

Top Strategies in HR Outsourcing

BY JULIE BOS

Whether you're considering outsourcing for the very first time or have been relying on outsource partners for years, these tips can help guide your decisions and **optimize your success.**



WE ALL KNOW THE CHALLENGE: Today's HR departments are increasingly tasked with doing more with less; and yet as global corporations expand, an HR team's role becomes even more difficult. What's more, HR leaders want to spend less time on administrative tasks in order to tackle larger—or more strategic—workforce issues.

That's why many companies have already turned to human resource outsourcing (HRO)—and many more are jumping on the bandwagon.

After all, outsourcing is often the key to

helping HR teams achieve higher performance and better cost control.

The goal of HR outsourcing is simple: to help reduce HR operating costs while achieving better business outcomes through effective human capital management. Outsourcing can also enable strategic flexibility, information transparency and improved performance.

The challenge lies in zeroing in on the outsourcing solutions that best meet your current and future HR needs—without blowing your

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budget or setting your company up for disappointment. As you examine your outsourcing strategy or seek to find the right partner, consider the following tips to help you reach success:

Establish Why You're There

Every company considering outsourcing must answer a fundamental question: What exactly do we expect to get out of this? Your company needs to clarify what your core logic is for creating value through outsourcing. As part of that process, plan to define the following:

- How outsourcing can enable the organization to meet the requirements of stakeholders, either internal (employees) or external (customers)
- How outsourcing will transform the way your HR function works in a radical and sustainable way
- How transforming the HR function will influence the planning, operations and performance required by your business model

"Some companies are motivated by the cost savings, but it can't just be cost-savings alone," says Greg Secord, Vice President of ADP's National Account Services. "Companies also outsource to get access to technology investments that they wouldn't be able to make on their own. So in addition to cost-savings, there might also be cost-avoidance issues, as well."

Define What Constitutes Success

Without defining your criteria for success, there's no way to defend whether the move was a good one. Doing some upfront planning makes a huge difference when it comes time to review. In your early conversations, discuss:

- Your expectations about how frequently you'll evaluate the relationship
- The governance process for resolving issues and challenges
- How you both define good service (and are they in alignment)
- Establishing common expectations on both sides
- The clear-cut expectations about timeframes

Once you've answered those questions, make sure your key performance indi-

cators, service level agreements, scope of work, and roles and responsibilities are clear.

"If you define these roles and responsibilities very clearly—at an almost granular level—it makes issues far easier to resolve because they are absolutely crystal clear," says Steve Riley, HR Product Director at Accenture HR Services. "If you leave them too vague, you will never have something to arbitrate against."

Count the Costs

Outsourcing changes the value-add equation for HR by making every service prove its intrinsic value. Essentially, every function now has a price tag—and if a company can't provide less expensive, higher quality service in-house, the value proposition for moving it outside becomes compelling. In this way, outsourcing has proven beneficial to companies in helping to quantify the value of HR in financial terms.

"Organizations need to be as specific as possible about their current retained costs—including exactly what's involved, and that they can actually manage the business with those costs," advises Mike Wright, Client Development Lead for Hewitt Associates' Multi-Process HR Outsourcing business.

Be Clear About What Technology Can (and Cannot) Do

Often, technology can be seen as a panacea for every problem; but you need to make sure you're clear about the capabilities of a technology, and how far technology has—or has not—progressed. Work with your partner to define your technology requirements early on, so you can align the right processes with the right pieces of technology.

Hire a Partner, Not Just a Provider

Look for an outsourcing provider that brings a wide set of skills and strengths, and a long-term track record of delivering results, in addition to competitive pricing. Then, make sure the partner is the right "fit"—demonstrating flexibility, adaptability and other qualities that will make them a help, not a hindrance to the team.

Carefully Distinguish the Suppliers

There are plenty of differences between HRO providers—particularly their size, culture, HRO methodology and track record. These distinctions should be reviewed carefully during the selection criteria. The vendor you choose should have success with similar size companies and should offer HR expectations that align with yours.

Ask the Hard Questions

In your search for the right partner, remember to ask several key questions, such as:

- Does the provider have the capability to handle fast growth in your workforce?
- Does it have the depth and expertise to deliver on its promises?
- How does it deliver its services? In person? By phone? Via the web? A mix of all three?
- If the provider offers customer service in person or by phone, what's the availability?

Look for Domain Expertise

Many companies outsource in order to gain access to best practices, so if your provider's reputation was built on IT implementations, they may not be the best choice for outsourced payroll. Select a company that brings the experience of many companies to the table, and can use that expertise to guide your success.

Check Out the Service and Support

When it comes to an outsource partner, the level of service and support is just as important as the quality of the HR tasks themselves. Check out your prospective partner's support track record, and make sure they're committed to being there when problems arise.

Make Sure Your Outsourced Solutions are Customer-Centric

As you're strategizing your new outsourced processes, remember to keep the end users in mind. That includes all areas of the client organization—including the needs of employees, line managers, retained HR staff, senior executives and shareholders.

Part of the reason many clients seek an outsource partner is to **access new technologies** and standardized delivery of business processes.

