

Executive Roundtable: Providers Assess the HRO Market

FOUR MAJOR PROVIDERS WEIGH IN ON THE STATE OF THE INDUSTRY, THE DIRECTION IT'S HEADED, AND THE BARRIERS THAT OUTSOURCING CONTINUES TO FACE.



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BPO clients globally.



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In these difficult economic times, HRO Today invited four key provider executives to discuss their thoughts on evolution of the outsourcing marketplace. Representing different segments of the industry, these leaders answered some of the most pressing questions the industry is facing today.

HRO Today: Market trends in the HRO industry have shifted quite a bit during the past couple of years. What is the biggest shift you've witnessed among employers (buyers)? How have they changed the way they view outsourcing as an enabler of HR transformation or as an essential tool for improving HR service delivery?

MB: Macro economic conditions have recently deteriorated precipitously. Current appetite around HR transformations is costs savings, operating efficiencies, retention of key talent, and improved productivity. A good deal of emphasis is being placed on eliminating redundancies and being able to accomplish more with less. Companies are looking to get lean yet efficient to drive shareholder value during tough economic times, and at the same time have the flexibility and scale available to ramp up if the economy shifts in a positive direction. HRO can provide this type of flexibility more readily than building in-house HR capabilities, so we'll see a bigger trend towards HRO now, albeit discrete pieces of HR rather than all HR functions.

DL: The biggest shift we're seeing among buyers is their adoption of a more global approach to business. Examples include the sharing of products and services across regions where a buyer is already established, the expansion from an established region into a completely new one, and the internal "offshoring" of services from a higher-cost region to a lower-cost

one. Few outsourcing service providers have experience in working globally, and buyers are increasingly looking to tap the available expertise. We're also seeing more buyers perceive outsourcing as an opportunity to fully transform how they're providing learning services within their organizations.

JR: The first is that outsourcing really has been adopted as a best practice. While outsourcing decisions are still big, important ones, the key factors have shifted more to provider selection versus the decision to outsource at all.

Next, I think we're continuing to see a shift from the big, global, multi-process deals to smaller bundles of services. Buyers are getting smarter about the things over which they want to maintain control and where they can truly get an edge from outsourcing. And that's translating into smaller bundles of services from a concentrated set of providers.

I think outsourcing the right HR services can be both an enabler of transformation and a way to improve service delivery. If buyers are willing to work with and adopt the provider's standard model—which is based on their best practices and lessons learned—providers can deliver on both expectations.

MSR: As the HRO market continues to mature, we are seeing a much more informed buyer. Buyers know what to expect from an outsourcing arrangement, and chief HR officers continue to consider outsourcing HR activities as one approach to meet the demands of delivering both strategic and administrative excellence. Buyers are attracted to the idea of being able to deliver quality HR administration through a specialized partner while focusing internal resources on more strategic efforts. More and more we see buyers seek to achieve a more integrated and improved employee experience.

rience, reduced costs, improved operational efficiency, and access to innovative solutions. In addition, dealing with a global workforce continues to be a challenge. Buyers want to be able to provide the same flexible and available HR services to employees across the globe. Streamlined access to information and services must be accessible wherever they are in the world.

HRO Today: At the same time, the solutions and services offered in the marketplace have evolved as well. Can you cite three ways in which the market has made outsourcing more palatable to employers?

MB: Employers are looking to gain operational efficiencies while making HR costs variable, so pricing variability is probably one of the most visible shifts. Service providers recognizing this trend—and adapting—have been able to win new customer business. Selective outsourcing is another shift; companies no longer have to make the “all or nothing” decision when considering HRO. They are able to buy best-in-breed discrete services while retaining other areas they culturally feel must remain in-house. Consolidation has probably been the third area of benefit to current buyers. Difficult economic times will ensure that the most financially viable service providers remain. These financially healthy service providers will be able to make the necessary investments in order to deliver quality HR services in any economy.

DL: One of the ways in which the market has made outsourcing more palatable is the increasing sophistication and complexity of new learning technologies, which often require an investment that outsourcing service providers are more willing to make than buyers. Another way, also related to technology, is the rapid expansion of broadband availability, which enables the transfer of large amounts of data not only between buyer and service provider, but also between a provider’s offices across regions in an offshoring scenario. Economic conditions have also made outsourcing more palatable, as organizations are far more pressed to reduce costs and drive out risks. Finally, service providers are willing to invest in tools and processes they can use over and over again, thus making the business model for investment more palatable for the provider than the buyer.

