

Getting Full Business Value from HR Outsourcing With Strategies for Retained HR and Change

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THE SCENARIO

Pat Clark, our fictitious HR executive, sat in her office wondering how, after so much hard work, the project could still feel so incomplete. Months of planning, vendor selection, design work, and implementation had usurped a major part of her and her department's focus to put this HR outsourcing (HRO) solution into place. Why didn't she feel a greater sense of accomplishment?

True, HRO was likely to save her company money, and new technology and operational capabilities should make life easier for managers, employees, and her HR staff. And, as expected in any project as complex as an HRO project, there had been some bumps in the road.

Pat felt that her team had followed a sound process in deciding to pursue HRO and in vendor selection. There had been long meetings about designing and implementing a solution, some very tough discussions, and a combination of high-level visioning and mind-numbing detail.

But something still gnawed at her. She realized now that she had made a classic mistake: working hard for A — becoming a more efficient HR staff function through HRO — while also hoping for B — achieving an HR organization that could help drive business performance.

While improving the efficiency of the HR staff function is undoubtedly important, what Pat had really wanted was for the HRO initiative to be a catalyst that enabled HR to contribute more value to the business. But now, that goal seemed further away than she ever expected.

A – DRIVING HR EFFICIENCY:

- Reduce overall HR costs
- Improve efficiency of HR administration
- Reduce manual processing
- Improve consistency and compliance
- Make fixed costs variable
- Reduce capital investments in HR

- versus -

B – ACHIEVING TRUE HR TRANSFORMATION:

- Do proactive workforce planning and talent management
- Offer HR programs that motivate performance and retain the best people
- Provide metrics and analytics to improve ROI on people
- Drive cultural and organizational change to meet business and people needs

INTRODUCTION

Now that HRO is in its adolescence, there is increasingly a track record of what is working and what is not. A growing number of organizations have experience with HRO (or at least with benefits outsourcing), and the opportunities to understand “lessons learned” are increasing. In particular, some organizations seem to be achieving far more business impact from HRO than others.

The purpose of this [*insightout*] is to explore these trends from the perspectives of both survey results and case study. The Buck-sponsored survey was designed to gather data from companies that have outsourced some part of HR and to report their experience and results. The case study of a property-casualty insurance company engaged in HRO describes its approach and lessons learned. Together, these two sources of data provide insight into issues such as the:

- Scope and objectives of an HRO initiative,
- Strategy for the retained HR organization, including HR generalists and Centers of Excellence, to add value to the business after HRO,
- Practices to assess, recruit, develop, and retain HR staff during and after HRO,
- Effective uses of change management and communications related to HRO.

The findings outlined here can help organizations interested in HRO learn from the experience of others. We believe that HRO will be one of the most important and wide-reaching HR trends for the decade to come. Our findings suggest that companies have progressed in achieving value from HRO, but that leading companies are identifying a set of practices that, when implemented correctly, achieve that value faster and more fully.

SURVEY HIGHLIGHTS FROM THE MOST SUCCESSFUL HRO INITIATIVES

Pat is not alone in expecting HRO to effect HR transformation. Buck’s February 2006 flash survey, *Retained HR in a Post-Outsourcing World*, revealed that many organizations succeeded in delivering strategic business value after HRO reshaped the internal HR function.

The survey examined the degree to which 85 responding organizations (see *Respondent Demographics and Methodology*) have outsourced a significant portion of their HR function and how the roles of retained HR professionals have evolved as a result. Respondents who have outsourced their HR function reported on the techniques and practices used to prepare the HR staff and the entire organization for the transformation and change promised by HR outsourcing.

