, and coordinates internal and external interfaces. Currently, total or partial outsourcing is most common in benefits and payroll, gaining ground in staffing, training/development, compensation and HRIT, and emerging as new service offerings in areas such as performance management and communications planning. Using four HRBPO pioneers (Lawler, et al., 2004)—British Petroleum, Bank of America, Prudential Financial, and International Paper—as examples, Exhibit I shows that the scope of services delivered via HRBPO expand beyond the basics to include

staffing/recruiting, compensation, training administration, and emerging areas such as HRMS and expatriate administration (HR Analyzer database).

What Stays in HR

The role of HR, and the opportunity to contribute to business strategy, is enhanced by HRBPO. The core responsibilities that stay in HR are:

1. *HR strategy*: Determine actions HR must take to drive results for the business.
2. *HR program design*: Design of HR programs and practices for benefits, compensation, talent programs, staffing, and other talent management areas.
3. *Executive coaching and organizational consulting*: Direct support for senior leadership in improving their individual effectiveness and the effectiveness of the organizations with which they work.
4. *Workforce analysis and planning*:

Interpretation and action planning based on workforce data and external trends, including staffing and talent strategies.

5. *Problem solving and manager support*: Assist managers in HR and other related issues including definition of staffing needs, compensation decisions, and complex employee relations issues.
6. *Change management*: Support in strategy and execution of firm-wide change initiatives, often in the context of major restructuring (e.g., merger, divestiture).
7. *Budget management*: Management of the HR budget.
8. *Vendor management*: Management of relationship with BPO provider; establishing and monitoring service levels.

One of the most common, and desired, results of HRBPO is that HR business partners or HR generalists increase in visibility and impact, as they enhance their role as business advisors and HR content experts.

EXHIBIT 1

Scope of Services

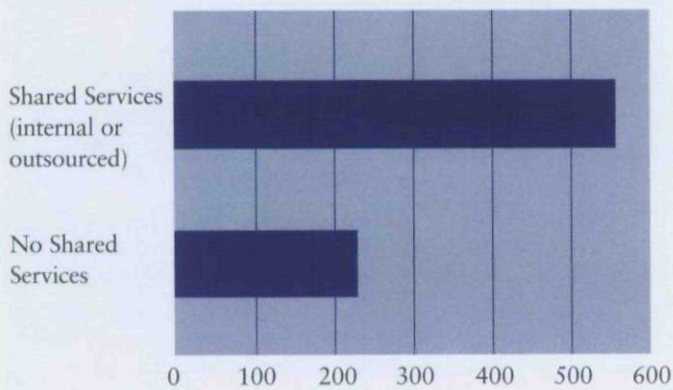
	HR Activity	Outsourcing Prevalence			HRBPO Delivery Models			
		Outsource Completely	Outsource Partially	Total	BP	Bank of America	International Paper	Prudential
Most Common	Flexible spending administration	43	24	67	x	x	x	x
	Health care benefits admin	24	36	60	x	x	x	x
	COBRA	38	17	55	x	x	x	x
	Pension benefits admin	19	36	55	x	x	x	x
	Payroll administration	13	35	48	x	x	x	x
Gaining Ground	Recruitment/staffing (non-exec)	4	26	30	x	x		x
	Relocation	13	16	29	x	x		x
	Retirement/staffing (exec)	4	24	28	x	x		x
	Training and development	1	20	21	x			x
	Executive dev and coaching	4	16	20				
Emerging	Compensation administration	4	15	19	x			x
	HR technology	4	11	15	x	x	x	x
	Employee communication plans	1	9	10				
	Expatriate administration	2	4	6	x	x		x
	HR policy development	0	4	4				
	Strategic business planning	0	4	4				
	Performance management	1	2	3				

Source: HR activity data from "Human Resource Outsourcing Survey Report" (SHRM, 2004) and *Human Resource Business Process Outsourcing*, Lawler, et al. (Jossey Bass, 2004).

Freed up from a role of “jack of all trades,” they are able to focus on creating solutions to business problems—not on transactional support. Recent Hewitt (Exhibit 2) data found that companies that implement HR shared services (internal or outsourced) more than double the reach of the HR generalist from a 231:1 ratio (employee to HR generalist role) to a 553:1 ratio. (*Editor’s Note:* In the Hewitt data, the broader comparison of employee to HR overall is 86:1, a number closer to the traditional 100:1 ratio.)