JR: I think outsourcing has become more

palatable to employers largely due to the growing maturity of the industry. Making a decision to outsource HR services no longer carries the same risk factor that it once did for an HR executive. And this is especially true for certain services in HR; benefits and payroll, for example, are very palatable.

Second, I think we’ve learned a lot about service levels and what the most effective measures are to help predict quality. Providers are more experienced now and are able to more successfully contract quality measures to ensure successful operations.

Finally, I think one of the earliest reasons for outsourcing still holds true and is incredibly compelling for buyers. Employers have to make pretty substantial technology investments to support their HR services, but choosing to outsource those services means buyers can offload that responsibility and leave it to the experts.

MSR: The market has made outsourcing more palatable to potential buyers in a number of ways. Three that come to mind are 1) stand-alone offerings that allow companies to start small and grow; 2) end-to-end comprehensive solutions to address all needs through one strategic outsourcing partner; 3) innovation that allows companies to have access to processes and tools they might not otherwise have access to.

HRO Today: We still hear a plethora of concerns about outsourcing. What are some of the challenges that stand in the way of broader HRO adoption, whether that’s a point solution such as learning BPO or an end-to-end, comprehensive solution? What are the three biggest barriers of greater outsourcing?

MB: Fear of the unknown is probably the greatest concern, whether stated or implied, especially during a difficult economy. Letting go is organizationally challenging for employers, and organizational change management during an already change-laden employment environment only compounds apprehension. Another barrier is the long period for meaningful ROI. In today’s economy, months are years and years are millennia. Service providers need to focus on providing their customers quick wins nearly immediately post deal-signing, or risk their customer’s organizational support for HRO. This is especially true if the HRO buyer is a publicly quoted company. Finally, lack of customer talent around managing outsourcing transformations—

large or small—is perhaps an often unstated headwind.

DL: The biggest challenge we’re seeing to broader LBPO adoption is the lack of sophistication and consistency in proving the business model for the outsourcing engagement. Every large LBPO engagement we’ve been involved in has required a thorough business case that relies on a good amount of data from the buyer’s organization. Another key challenge to LBPO adoption is the HR community’s understanding of what is core to employee development within their organization. Employee development is absolutely core for any organization, but the processes used to provide learning typically aren’t core. These processes can be outsourced, and as many case studies already show, these processes should be. A third barrier to greater outsourcing is a buyer’s fear about the loss of organizational knowledge and an adverse impact on organizational culture. We’ve seen this fear addressed by transferring selected training professionals from the buyer’s organization to ours.

JR: Employers still have a fear of putting all their eggs in one basket for their HR needs. That’s why more and more providers are breaking up their comprehensive offers to provide solutions in smaller bundles. It makes for an easier transition, and it allows buyers to add on services when they’re ready, rather than jumping in feet first. Plus, it means that buyers can really choose the experts for those bundles of services. While the concept of outsourcing all or a portion of a company’s HR function is relatively new, more specialized forms of HR outsourcing (such as benefits, payroll, recruitment, etc.) have been around for a long time and no longer have the same risk level associated with them.

I also think that if employers base their view of HRO on early deals done in an immature market, they fail to understand the progress the entire industry has made in evolving service delivery models. Today, providers know what works and what doesn’t, and we can help buyers understand what they can do.

MSR: Getting consensus in a “matrix world”: Most of our clients have complex matrix organization structures. Whether it is countries, divisions, or some other unit, the SVP of HR does not “own” all the resources and budgets associated with what is “targeted” to outsource.

Being realistic: A barrier to HRO is unrealistic

expectations of the level of transformation versus operational savings and having buyers and suppliers out of alignment on what could be achieved.

Leadership, governance, and change management: As we all move forward in these uncertain times, it becomes less of a decision to outsource and more of a decision to mitigate risk. Clients need to feel that they can react to the changes in the world economy quickly. The provider community needs to be even clearer on the compelling reasons behind outsourcing, not just the cost savings but the consistent delivery of best-in-breed value-add services.