Respondent Demographics and Methodology

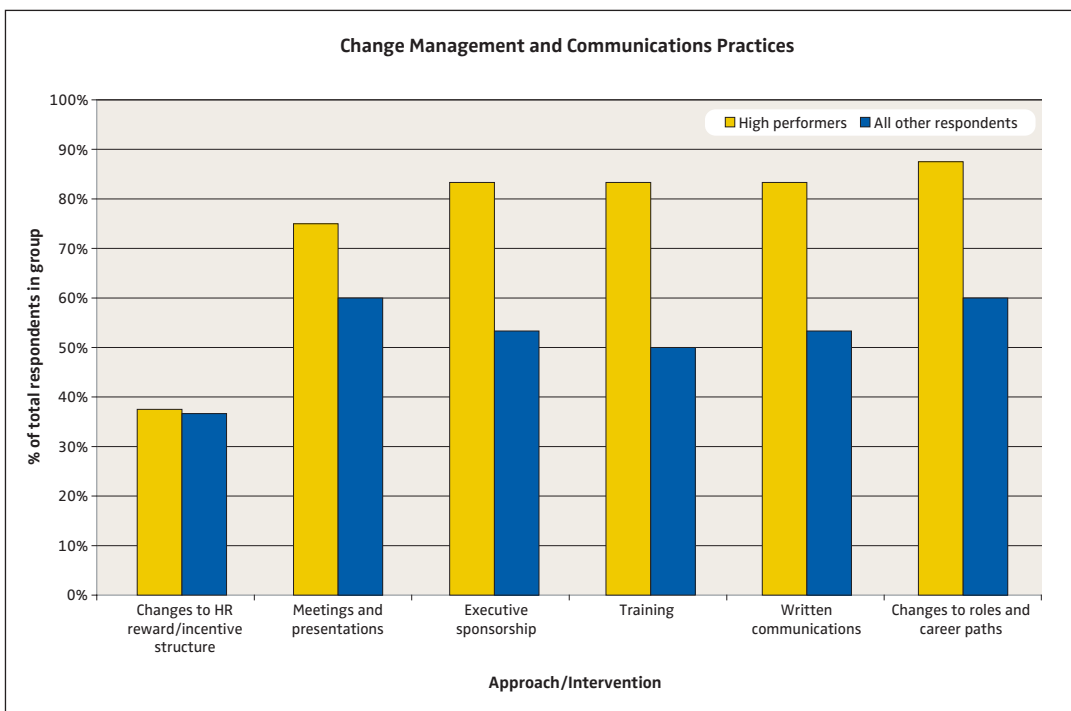
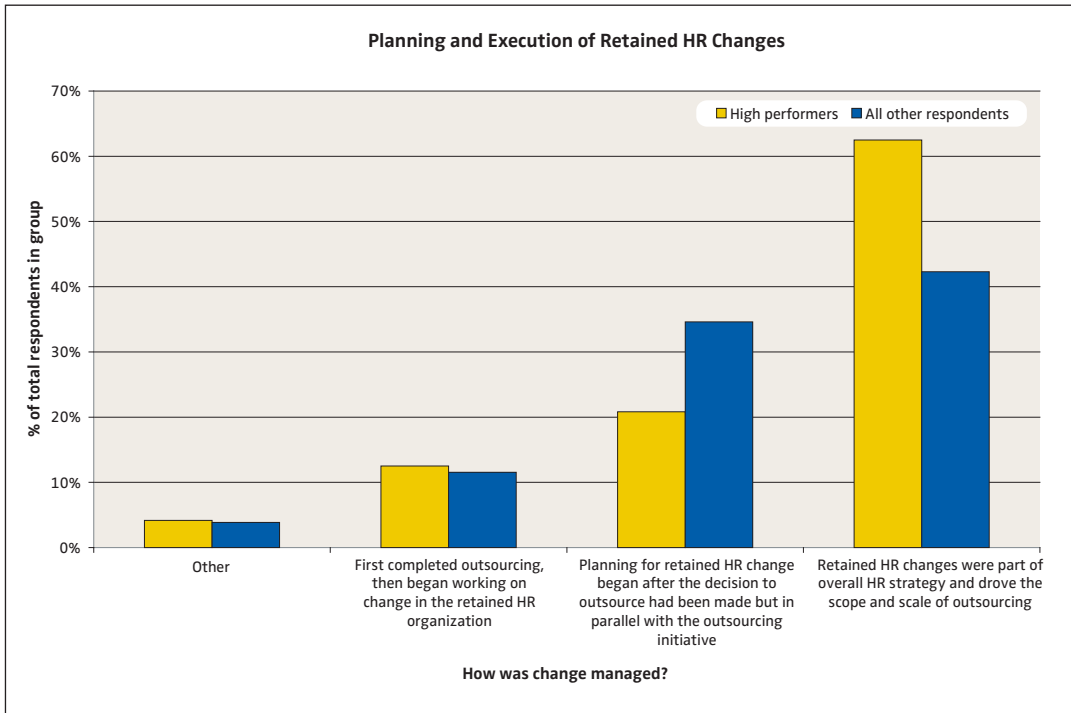
Eighty-five organizations participated in the survey. A majority (56%) of organizations profiled had fewer than 5,000 employees, with most of the remaining respondents reporting more than 10,000 full-time equivalents. A significant majority (78%) of respondents identified themselves as belonging to upper or middle management ranks of their organization.