EXHIBIT 2

Ratio of Company FTEs to HR Business Partners/Generalists



Source: Hewitt HR Analyzer data, February 2005.

Four Steps for Achieving Post-Outsourcing Success

To maximize the value from HRBPO, HR needs a clear perspective on how this dramatic change fits into the overall HR strategic vision. Smart decisions need to be made about how the retained HR organization will function in the new environment. At the outset of an HRBPO transformation, HR leaders must:

1. Anchor HR outsourcing in the business strategy.
2. Designate a “champion” for the outsourcing initiative.
3. Develop a vision and strategy for retained HR.
4. Get the right people with the right skills and the right mindset.

Anchor HR Outsourcing in the Business Strategy

HRBPO should fit with the business strategy, in its expected outcomes and the road to getting there. HR leaders in the organization need to understand and

articulate outsourcing’s impact on the business, showing how HRBPO not only benefits the HR function, but also how it affects the enterprise as a whole. This is critical to creating the right buy-in and establishing the appropriate expectations from business leaders throughout the organization.

This theme has played out time and time again in successful HRBPO partnerships. For example, at British Petroleum, outsourcing HR aligned with a broader business initiative to e-enable all business

processes and support the company’s explosive growth through acquisitions. At Sony Electronics, aligning the internal and external brands was a critical aspect of the outsourcing business case. In both cases the ability to reduce and better manage costs was a key factor in making the outsourcing decision.

Interestingly, although cost is universally one of the main drivers for moving towards outsourcing, most

organizations find that other factors such as improved scalability and an enhanced employee experience gain in importance after the outsourcing relationship has been initiated. This suggests an even greater ability of HR to impact the business and deliver value on an ongoing basis.

Value Delivered. Having a clearly articulated vision of how HR outsourcing contributes to the business will help on two counts: (1) establishing the right financial and performance measures, and (2) monitoring progress toward meeting those goals while helping ensure that HR meets its cost savings targets within the expected time frames.

Designate a “Champion” for the Outsourcing Initiative

The shift to HRBPO is a major transformation in the way HR services are delivered. This requires buy-in and participation from multiple stakeholders—leaders, managers, employees, and HR professionals—to ensure the shift is a success.

Companies that have the greatest success in driving change designate a leader with credibility and passion to be the “champion,” someone who will drive and own the transformation and ensure that the changes stick and become “the way business gets done around here.” Such a champion should focus on the following activities:

1. Engage business leaders in the process.

This includes sharing the vision on three levels: (a) the business case and financial benefits, (b) the transformation of the customer experience, and (c) a status report on progress during the implementation. For one of Hewitt’s clients, the champion spent time individually with each key business leader and provided a realistic picture of the direct impact of the change on his/her operation. This allowed the champion to build buy-in from top leaders and set expectations about what the implementation would look like.

2. Be a visible supporter.

This includes publicly sharing the vision for how outsourcing aligns with the business and enhances the employee experience.

3. Manage an ongoing change program.

These changes are not one-time events. They require a sustained effort to change the way people think about HR and its role in the organization. The champion is critical in ensuring that the changes for how work gets done are embraced.

Value Delivered. Creating visible leadership support for outsourcing through a champion accelerates the adoption of new delivery models by employees and managers. It also limits the prevalence of “shadow HR” organizations that can increase total costs and undermine the effectiveness of the new service delivery solution offered by the outsourcing provider.

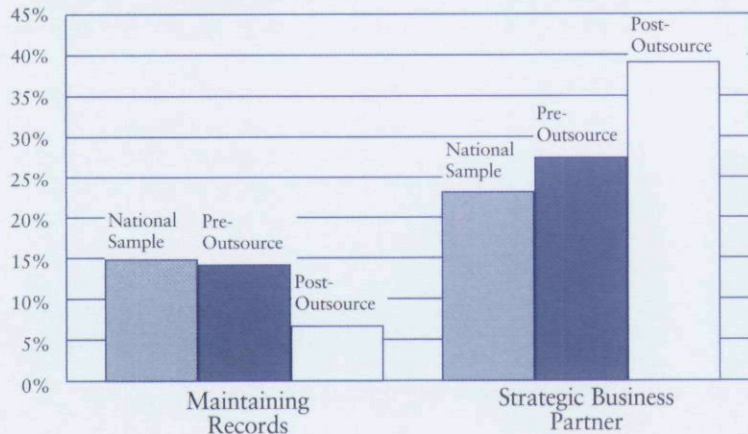
Develop a Vision and a Strategy for Retained HR

Outsourcing major components of HR is an opportunity to reinvent the HR function. Before outsourcing, one has to understand how HR, as a whole, will contribute to and align with the organization’s business strategy. Some of the questions that determine the strategy are:

1. **Growth:** What are the business’s expectations for growth? Where will that growth be (geographic, business focus, employee type, etc.)? What are the implications for changes in the workforce and the ways in which HR serves employees?

