

HR Trends: 'Everybody's Doing It'

By Beth Ellyn Rosenthal, Editor



"HR outsourcing is widespread, growing and here to stay." Just as important, companies "are satisfied with their outsourcing arrangements."

So says a new report issued by the Conference Board last month. The Conference Board, a non-profit research firm based in New York City, received 125 survey responses and interviewed 40 HR executives, CFOs and CEOs of American and European companies with annual revenues over \$1 billion, according to David Dell, the Conference Board's research director. [Accenture HR Services](#) (formerly e-peopleserve) underwrote the independent study.

"For 21st century companies, the corporate imperative to reduce costs while providing better service is never far from view. In their search for human resources (HR) solutions to this challenge, many find that outsourcing is becoming an integral and permanent part of their human resources strategy," says the report.

Since HR departments "are being asked to do more with less," they are turning to outsourcing as a way to simultaneously cut costs and improve service, reports the study. Outsourcing service provides executives state-of-the-art technology and the critical mass they need to help them attract and retain top talent, freeing the in-house staff "to concentrate on strategic value-added services."

Companies Are Satisfied. Here's Why:

The Conference Board discovered companies are pleased with their HR outsourcing initiatives. More than half -- 51 percent -- said outsourcing achieved all their outsourcing objectives. Another 42 percent responded that outsourcing partially achieved their objectives. Only 7 percent were unhappy with their results.

This overall satisfaction explains why companies brought back less than 1 percent of their outsourced HR functions, according to the new report. "That one percent statistic is a staggering figure," says David Clinton, managing partner, Accenture HR Services, whose U.S. headquarters is in Chicago, Illinois.

Today, the most commonly outsourced HR functions are transactional and administrative. For example, 80 percent of the respondents outsource their 401 (k) programs, 70 percent outsource pension benefit management and 69 percent let a service provider handle their health benefits management.

The initial satisfaction with the transactional side of HR outsourcing is making companies comfortable with taking the next step: outsourcing non-transactional functions like employee communications, HRIS, and recruiting. The report discovered two-thirds of the American respondents already outsourced five or more functions.

Non-transactional outsourcing allows companies to achieve business objectives in addition to cost savings. "Companies get an outsourcing contract but they don't always get a partner. Today, companies want much more than delivery on their service levels. A key message of this report is that companies want a BPO service provider who can be their partner," notes Clinton.

IT's Important Role in HR Outsourcing

IT plays a major role in the decision to outsource. "Limited internal technological resources and the inability to make the necessary investment are driving decisions to outsource transactional HR functions," states the report. Companies want to automate and Web-enable their processes.

The Conference Board also noted that "outsourcing is definitely gaining momentum in the United Kingdom and Europe." In fact, U.K. and European companies are 50 percent more likely to outsource more of their HR functions over the next three years than their U.S. counterparts. In addition, outsourcing is growing in Japan, the Philippines and Australia.

Currently, most companies use more than one outsourcing service provider to handle their HR needs. But some big companies are moving all their processes to one provider; the study found 12 percent have already done so with another 9 percent planning to do so over the next 36 months. "That number seems to be growing," observes Dell.

The ABC's of Selecting The Right Supplier

The study reported that companies felt choosing the right outsourcing service provider was the key to a successful outsourcing experience. The researchers were curious to see what a company looked for. According to the respondents, cost was not the most important criteria. In fact, Dell reports cost was "a distant third."

Here is what companies looked for in their suppliers in ranked order:

1. Guaranteed service levels.
2. A proven track record.
3. Guaranteed cost savings.
4. A compatible corporate culture.

"Companies want an industrial strength service provider who will be around a long time," says Clinton.

Current Challenges to Beginning an Outsourcing Initiative

The study found four things could stall a decision to outsource. They include:

- Companies have a difficult time deciding to outsource because they are unclear how much it costs to keep the function in-house.
- Companies are concerned that employee resistance will hurt their outsourcing efforts.
- HR employees resist outsourcing because they worry they will be laid off or transitioned to the service provider.
- HR departments are anxious about managing an outsourcing service provider because they've never done it before.

What They Would Have Done Differently

Knowing what they do now, an "overwhelming majority - 90 percent - said they would outsource again. But they would do several things differently. These include:

- **Focus more on change management.** "Everyone said this was a problem," reports Clinton. "And everyone underestimated the effort," he continues. Clinton says service providers like Accenture have to bring change management know-how to their clients "to help them through this difficult transition."
- **Set specific service levels...and make sure you get them.** A common problem among respondents was lower-than-expected service levels. The report's advice: "Establish your expectations up front and include them in the contract as service level agreements including penalties and rewards."
- **Pay more attention to detail.** Companies found out the hard way, "If it's not in the contract, you won't get it." Many companies found, "What you think you are getting and what you get are not the same." The best advice: Find out what's outside the contract up front.
- **Pay more attention to process redesign.** Respondents recommended fixing broken processes before outsourcing anything.
- **Go with a proven vendor.** This includes using service providers who are old hands at outsourcing but new to HR or service providers who don't have clients your size.
- **Manage provider relationships.** Respondents called this "the most challenging aspect of outsourcing." Many underestimated the amount of attention they needed to devote to managing these relationships.

Companies need to work on these issues since HR outsourcing is here to stay. "Judging by our responses, companies plan on doing more outsourcing, not less. There's no going back," says Dell.

Lessons from the Outsourcing Journal:

- A Conference Board study found that HR outsourcing is widespread and will continue to grow.
- HR outsourcing is moving from transactions to value creation.
- The trend is to concentrate all HR functions with a single provider.
- Companies are satisfied with their outsourcing initiatives. Less than one percent said they would take the function back in-house.

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