

Outsourcing Human Resources Functions: The Challenge and Opportunity for HR Professionals

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Tom Sawyer, outsourcing one of his tasks.

The following article is based on a panel presentation at the January 28, 2005 meeting of the HR Network at the Marsh headquarters in Manhattan. The network is co-sponsored by Marsh and the Five O'Clock Club, and is a venue for HR professionals to meet informally and hear discussions of important issues of the day. The panelists on January 28th were Mike Bryant, Director of Employee Relations at Burns & Roe; Michael Downey of Hewitt-Exult; Dan Schreiber, Principal, AT Kearney; and Mary Tinebra, Mercer.

Once upon a time Tom Sawyer managed to evade one of his chores—whitewashing a fence—by using a little psychology with his friends. In his case, he simply didn't want to do the job, and thus stumbled onto the concept of outsourcing: getting someone else to do the work. In the modern setting, of course, there is far more to it than that; even so, outsourcing has been defined by one informed source as work done for a company by people other than the company's full-time employees.

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But in the modern setting, outsourcing turns out to be highly complex, and organizations use outsourcing vendors for a variety of reasons—just one of which may be not wanting to do the job. It has turned out, furthermore, that HR departments especially rely significantly on outsourcing, even though they might not, at first, realize that a few standard practices are, in fact, outsourced. Some of the functions most commonly handed over to outside providers include payroll, benefits administration, background checks, drug testing, recruiting and training. Even small companies that might not get noticed much in big studies of outsourcing trends turn to outside services to help with such chores.

Thus it is easy to see that outsourcing—although it might strike some peo-



Mary Tinebra, Mercer, told the audience the types of items human resources looks to outsource and why.

ple as a trend of these times—has been on the scene for some time. There are multiple factors that have driven HR professionals to turn to outside servicers for a variety of tasks.

Looking for Expertise

The fact is that major industries have come into existence to help HR do its job, and it would be difficult and impractical for most HR departments to match the skills and expertise that can be purchased elsewhere. For example, con-



Kate Wendleton, President of the Club, moderated the panel.



Michael Bryan, SPHR, Esq., the Corporate Director of Human Resources for Burns and Roe, tells the HR Network what he has learned from outsourcing various functions.

ulting firms now provide training services that can be used throughout entire industries. To mention but one example, many companies in the huge food service industry must comply with USDA and FDA regulations; for training thousands of employees across the country, it makes sense to be able to call on consultant-trainers with industry-wide expertise. The American Society for Training and Development estimates that, by early in the next decade, fifty percent of all trainers in the United States will work for consulting firms, to be tapped by companies on an as-needed basis. That is, as often as not, organizations will outsource their training functions.

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It is worth noting, however, that the ASFT projection leaves fifty percent of trainers in house. In other words, outsourcing training does have its limitations. Financial institutions that offer highly competitive products and services—that strive for an image of being different and better—need trainers that go beyond the teaching of generic laws and rules that could work very well in, say, the food service industry.

Furthermore, companies have found that their own needs and cultures compel them to keep the training inside. One firm that employs engineers found that an outside firm—which relied on computer-based training modules—wasn't up to handling harassment training on its own turf. "In our organization," the HR officers pointed out, "we don't really have harassment. We have unprofessional and insensitive behavior and we found that computerized training does not address behavior. Once we realized that the outside program wasn't achieving what we wanted, we took our training program back." This doesn't mean that something else from the outside won't be tried in the future, but it does mean that there can be times and reasons when the search for expertise will not result in outsourcing.

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Obviously, if one of HR's goals is to improve service levels, it makes sense to utilize firms whose business it is to maintain expertise in specific areas and remain on the cutting edge. It is not difficult to

see that HR professionals really don't need or want to become highly skilled at doing background, credit and security checks on prospective employees; there are many service providers who know the tricks of the trade—certainly in terms of staying on top of all the technologies involved. Similarly, benefits administration and payroll are commonly turned over to companies that spend the money to remain current on the evolving technologies.

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Looking to Save Money

Getting the job done well is clearly one of the motivators for turning to outside help with the critical HR functions. But ultimately, of course, HR must answer to the CFO, and cost can be a primary factor in the decision to outsource. A major trend in recent years for pushing costs down has been the bundling of outsourcing services, commonly known Human Resources Business Process Outsourcing. According to one consultant, HRBPO can be defined as "the integrated delivery of five or more human resources products." Another firm elaborates: "HR



Eighty senior Human Resources executives weathered a snow-storm to learn about the outsourcing of HR functions.



Duane Perricelli, our Marsh host, welcoming the Five O'Clock Club's HR Network

BPO is the outsourcing of an integrated group of HR processes to an external partner. Typically the contract combines systems, end-to-end processes, HR staff and infrastructure." Since the major consulting firms that take on the HR burdens can service many companies, there are economies of scale. According to one provider, "Typically, in a BPO contract there is a guaranteed cost savings component. You look at the baseline of expenses that the employer has today, and the contract is guaranteeing a discount off that baseline. So, obviously, that is attractive to the finance department; in the quarter that the contract is initiated it begins to have an impact on the income statement."

Service providers stay on top of all the technologies involved.

Looking to Enhance the Role of Human Resources

As the functions traditionally handled by HR have become much more complex, it has become clear that HR professionals can become hopelessly mired in the details and the paperwork—and become confined by limited horizons. "Just in benefits administration you can see the scope of the problem," one HR executive points out. "This includes flexible-spending-

account and COBRA administration. We wanted to deliver high-quality efficient service, expertise in following up on claims and specialized knowledge in legal compliance—but we also wanted to get out of the paper chasing business." Which leads to another goal for HR that one consultant describes: "By taking the transaction work and moving it out to outsourcing providers, the HR department is going to see increased productivity and the enabling of human resources people themselves." Enabling has commonly been taken in recent years to mean pushing HR toward a more strategic role in the organization—more about that later.