EXHIBIT 3

Percentage of Time Spent on Various HR Roles



Source: *HR Business Process Outsourcing*, by Ed Lawler, et al. (Jossey Bass, 2004).

2. **Productivity:** What steps is the company taking to increase productivity? How can HR support these initiatives? What is the best way to cut back on HR time for employees?
3. **Talent:** How will the workforce change over the next five years? What are the implications for your HR programs? What will managers need from HR to better manage talent?
4. **Expectations of HR:** Do you want the HR delivery model to be “high touch” or “high tech”? What are the most critical processes that you want to outsource first?

Exhibit 3 shows that among those companies that have gone through HRBPO, the HR function was able to reduce their administrative focus by more than half, and increase time spent on strategic business partnering by approximately 40 percent. Given these opportunities, HR needs to assess carefully “what stays” and “what goes,” and then determine the appropriate organizational structure that will enable efficiency and performance. As organizations think through the changes in HR, some critical lessons learned are:

1. In forming reporting relationships, avoid burying under one person a capability that is needed by many.
2. Do not confuse shared responsibility with overlapping responsibility; jobs should have clear responsibilities and outcomes.
3. Create line of sight between individuals and the broader HR strategy; keep the

new HR model streamlined enough so HR staff do not get stuck in rigid silos.

4. Focus on competencies that communicate what it will take to be successful in the new environment, for example: communicating for results, relationship management, and a strategic orientation.
5. Clearly define what will not be done, then enlist HR professionals in driving the change.

Value Delivered. Moving quickly to detail the vision, structure, and composition of the new HR organization is the only way to ensure that HR moves in lock step with the new HR direction. It also helps to avoid common traps:

- HR will not let go of transactional work.
- HR will not support behavioral change for employees/managers.

Getting the Right People with the Right Skills and the Right Mindset

The skills and competencies that were so valuable in an insourced HR delivery model—employee advocacy, deep knowledge of HR programs and HR technology—are not necessarily the ones that are most critical in an outsourced environment. In an HRBPO environment, the successful

Sony Electronics: Meeting the Challenge of Change

Sony Electronics Inc. (Sony) made its decision to outsource HR administration in 2001, and went “live” in the fall of 2002. Today, Sony’s outsourcing includes the HR service center and employee portal, HRMS, benefits, compensation administration, staffing delivery for many locations, and elements of workforce management. Three aspects of the HRBPO made this a big change for Sony:

1. Going from paper-based to web-based HR processes;
2. Centralizing HR administration in an outsourced service center;
3. Redefining the role of HR business partners and Center of Expertise specialists to focus more closely on the business.

For VP of e-HR and Benefits Patti Boggi-Gibbons, it was important to introduce the new HR model in a way that built support for the change from both employees and HR. Patti and other HR leaders made the rounds of the business unit leaders and key line managers to brief them on the reasons for outsourcing, how the processes would work, and the expected benefits to Sony. “We made sure that our executives saw how HR outsourcing fit into the bigger picture of making SONY a more efficient, streamlined and web-based company. We also made the connection between HR quality and Six Sigma.” HR relied on extensive communications—posters, videos, flyers, emails, personalized letters to the home—to inform employees about the new HR portal and services. They also ran training sessions to get people comfortable with the new tools.

Boggi-Gibbons made a point of sharing information with her HR colleagues and making them a part of the change: “HR could have seen this as a big threat. We were upfront about how many jobs we expected to eliminate. Almost everyone in HR supported the transformation in some form or another. That’s a toolkit that they can take with them into a number of different types of roles and companies.” One thing Sony did to make sure that the people who stayed in HR were up to the task was to offer training on workforce analytics: “We want to give our HR Business Partners and COE leaders all the tools they need to help the business make smart decisions about the workforce and HR.”

The work is not done for Boggi-Gibbons and her team. Managing such a significant change has not been easy; not everyone is convinced that the outsourced model is the best solution. The HR team is still involved with some non-strategic areas—what Boggi-Gibbons refers to as “program delivery support” for annual salary increases, annual incentive plans, etc.—that need to be more streamlined. Over time, however, as processes and programs become more aligned, as employees adjust to their new roles, and the benefits to the business become apparent, the change management piece gets easier.

