

Does HR Outsourcing Really Work?



It's easy to make a list of reasons why HR Outsourcing (HRO) should work, starting with the promise of substantial cost savings. But when it comes to actually diving in, a lot of organizations are getting cold feet. That's because they know that a number of big HRO projects have failed to deliver the value promised. Is there a real business case to be made for HRO in light of its uneven track record?

Here's the debate:

	Point	Counterpoint
It works when you do it right. <i>The early years of HRO have been bumpy, but we've learned a lot.</i>	Today's buyers of HRO services are savvier than ever, bringing more realistic expectations and levels of preparedness to the table. That's what will make the difference over the life of the contract.	Sure, buyers have more realistic expectations during the contracting process. But when the calls start coming in after the roll-out, will buyers stand behind the expectations they signed up for in the beginning? Unless the answer is "yes", HRO providers will still be left holding the bag.
	After years of one-size-fits-all solutions, providers are starting to bring the creativity, flexibility and understanding needed to make outsourcing initiatives work.	Don't believe the hype. Scratch below the surface and you'll find the same old, same old. For many providers, profitability, not buyer satisfaction, still rules the day.
	When HR outsourcing providers are recognized and treated as partners rather than vendors, it usually works.	Face it – outsourcing providers are external organizations, and they'll always be treated that way. It's unlikely that they'll ever fully integrate into an organization's service delivery model – which means that HRO will continue to be the scapegoat for performance issues and customer dissatisfaction.

	Point	Counterpoint
<p>Steer clear.</p> <p><i>Sounds good on paper, but history would indicate otherwise.</i></p>	<p>You can achieve cost reduction and increased efficiency without leaning on outsourcing. Shared Services and technology optimization are less complex, with higher rates of return and overall success.</p>	<p>It's no longer a question of whether or not to pursue HRO. The question is "how much?" So stop agonizing over whether to outsource or in-source and jump ahead to figure out how to use HRO in a way that gives your organization the upper hand.</p>
	<p>There is still no proven way to measure success in HRO relationships. Without clearly defined results, why take the plunge?</p>	<p>There's a way for buyers and providers to see eye-to-eye from the start. Focus on achieving business results that are realistic, measurable, and allow for continuous improvement - not just static performance. Get that right, and everything else will fall into place.</p>
	<p>HRO isn't like outsourcing in other parts of the business. It touches every employee – and it requires a level of stakeholder management that HR is rarely able to achieve.</p>	<p>Don't all those functions need to be better aligned anyway for HR to be successful? Whether you outsource or not, organizations need to be fully aligned when it comes to servicing their most important asset.</p>



My take

Erica Volini, Principal, Deloitte Consulting LLP, Global Market Offering Leader – HR Outsourcing

Ever gone whitewater rafting? If so, you probably know that queasy feeling you get when you're nearing a big rapid and realize that it's too late to eddy out by the bank of the river. You're going over, and your best shot at making it work is to paddle furiously and stay alert. When I talk with HR leaders today about outsourcing, I can't help but think they must have a similar feeling. Many are plagued with anecdotes and misgivings about HRO even though they think outsourcing can help them run a more focused, strategic, cost-efficient shop. Many have watched and even participated in plenty of HRO projects that never paid off. Paddling away and watching everyone else take the plunge sounds better every day.

Here's what I tell them. First, the market is changing in a big way. Mature outsourcing providers have reined in their offerings over the past few years, providing more targeted services rather than taking on everything at once. New providers are cropping up each day with solutions that have not been offered previously. That means the burden of devising the right outsourcing strategy has shifted to buyers – and the days of throwing everything over the fence for providers to fix are over.

From my perspective, that's a good thing. Because as HRO projects have grown in scope and budget, so have buyer expectations – to an unrealistic point, in some cases. It's time for buyers to roll up their sleeves and determine what they can reasonably accomplish, and how. From there, it's a lot easier to assemble a solution from the range of options in the market today.

That's where the opportunity is. Organizations that know what they want to achieve can pick and choose exactly what they need from providers who have lived and learned over the past ten years. But knowing what you want to achieve is no longer about selecting a set of services and solutions from a provider's menu of options. It's about evaluating your organization's HR capabilities, determining how outsourcing can "fill in the gaps", and building those capabilities through provider partnerships. It's about truly integrating outsourcing into the delivery of HR services. It's about setting realistic expectations and objectives for outsourcing; and delivering against them. And, as we all know, it's definitely about time.