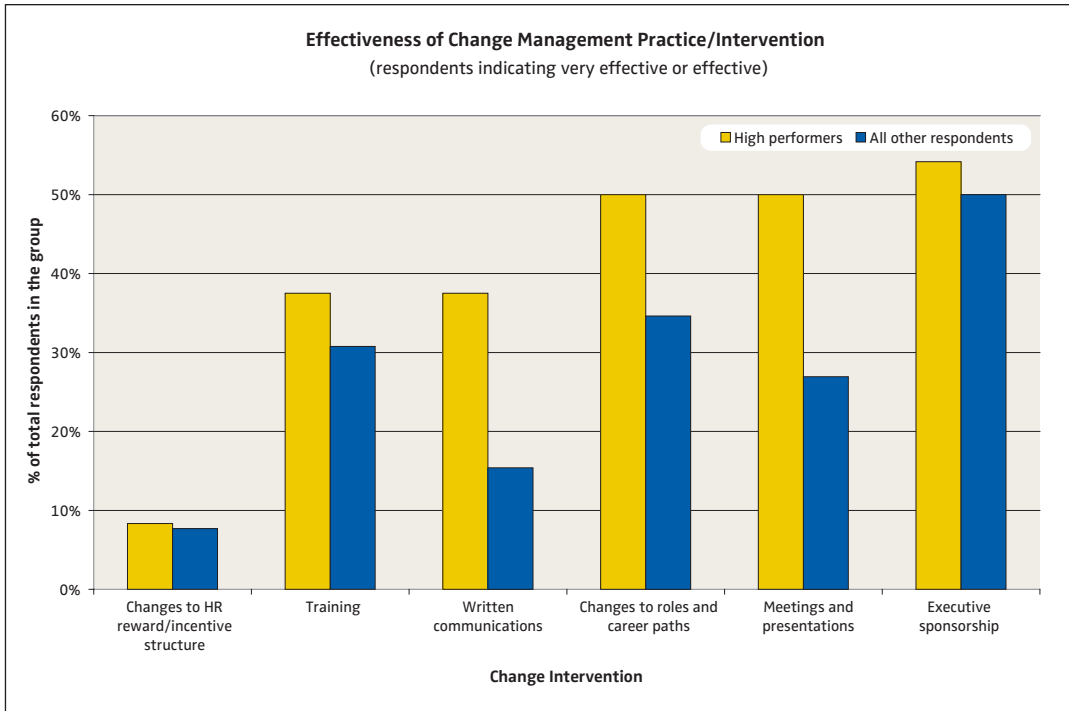
Survey responses were collected via an Internet-based questionnaire. Most questions were multiple choice or other defined response mechanisms. Additionally, respondents were encouraged to add explanatory comments that clarified or expanded upon their responses. In many cases, those notes helped illuminate the survey analyses.

Defining High Performers

Based on an interpretation of survey data, Buck identified “high-performing organizations” and differentiated their experience from other respondents. We defined high-

performing organizations based on the value realized by the outsourcing of HR delivery through significantly improved productivity or customer satisfaction.





While we found that high performers experienced as much change in their retained HR organization as other respondents, they were much more likely to plan proactively and to integrate the HRO and retained HR designs.

Perhaps most significantly, high performers invested more, across the board, in change management and communications. Not surprisingly, given their greater investment, this group also reported higher effectiveness of their change management practices.

Other Findings

- More than 70 percent of responding companies (including high performers) reported line managers' readiness for change as a significant challenge. The second greatest challenge was cost pressure that limits investment in HR.
- For HR generalists retained after HRO, high-performing organizations focused on consulting to the business, workforce planning, and decision support.
- For Centers of Excellence after HRO, high-performing organizations focused on policy and program development, communications, and vendor management.

Survey Conclusions

It's apparent that high- and low-performing organizations have similar goals and challenges in implementing HRO. However, survey results suggest high-performing organizations:

- Plan HRO and retained HR together from the beginning as part of overall HR strategy and transformation
- Invest more in designing new roles and orienting HR staff
- Focus more on selecting and training staff to have higher value skills: consultative, policy, support to the business

CASE STUDY: HRO AS A SERVICE DELIVERY REMODEL

What's in a name? Do you call an HRO initiative an "outsourcing deal," an "HR transformation," "business process improvement," or something else entirely? One property-casualty insurance company chose to call it "HR Service Delivery Remodel (SDR)." As we will explain, that name says a lot about their mindset, objectives, and approach to implementing HRO.

Background

Our client, an insurer with approximately 9,000 employees in offices across the United States, had moved several years previously to a shared services structure with Centers of Excellence and an internal call center, and had also outsourced benefits administration. The result: significant change in HR, reduced costs, and new processes and organization. As the company looked to the future, however, it recognized that these improvements were not enough. Its core business was very profitable but was not growing as fast as desired. HR's internal customers felt their basic service needs were well met, but they wanted HR to be more proactive in providing assistance in consulting areas such as workforce planning, change, and talent development. The business wanted to further increase cost savings and decrease to nothing its capital investments in HR technology.

HR's leaders, therefore, set out to engage in further HR outsourcing, which they ultimately named the Service Delivery Remodel (SDR). The choice of name is significant for at least three reasons:

- This was not just outsourcing, it was a *redesign* of the service delivery model.
- Both the vendor and the retained HR staff have new responsibilities.
- SDR was to build on and improve HR's experience in leading change efforts.