British Petroleum: Enhancing HR Capability through Outsourcing

When British Petroleum (BP) outsourced HR to Exult in 1999, the recently merged company saw retooling and streamlining HR as consistent with broader business strategy. First, there was a mandate to reduce operating costs across the business. Second, outsourcing other administrative activities, namely accounting and IT, produced strong results. BP had developed expertise in managing vendors and appreciated the value delivered. Third, BP's HR function was not where it needed to be in terms of quality and support to line managers. Differences in HR processes made it difficult to work across business units and regions; HR could not access needed data about the workforce; its worldwide HR professionals were bogged down in paperwork and administrative processing.

The past five years delivered impressive results. BP reduced ongoing operating costs by at least \$15m a year and avoided more than \$30m in capital expenditures. HRBPO has been the catalyst for streamlining HR programs and improving the quality of business support. Prior to outsourcing, BP ran two centralized hubs to deliver payroll processing, with all other HR processing done by local HR administrators across various locations. These payroll hubs became the starting point for transitioning administrative processes to Exult. With a more centralized delivery model, BP could establish standards for process quality and ensure consistent policy deployment.

HRBPO also provided the impetus for transforming HR, particularly in terms of how the retained HR staff would support the business. With HR administrative activities moved to Exult, the retained HR recast its HR generalist role as a business partner and built a centralized Center of Expertise to serve the businesses, which included benefits, compensation, payroll, learning, recruiting, and mobility. These small teams now report to the corporate SVP HR and are charged with building global processes and programs that can be implemented across BP.

Furthermore, through the technology platform with a focus on employee self-service, HR professionals could devote more time to directly supporting the business lines. For example, the retail business, pre-outsourcing, had a high volume of manual checks and errors in time reporting. By examining performance metrics, BP and Exult could identify the need for more focused education and communication. HR is also better equipped to support business strategy. For example, in the exploration business, critical jobs are highly specialized and hard to fill, so HR can partner with the business managers on strategic workforce planning.

There were some bumps in the road for BP. At the outset, data integrity was a problem for some pockets of the population. Despite a well-thought-out communications and change strategy, many line managers resisted the new web-enabled HR processes. And the initial vision of global HR outsourcing turned out to be too ambitious; the HRBPO arrangement now serves 56,000 US and UK employees (roughly 50 percent of the global workforce). Overall, HRBPO is viewed by HR leaders and line managers alike as a strong foundation for integrating the company and building global people processes.

HR professional is heavier on business savvy and relationship management than HR technical knowledge. She should be a persuasive communicator, and know how to work with a network of internal and external contacts. Choosing the right people with the right skills requires:

1. *Knowing the skills of your HR employees.* One way to gather this data is through a skills inventory/assessment center. Some skills are coachable (facilitation); others are not (analytic and strategic thinking). Early recognition of the skills and capabilities of HR professionals enable you to plan a smooth transition of services.

2. *Clearly defining new roles and communicating requirements to employees.* The best strategy is to place employees in positions that play to their strengths, not to mask past weaknesses imbedded in HR work. Clearly defining roles and role requirements enables an organization to identify the employee most fit to work in the new operating environment.
3. *Plan ahead for skills building and training and development.* Staff with the intent to grow and develop staff to support ongoing engagement.
4. *Make tough decisions when the fit is not right.* Some employees may not possess the right skills and mindset for the new

HR function. If coaching and training do not solve the problem, leadership may have tough decisions about who stays and who goes.

Value Delivered. Objectively selecting retained HR staff based on competencies helps HR avoid not having the skills necessary to become more strategic or consultative.

Conclusion

The search for how HR can be more strategic and aligned with the business has been going on for decades. Most would agree that the HR function has made significant, though sometimes piecemeal, progress—from industrial labor relations expert to employee benefits administrator to business partner, for example. With the onset of outsourcing and the consequent dramatic changes for the retained HR, the conditions are in place for a true transformation of HR. Companies that seize this opportunity will not only reap the benefits of HRBPO, but will also set the path towards a new HR: more business-focused, strategic, and bolder than ever.

The case for HR business process outsourcing is gaining strength, momentum, and acceptance in the marketplace. Making the decision to outsource is half the journey. The other half is driving the new HR organization forward.

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