HRO Today: Although the outsourcing of HR services has been generally successful among practitioners, a handful of bad deals has managed to mar the industry. What is most often the problems that lead to a breakdown?

MB: The sell side overpromising something that cannot be delivered within the confines of the deal structure. On the buy side, expecting results that are not emphatically spelled out in the terms and the conditions of the deal. In simple terms, most disappointments happen at the cross-streets of Non-alignment and Expectations. In more practical terms, scope change is usually a catalyst for most engagements that never seem to rise out of mediocrity.

DL: Bad deals often result from an inadequate governance process and the wrong business model. If it's done right, governance focused on the right measurements will keep an engagement alive, regularly evaluating whether the engagement is headed in the right direction, and whether investments are focused in the right areas. Governance should constantly drive a fresh look at the outsourcing engagement. Buyers should also bear in mind that they need to align their vision for the engagement with the budget. We've seen that if buyers are only focused on transaction costs, transformation of their learning function will not occur.

JR: I wouldn't necessarily call them horror stories. In most situations, the deals that haven't worked out have been based on mutual decisions by the provider and the buyer. What that tells me is that one of the biggest problems is probably lack of clarity and clear statements of work between the two organizations. It is absolutely essential for both parties to be crystal clear on who is doing what in the relationship. The other

‘Governance should constantly drive a fresh look at the outsourcing engagement.’

—David Letts, RPS

thing, of course, is that very early on, there were a lot of providers who were learning as they went, which meant the right level of due diligence probably wasn't performed up front. Now, the industry is smarter.

MSR: As the HR Outsourcing industry matures we will see fewer failures. Those breakdowns that have happened within the industry in the past couple of years can be attributed to a couple of categories:

- **Expectations:** In some of the earlier HRO deals, the expectations between the buyers and the sellers were not fully realized on both sides. As third-party advisors, vendors, and clients gain more knowledge around the value proposition of HRO, we are getting more accurate with setting realistic expectations around cost savings and the other benefits to outsourcing.

- **Change in Business Direction:** As business direction changes, sometimes the feasibility to outsource needs to be reviewed. As companies have acquired, been acquired, or had changes in leadership, the strategic direction regarding outsourcing has changed.

HRO Today: There has been a lot of work and research done around issues such as governance and standards to help outsourcing practitioners better implement and more quickly get the results they seek. Does it seem that many of the frontier issues can only be addressed by the buyer, with minimal input by the providers?

MB: Short answer: I would (cautiously) disagree. Longer answer: The problem with this question is that it represents an assumption fallacy as its basis. Sometimes the buyer doesn't know what the buyer doesn't know and other times the buyer doesn't know what the buyer knows. Meanwhile, the service provider knows what the service provider doesn't know and at the same time the service provider knows what needs to happen for a successful engagement. Therefore it is practically incumbent on the service provider—not the buyer—to bridge this

gap for the customer. The service provider needs to educate some buyers and elicit information from others. After all, from the buyer's perspective, the service provider is the expert, not the buyer.

DL: There's more work to be done around the development of business models demonstrating the value of outsourcing. We've found that buyers can more quickly drive the transformation of their learning function by having a clear business model that includes a robust change management plan. There would also be value in seeing more research on the impact of outsourcing on buyers' employees transferred to providers. Did the employees experience increases in satisfaction, compensation, and/or productivity? We have a good amount of anecdotal evidence indicating improvements, but we've not seen good research to back up our understanding.

JR: No. The providers have the broad perspective to give buyers the experienced coaching, input, and support in the areas of change management and retained organization design. For Hewitt, our consulting organization is focused on these frontier issues and can really help buyers think through the peripheral elements of their outsourcing decision. Providers who can offer those consulting capabilities can guide the buyers on those issues and then move into a broader HRO relationship.

MSR: The short answer to the question is no. We believe that even though there are some things that are truly in the domain of the buyer, such as works council or union issues/changes, there are many things that the buyers and providers can do together to help ensure success with HRO. For example, in 2008 IBM offered executives from our HRO client base the opportunity to come together in an open and in-depth discussion on what IBM is currently doing right and where our opportunities for improvement are. This highlighted the desire to create more of a “client advisory” approach to some of the challenges, investments, and changes in the HRO in IBM. **HRO**