

Reasons & Risks of HR Outsourcing

"Why companies choose to
outsource HR, and why others don't"

HR BPO means HR Business Process Outsourcing. It sounds simple, but in many cases, it is not. HR activities are diverse, from onboarding to development, from performance management to payroll administration, from promotions to termination of employment. Most organizations use external parties for some of their HR activities. However, not every external partner is a BPO partner.

Here, we take the most far-reaching form of outsourcing as our point of view: outsourcing the actual 'result responsibility' for certain HR services. In such a partnership, the BPO partner is responsible for "the HOW, the WHERE and the WHO" of the HR services. The outsourcing organization focuses on managing the contract ("the WHAT"), the objectives of the BPO partnership and the result agreements.

This article discusses the reasons for, and risks associated with HR BPO. Additionally, we look ahead to future developments in BPO.

The HR function and BPO on the map

For a long time, the development of the HR function was about the change from 'personnel management' to 'human resources management'. In other words, from the department that deals with employment contracts and payroll administration to a department that deals with managing 'the right person in the right place'. With, among others, the books "Human Resource Champions" (1997) and "HR: The Value Proposition" (2005), Dave Ulrich has put HR on the map in a different way. He writes about HR's contribution to the organization's strategic objectives: what does HR contribute to the business? He defines HR as a department with various focal points, both strategic (future-oriented) and operational (day-to-day business), and both process-oriented and people-oriented. One is not more important than the other, but they are all necessary for the HR department to deliver added value to the organization. Today, Ulrich's model is still a guiding principle for many organizations when it comes to setting up the HR function. This usually automatically raises the question of whether certain components should still be carried out in-house: what is better, doing it yourself or outsourcing?

"This article foresees future developments in HR BPO and elements to consider when organizing your HR operating model with an external partner."

In the most far-reaching form of outsourcing, the BPO partner is responsible for the how, the where and the who of the HR service delivery."

BPO is a relatively new concept in the HR field, focusing mainly on transactional activities such as HR administration and contact center activities. However, in recent years, there has been a clear shift towards also the more 'value adding processes' such as learning and performance management support.

What to consider in HR BPO?

When an organization decides to outsource HR activities against result responsibility, the road to getting there is longer and more complex than, purchasing training capabilities. But what makes it more complicated?

First, BPO requires a strategic decision. This means a CHOICE between performing it yourself or outsourcing it. This choice needs to be thought through carefully with market research, sourcing strategies and business cases as preparation.

Also, outsourcing may involve not only the transfer of certain HR processes but also of the associated people to the external party. This is arranged in the European Transfer of Undertakings - Protection of Employment (TUPE) regulations. The company or local works council will also be an essential stakeholder in the decision-making process.

The BPO partner will supply HR services to the organization for an extended period of time. This often involves long-term contracts (5-10 years) with a description of the services, employee experience and continuous improvement objectives, a service level agreement (SLA) and key performance indicators (KPIs). In addition, a governance model records how the parties cooperate at the strategic, tactical, and operational levels. Identifying, agreeing, and defining these components of the agreement is a piece of work not to underestimate. Depending on the extent to which the outsourcing organization knows in advance what is being outsourced, the time to transfer can differ. The amount of trust both parties have in each other also plays a role in the agreements about the service delivery.

BPO ...

... calls for a strategic decision



...is about long-term partnership



...has many advantages if properly prepared and implemented



Reasons for HR BPO

If we look at the reasons for HR BPO, we can take several approaches. From an organizational perspective, HR outsourcing is usually presented as an opportunity. Based on Dave Ulrich's models, the 'retained HR organization', the organization that remains, is streamlined to a new structure. In the theoretical model, the most straightforward transactional activities are automated or outsourced. This restructuring allows HR to focus on the activities that add value to the organization's bottom line. This is usually organized through Centers of Expertise and HR Business Partnering. In practice, HR BPO is not always seen as an opportunity by the HR organization itself: it is perceived as the downsizing of HR driven by others. Experience has taught us that HR outsourcing is not always initiated by HR itself but was put on the agenda by, for example, Finance or Procurement. From this perspective, the most common reasons for outsourcing were cost reduction or cost control.

But is it really that simple? Let's look at the reasons for outsourcing HR activities. Below are several conceivable reasons or benefits of HR BPO presented in logical clusters.