Business Process Outsourcing: The bundling of technology-based outsourcing services to push costs down.

Fasten Your Seatbelts—It May Be a Bumpy Ride: A Few Guidelines

The need to outsource HR functions is clear, and this is a growth industry for consultants and vendors. But there is one piece of advice that can be offered to HR professionals who are charged with shopping and making outsourcing decisions: Talk to colleagues in other organizations who have the experience with each function to be outsourced. You do want to hear all of the war stories. Learn from the experience of others. Here are few suggestions to bear in mind:

- **Outsourcing is not a matter of finding a provider, and saying, "Here, do it"—then walking away.**

As one HR officer testifies, "We discovered that we had to forge a 'living arrangement' with the provider." Especially in a sensitive area such as benefits, the high-touch element must be preserved: you're still the employer. "When the outsourcing provider took over," the HR officer explained, "the employees were complaining. They

weren't getting the handholding they were used to. We found out that whenever there was a problem, our outsourcing provider was pointing to the insurance company, and the insurance company was pointing to the provider—and nothing was getting resolved. So we had to step back in. Now we are on the phone once a week with the provider. This has evolved over time and we are happier with the service. Employees' lives are easier because we stay involved. Originally we had thought we could just hand it off, and that was the wrong thing to do."

- **Measure and Review**

Since the primary reasons for outsourcing include getting a job done well and within budget, it is vital to evaluate results and costs on a regular basis. Says one HR manager, "We recently changed vendors based on price and speed of service. We were happy with what we had—but we managed to find something better. Our experience has been that you have to constantly watch, revisit and renew what you are doing—if not you may fall behind the curve. There are ways that you can measure the effectiveness of outsourcing—and you have to measure and re-measure. Do not be afraid to admit that what you knew was a perfect decision twelve or eighteen months ago was wrong. You are trying to make your organization better, and you can do that by putting your ego aside and looking at what is going on."

"We want to get out of the paper-chasing business."

- **One Step at a Time—Based on Your Needs and Culture**

Enthusiasts for outsourcing—usually on the consulting side—may sometimes be too enthusiastic, and take the outsource-everything-you-can approach. Bundling five or more functions in a HRBPO product is a way to move in this direction. Every organization, however, presents unique needs and should base outsourcing decisions on its own

culture—and on knowledge of its employees and mission. An outsource-everything approach probably will, in reality, fit very few organizations. One senior consultant reports that “my most successful project last year resulted in a hybrid of outsourcing. There were different sets of eyes both internally and externally, looking at the processes. Some of them were outsourced, but some of them were kept inside and reengineered and redesigned. You should not have the arbitrary fixed objective of outsourcing everything.”

Where will the CEO and CFO see the senior HR professionals fitting into the scheme of things?

Piloting or phasing is also sound practice. That is, it is ideal to give an outsourcing arrangement or relationship a trial run, and build gradually. “Being able to take your time, doing it at a pace that is comfortable for your company,” as one consultant points out, “is always going to be more pleasant. Where you can afford to do it, I strongly recommend taking as much time as you can. Unfortunately the reality of economics sometimes forces us to move much faster than we would like. But some logical phasing is always ideal. If you can pilot, that’s great. If management says it’s okay to move at a reasonable pace, absolutely do it that way.”

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What’s in It For Human Resources?

If the future holds more outsourcing of key HR functions—especially if bundling of functions in the HRBPO products becomes more common—an emerging concern for HR professionals will be how to manage their own careers. Or more to the point: What role will they play in the organization?

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According to one view, HR will be able to play a more strategic role in the organization, and indeed there has been much talk of HR becoming a business partner. As one consultant puts it, “From the perspective of the corporate suite, the reduction of transactional activity for human resources will enable it to develop a more strategic focus on the company’s business.” But this is likely to happen only if there is a fundamental shift in the mindset of HR professionals themselves. Do they really want a place at the table—in this case, the table in the boardroom? Do HR executives really aspire to advise the CEO and CFO on business strategy issues—and to be seen as players at this level? Of course, this demands a radical reorientation of thinking and focus. Someone who has devoted a 10 or 20-year career to benefits administration or employee relations may have difficulty in seeing—or even being interested in—the big picture that preoccupies those who sit in the boardroom.

Outsourcing appears to be a trend that will help HR professionals set this course if they so desire. This issue was addressed by an HR Network Breakfast panel in the fall of 2003. The article based on that presentation can be found at <http://www.fiveoclockclub.com/articles/2003/9-03-earning.htm>.

Most CEOs and CFOs will probably welcome astute HR professionals into the realm of big-picture deliberations. But hopefully HR will continue to attract the people who are concerned with and

devoted to the human face that any organization must display. In reflecting on finding better ways to carry out HR business, one HR executive states the case: “We talk a lot about numbers and metrics and productivity. What happens to the people? What happens to the human part of human resources? What happens to the secretary whose kid is sick and who may be having a lousy day? Does that person still have someone to go to in-house, or do we now say, ‘Sorry, the human resources person is busy being strategic, you need to call the EAP’? How do you determine how much of that function goes out and how much stays in? We can all aim to be strategic, but what good will it do if our people are not happy?” ●

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“Apparently, Smith’s desk just couldn’t withstand the weight of the paperwork we piled on his desk.”