



Expanded Article - Human Resources – Outsourcing

The Pros and Cons of HR Outsourcing

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What do we mean by Outsourcing?

The term Outsourcing covers a multitude of sins, from a concierge service or Professional Employers' Organisation, through to In-House Shared Services ('internal' outsourcing) and selected process outsourcing to third parties. It is the latter that we shall focus on.

So why do we do it?

Many reasons are cited, but the prime drivers for any HR outsourcing or process rationalisation are reduced cost and increased efficiency. However, successful outsourcing can also lead to better use of technology, competitive advantage, an opportunity to rationalise functions, processes and vendors and the minimisation of operational risk as the company avoids distraction from non-core activities.

Most organisations have some experience of outsourcing – how many large companies directly employ catering, maintenance, transport or payroll staff? Success in these areas often drives an 'inclination to Outsource, and provide a key lever when selling the business case to executive management.

Successful outsourcing should provide direct financial savings to HR Function, together with indirect financial savings to whole organisation. It can also actually create value by allowing employees to make better, more informed decisions.

The 'Expert', i.e. the outsourcing service provider, does it better and cheaper because it's their core business. It has better systems, has expertise, time & money to exploit & develop new technology, has the ability to track transactional and process costs, provides relevant, accurate MI and provides a consistent and guaranteed service.

Who Does It?

Recognised leaders in the market include Hewitt, PWC and EDS, but most of the major consultancies have outsourcing offers.

Obstacles

A whole range of obstacles crop up as soon as the word outsourcing is mentioned. The HR community fear redundancies loss of control and a de-valuing of the function (it's non-core so no longer on the management radar screen), managers fear a lack of business focus, IT fear firewall and confidentiality issues, employees fear a loss of direct contact with the HR function and a move towards standardisation. All see a one-way journey with no turning

back, together with an unnecessary transition cost. All valid points, but with a well planned approach, detailed scope and clearly specified service levels they can all be successfully countered.

Impact & communications

A comprehensive communications strategy is critical to success. Visible commitment must be maintained – at management level by walking the talk, and at operational level informing the HR function of progress, opportunities for retraining and upgrading capability, freeing time for more strategic work. Communication must be regular, clear, honest and realistic – it must involve, engage and recognise the impact on everyone (but avoid the ‘Parish Council’), especially potential TUPE issues for the HR community.

Economics

The long term success of an outsourcing venture stands or falls on getting the economics right up front. Detailed information on current costs must be made available, and realistic and achievable goals set. Direct AND indirect savings need to be agreed, with absolute clarity on fees and charges (annual fee / fee per transaction / shared profits / gates, etc.). The costs of potential future development must be acknowledged, and sanctions for non-achievement of service levels must be set. Finally, the deal must be relevant to the organisational type and/or structure.

The Business Case

A coherent Business Case, apart from providing guiding principles and details of the infrastructure, processes and potential value creation, should also include an outline of a model of the characteristics of HR delivery in the future, linked to a service vision and operating model.

The Business Plan must address business needs and outcomes, provide realistic cost estimates and business benefits and show investment milestones and risks.

Scope and Service Level Agreements

Finally, an organisation needs clarity on the ‘Statement of Work’ (Scope) vs. ‘Mechanics’ (the Service Level Agreements).

Service Level Agreements, as a minimum, should cover measures, timeframes, reporting, transition issues, phasing (capability driven, NOT timeframe driven), and sanctions.

Likewise, the outsourcing scope must cover what’s in & what’s out (with clarity & realism over definition), detailed descriptions of each process and transaction, what can be standardised, what needs to be directly controlled and what are the overall expectations.

A poorly designed outsourcing programme has significant risks, but properly planned and executed has enormous benefits for an organisation. Most important of all, however, talk to companies who have gone through the outsourcing mill, and use their experience – it is priceless.

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