Positioning SDR

The HRO solution included a new HR portal, several new technology applications such as an applicant tracking system, increased manager and employee self-service, a new compensation planning tool, a new time and attendance system, and the transfer of call center responsibilities and technology maintenance to the vendor. SDR required that the joint client/vendor team implement many new processes, tools, and responsibilities. A Steering Committee comprising senior client and vendor executives oversaw the project. A business case, showing the investments and returns expected, was approved.

There was also a significant redesign of the retained HR generalist organization. Previously, these generalists had supported all types of HR activities, including administration, delivery, employee relations, staffing, training delivery, and, when possible, strategic consulting to the business. Now, however, the new technology and self-service capabilities from SDR allowed for fewer generalists focused on higher value activities for the business. In addition, a new staffing organization was created that focused solely on the recruiting-related activities for which the generalists were no longer responsible.

Because of the significant changes involved, SDR also required upfront and ongoing stakeholder communication and change management. There were many stakeholders affected by SDR, including senior executives, HR employees, line managers, employees, other external vendors, and a host of people involved in the project itself. SDR employed a change and communication plan, with dedicated resources, to help ensure the stakeholders' understanding and readiness.

Implementation and Readiness

SDR was implemented by a large client/vendor project team led by a Project Management Office (PMO). The PMO was responsible for the overall project plan and for project coordination and execution. Under the PMO was a set of work-stream teams responsible for areas such as Portal, Staffing, and Time and Attendance. Each team was tasked with implementing the methodology: Plan, Discover, Design, Develop, Test, Deploy, and Evaluate.

A separate, but related, effort was needed to implement the new HR generalist organization. This included redesign of the future roles and competencies, as well as evaluation of the incumbent staff based on location, skills, and past performance. Some staff were reassigned or terminated, and both severance and retention approaches were used to achieve the desired workforce. Ongoing communication, orientation, and training helped prepare staff for their new roles, processes, tools, and relationships.

Integrating change management and communication activities into the overall project plan helped to make stakeholders aware of, and involved in, the implementation. Examples of these activities include:

- Regular broad communications from the senior vice president of HR, by group;
- Monthly “awareness sessions” with HR leaders and their customers (i.e., business managers) focusing on the changes affecting them;
- An SDR email box to solicit ongoing feedback and questions from key stakeholders, used to compile FAQs;
- Involvement of end-users during design validation sessions (e.g., business managers validating the Portal workflows);
- Focus groups/interviews with each work-stream regarding stakeholder impact.

Throughout, the dedicated change resources served as “glue,” making sure that stakeholders’ needs were met and that work-streams were coordinated toward the broader business goals.

Lessons Learned

For this organization, the lessons are ongoing as HRO is implemented and adjustments are made. Its past experience with HR change has raised awareness and helped them to improve the approach for design, coordination, and change. Some of the key lessons learned may seem obvious but, unfortunately, they are *violated* in many HRO implementations. For that reason, we reiterate them here.

- Organize HRO around an overall strategic goal for HR and the business.
- The change process is stressful, so be proactive in helping people maintain performance and build their readiness — don’t wait for problems.
- Make communication a priority from the beginning and focus it around a consistent set of key messages.
- Tailor communications by stakeholder group in terms of timing and content.
- Make implementation a true partnership between the client and outsourcing vendor.
- Ensure ongoing coordination among the work-streams toward an integrated service delivery model and stakeholder experience.
- Design the new retained organization to complement the new outsourced processes and technology — with aligned roles and training.
- Manage change as part of the design and implementation activities for process, technology, and people — not as a separate initiative.

SUMMARY AND RECOMMENDATIONS

A similar pattern emerges from both the survey findings and case study experience: HR organizations that use HRO as a catalyst for broader transformation appear to achieve superior results. These organizations recognize that HRO is a complex and significant change intervention. Therefore, they seek to maximize its business impact by integrating it with design of the retained HR organization and under the umbrella of increasing business value from HR.

At Buck, we believe that increased business value, not just cost reduction, should be the primary objective of every HRO initiative. HRO should accelerate progress toward more effective Centers of Excellence that provide better policy and programs and proactive advice to the business. HRO should help the HR business partner (or generalist) staff to focus more resources on the crucial change and talent issues that drive competitive success of the business. And, we believe that HRO should be a component integrated within a larger HR strategy that is closely tied to the overall business direction.

The alternative is to act like our fictitious HR executive, Pat Clark, who was working toward A while also hoping to achieve B. While everyone respects the value of cost reduction and efficient HR administration, we encourage organizations to aim even higher to realize the full potential of HRO as a catalyst for transformation and broader business value.

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