Benefit type	Elements
Cost	<ul style="list-style-type: none"> • Predictable costs (cost control) through contractual agreement • Cost reduction by efficiency and/or labor arbitrage • Cost flexibility through activity-based costing or price per employee/year
Quality	<ul style="list-style-type: none"> • Access to specialist knowledge of the BPO partner • HR services are the core business of the BPO partner • Innovation by automation/robotization capabilities of the partner
Flexibility	<ul style="list-style-type: none"> • Ensure continuity If services are part of a larger shared services center • Scalability of the BPO partner in case of business changes or restructuring
Focus	<ul style="list-style-type: none"> • The organization focuses on its own core business – not HR • The 'retained' HR organization focuses on value adding processes for the business (e.g., Talent, Learning, Performance)

Risks in HR BPO

When deciding to outsource, the risks associated with it, need to be considered. The outsourcing organization often feels they are losing knowledge and control. Before the contract is concluded, care must be given to the knowledge and skills that will be left behind to enable optimal cooperation and continuous improvement together with the BPO partner. Even after the multi-year contract expires, continuity must be guaranteed in the event of a transition to a new BPO party or if the choice is made to bring the services back into the organization.

In addition, the Employee Experience perspective is becoming increasingly prominent on the agenda of organizations. The BPO partner must have the same 'drive' to deliver good services while achieving efficiency improvements. It cannot be solely a question of automation or cost reductions. It is about balanced decisions based on the effect on the Employee Experience. Risks to consider and mitigate in a BPO decision are summarized in Table 2.

Risk type	Elements
Cost	<ul style="list-style-type: none"> • Extra costs for managing the contract • BPO partner will need to make profit on the services • Hidden cost for unplanned work (change requests, projects)
Quality	<ul style="list-style-type: none"> • Lack of required company knowledge • Lack of control on quality through the SLA only
Focus	<ul style="list-style-type: none"> • BPO partner needs to focus on multiple customers
Dependency	<ul style="list-style-type: none"> • Detailed process knowledge is with the BPO partner • BPO partner decides on the 'HOW and WHO' of the HR services

“BPO allows HR to focus on the activities that add value to the organization's bottom line.”

“The outsourcing organization retains knowledge and skills to drive continuous improvement”

Development and future of HR BPO

At the start of this millennium, the first HR BPO contracts were mainly based on the 'lift and shift' principle. This meant that the HR IT systems and associated processes were transferred 'as is', without any modifications or efficiency gains. It was then left to the partner to deliver good services and meet the agreements. From 2010, the second generation of HR BPO contracts was based on the principle that outsourcing also meant an HR transformation. Processes and systems were mapped out beforehand, and SLAs were improved on that basis. There was also a downside to this. This 'shift and lift' approach resulted in endless IT or change management projects, and it took far too long before results were achieved, or decisions were made.

In the meantime, technology has taken us to the next phase. The arrival of cloud-based HR systems has given speed and scalability a huge boost. Employee Experience is central to the development of self-service and automation. The accessibility of digitization within the HR function offers the possibility of reviewing one's own role and the HR Operating Model. Self-service or outsourcing is extended with hybrid models. The rise of Global Business Services, in which shared services and BPO are developing into the perfect mix of self-service, outsourcing, scale and continuous improvement, is the best example of this.

In any case, HR BPO decision making is balancing reasons and risks!

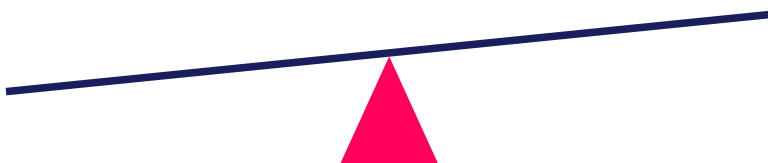
HR BPO decision making *balancing reasons & risks*

Reasons

- Predictable costs and cost reduction
- Control the quality of services through SLA
- Access to specialist knowledge of external party
- Ensure continuity in service delivery
- Scalability of services
- Focus on the core business

Risks

- Unforeseen costs
- Loss of control on service delivery 'HOW/WHO'
- All process knowledge to external parties
- Lack of required company knowledge
- Focus on multiple customers



What can Quintop do for you?

Quintop helps organizations with the decision making and realization of an HR BPO solution: from defining the right solution to implementing the new way of working. Our approach is characterized by our knowledge of the three pillars of organizational change: People, Processes, and Systems. This translates into:

1. Specific attention to all people-related topics such as a possible restructuring and change management activities.
2. A structured approach to building the Service Delivery model. From general to more detailed process analysis, from scope determination to services transition.
3. Leveraging our digital transformation experience so that the systems optimally support the processes.

We have experience within various organizations with the implementation of BPO solutions. The final approach and transition method are always customized for and with our clients.

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