Build in Broad Business Outcomes

Once you select the right outsourcing partner, make sure they can meet your expectations over time. Incorporate business outcomes as a performance measure from the onset. Be clear about your objectives—including cost, process improvement and the ability to focus on the core business.

Be Flexible and Prepared to Change

Part of the reason many clients seek an outsource partner is to access new technologies and standardized delivery of business processes. Therefore, don't be surprised when a service provider proposes new ways of achieving the same business outcome. Likewise, be willing to make some changes in the way you do business so you can benefit from the scale, technology investment and efficiency your partner offers.

"Many times, client companies will have to do some policy harmonization on their side to align with outsourcers' strong standardized offers—both from a technology standpoint and a business model standpoint," says Riley.

Keep Your Commitments

This may seem basic, but failure to keep promises and fulfill commitments can cause extensive damage to the outsourcing relationship. Meeting commitments is the responsibility of individuals and teams on both sides. Delivering on commitments builds credibility and fosters a more collaborative environment where the focus is on achieving high performance.

Define the Roles Clearly

"It's critical to get a very well-defined

statement of work, a well-defined service metric and a well-defined pricing model—including how company growth or shrinkage affects the fee structure," adds Riley. "This will prevent you from being blindsided by surprises, unmet expectations and sticker shock when the invoice arrives."

It's Okay to Think Small

Don't forget you can also outsource HR services by the project. HR firms provide all kinds of specialized services, and will develop your employee handbook, set up your compensation program, or establish a performance management system that you can use to evaluate your employees.

Check Out the "Seams"

Regardless of which processes you're thinking about outsourcing, you'll want to make sure there are no gaps—or "seams" between the processes and technologies in disparate applications. Ask your prospective outsource partner to prove how their solutions will work collaboratively with your retained services, as well as other providers' processes.

"We have invested heavily in integrating our systems, so we can address this issue on behalf of our clients," says Secord. "We also feel the need to work with other third-party suppliers more efficiently, so we're working to deliver standardized interfaces to many of the more popular outsourced services in key areas. Therefore, the larger the portion of business an organization gives ADP, the more seamless their processes become and the more advantages they receive."

Dig Deep Into References

Once you've narrowed the field to a couple of prospective HRO partners, it's time to do your due diligence by talking to

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a few of their other clients — to gain their opinions and honest feedback.

Ask for at least three good references or case studies from companies who are outsourcing the same HRO services you're considering. Make sure the references are similar to your company's size and preferably in the same industry. Then look for proven, demonstrable success over a period of time.

Take a Close Look at Vendor Stability

An experienced vendor that will be around for the long-haul is particularly important when you're looking to outsource items like payroll or benefits.

"You're essentially trusting your employment brand to your service provider," explains Secord. "The size, the stability, the domain expertise and experience all play a part in ensuring that the relationship you've entered into is going to work and live up to your service expectations."

Make a Careful Decision

As you think about the evaluation process, most organizations find the initial steps (e.g., business case, RFPs) the easiest. The more challenging step is moving from the initial slate of candidates to a select few, and then driving the assessment to a close with one provider and a contract for services.

"The service provider selection process is a perfect time to establish a culture around the overall project," adds Wright. "Stay on track to make decisions. Be rigorous around the analysis—but don't get paralyzed by it—and involve others in the organization at appropriate times."

Apply Stakeholder Management

Regardless of the processes you choose to outsource, make sure you apply the principles of change management carefully. This includes understanding and getting buy-in from all your stakeholders—including employees, line managers, retained HR staff and CEOs. This effort becomes increasingly complex for global organizations that need to orchestrate the views of international regulatory bodies, as well.

However, the right outsource partner

should be able to bring excellent outsourcing experience and consultancy expertise to help you navigate these waters.

Avoid a "Big Bang" Approach to Implementation

Some have compared the adoption of new HRO processes to changing an engine while the plane is still in the air — potentially a catastrophic exercise.

"It's never wise to have multiple outsourced services go live on the same day," says Secord. "Do it gradually with a controlled approach. Gain some experience with your first transition and parlay that success toward the next implementation."

Apply Strict Disciplines of Governance

"Project management requires a lot more than lip service," explains Riley. "The reason organizations turn to outsourcing is to get some commercial impact, whether it be lower costs or a better return on investment with human capital. But the only way you can make sure you're realizing those benefits is by having rigorous project management disciplines and milestones, coupled with a workable governance framework."

Don't Be Shy

Keeping lines of communication open across all levels and functions is critical to successful outsourcing; as is the ability to address issues in an open and honest manner. If your company is unhappy about a change or price increase, you should discuss it immediately. You don't want small issues to develop over time into underlying tensions that disrupt team performance.

"Large outsourcing deals are usually heavily contracted," says Wright, "but once a service provider is selected, you need to operate as a partnership. When problems arise, enter into the discussion with an attitude of joint problem solving—saying 'we're in this together so let's find a better way to succeed together.'"

In the end, while outsourcing brings challenges to the HR profession, the rewards greatly outweigh the risks. In fact, outsourcing is increasingly viewed as an opportunity for HR to enhance the caliber of its professionals and its role within an organization. ■

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