So if you've been sitting on the sidelines, there has never been a better time to reconsider your strategy as it relates to outsourcing. Remember that only you are in charge of determining where you want to go. Check your expectations at every turn. And keep your paddles at the ready.



A view from the buyer's perspective

Michael Stephan, Principal, Deloitte Consulting LLP

Michael specializes in helping companies in their efforts to develop and integrate HR service delivery models with technology and outsourcing solutions. Here is his take on what HRO buyers are saying, in their own voice, about outsourcing as a viable component of their service delivery model:

"Buyers beware." That's what we've heard for years about HR outsourcing. Yet today, we are hearing "Buyers aware" – encouraging us to shift our focus to preparation instead of trepidation. We now recognize that being more aware about our specific needs for HR service delivery is improving our chances of ending up with a better HRO solution.

We have heard that HRO providers are shifting away from a "one size fits all" approach, positioning buyers into the driver's seat. While many early deals were about cost savings, this buyer's market isn't just about getting the right price. Cost has become table stakes for us. The critical success factors now require us to assemble the right portfolio of services to meet our service delivery goals and at the same time ensure that the provider offers flexibility in its capabilities, a cultural fit, and expertise in delivering specific services. That means HRO providers can no longer depend on market share, global reach, or breadth of services to close a deal. Today, it all comes down to one question – Can today's providers deliver the value we need in targeted areas, while also integrating with the other components of our service delivery model?

These requirements place a lot of the burden on buyers. That's where preparation comes into play. It's no longer enough to expect HRO providers to bring all the ideas and best practices to the table. As buyers, today we're working harder to break down organizational walls, create shared visibility into processes and data, and tackle other obstacles before they cause even bigger problems down the line in an outsourcing relationship. What works? What doesn't? And we are taking a more critical look at providers. We want them to offer established solutions, not unproven services and technology that they are hoping to grow.

To help us navigate our way through the ins and outs of outsourcing, we are increasingly engaging with advisors and consultants who have knowledge of our organization as well as the HRO market. We recognize that HRO alone is not HR Transformation; it's more of an enabler to becoming a transformed HR organization. So, we are anxious to determine how outsourcing can work best for our organization. We simply want to make sure that we are prepared for our journey.



A view from the provider's perspective

Peter Ackerson, Specialist Leader, Deloitte Consulting LLP

Pete has extensive experience in the HR marketplace as an outsourcing client, outsourcing provider, and as an advisor to companies buying HRO services. Here is his take on what providers might say, in their own voice, about lessons learned over the past ten years:

We admit the market has been tough over the past few years. As multi-process outsourcing providers entering the market ten years ago, we dreamed big and hoped our capabilities would match. Many of us lived up to our plans; some did not and either exited the market or ended up being absorbed into other companies. Along the way, we have learned some big lessons – not just from our clients, but also from the single-process outsourcing providers, many of whom have been more disciplined in their approach to expansion of services and solution customization.

What have we learned? For one, we realize that service cost (while important) is just the price of admission for HRO. Our clients want more, including continuous improvement and quality backed by measurable commitments, not just words in an agreement. Contracts need to be precise enough to account for these commitments, yet flexible enough to allow us to provide high levels of service as the environment and our clients change. The good news is: our cost basis already takes into account technology enhancements and increased delivery locales.

As we have gained more experience as multi-process providers, we have learned to be okay with agreements for core services: data administration, benefits administration, payroll, HRIT, and call center. Do we want to take on more? Absolutely! We would like to provide HRO buyers with learning, recruiting, and other, more complex services. We're willing to prove our capabilities in core areas first; we know we need to earn the right to offer others later. Some of us who are single-process providers – mostly payroll and benefits – have earned a reputation as "experts" and are working

tirelessly to maintain our expertise, while adding related services to strengthen our core capabilities and meet the more sophisticated needs of buyers.

And finally, we've learned a few things that HRO buyers can do to make outsourcing relationships work more effectively. Here are a few tips for companies looking to engage with the provider industry to consider:

- Know what you want to outsource. It's not all-or-nothing these days; processes can be disaggregated.
- Approach change management and internal communications with rigor and commitment.
- Understand your real baseline costs. Here's a hint: it's not just payroll. It's also the infrastructure in place that supports your organization.
- Embrace the governance process for the long haul. It plays an important part in the success of any outsourcing initiative.
- Be clear about your expectations for us, as providers. And work with us and your key stakeholders to make sure that we can help you to meet your HR objectives.

For further information, please visit: www.deloitte.com/us/debates/HRO.

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