

# Human Resource Outsourcing Overview and Implications

**MERC**  
St. Paul, Minnesota  
September 9, 2003

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Objectives

- Knowledge Sharing
- What Is HR Outsourcing?
- What Is Driving the Trend?
- What is the Landscape?
- How Is It and Will It Impact Us?

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

---

### Content

- Overview
- Outsourcing Drivers
- Current Landscape
- Future Landscape
- Implications

Enterprise Achievement®  
Copyright 2003



## Overview

### Human Resource Outsourcing

---

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### HR Tiers of Focus

- **Human Capital Strategic Management**
  - Right People, Right Skills, Right Place
- **Policies and Programs**
  - Support of HR Strategy
- **Business Support**
  - Implementation and Execution Support
- **Transaction Management**
  - Administrative Support

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### HR Outsourcing Service Spectrum

- **Transaction Management**
  - Process Outsourcing
  - One or Two Functional Specialties
  - Functional Leadership
  - Cendant Mobility, Right Management, Monster.com

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### HR Outsourcing Service Spectrum

- **Integrated Outsourcing**
  - Several Functions to One or More Companies
  - Three To Ten Functional Specialties
  - Alliances, JVs, Internal Capabilities
  - Hay Group, Mercer, PeopleSoft

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### HR Outsourcing Service Spectrum

- **End-to-End Outsourcing**
  - Transactional Functions and Management to a Single Provider
  - Alliances, JVs, Internal Capabilities
  - Accenture, AON, Ceridian, EDS, Exult, Fidelity Employee Services, Hewitt, Mellon HR Services, Towers Perrin, Xchanging

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### HR Outsourcing Service Spectrum

- **Service Provider Entry Points**
  - Consulting/BPO
  - Technology
  - Pure Plays
  - Functional

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Why HR Outsourcing?

- **Outsourcing Market Size**
  - **Varying Estimates**
    - **\$30 to \$55 Billion in the US**
    - **\$300 Billion Worldwide**
  - **Estimated Potential Growth of 20% per year**

Enterprise Achievement®  
Copyright 2003



## Outsourcing Drivers

- Financial
- Focus
- Compliance
- Problems

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Outsourcing Drivers

- **Financial**
  - Administrative Cost Effectiveness
  - Productivity Gains
  - Wall Street Rewards “Core Focus” and Staff Reductions
  - Capital Investment Avoidance
    - IT and Process Effectiveness

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Outsourcing Drivers

- **Business Focus**
  - Core Business vs. Support Activities
  - HR Internal Value Positioning
    - **Establish Business Partnerships at the Strategic Level**
  - Acquisition of “Best in Class”
    - **Issue Knowledge, Business Processes, Technology, Service, Self-Help Tools**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Outsourcing Drivers

- **Compliance**
  - Pension, Legal, 401K ...
  - Data and Employee Information Security
  - Employee Intelligence
  - “Keep Me Out of Trouble” in Regulated Environments
- **Problematic Functions**
  - Take My Problem, Please!

Enterprise Achievement®  
Copyright 2003



## Current Landscape

- New Competitors
- New Opportunities
- Changing Relationships

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Corporate HR Transformation - Redefinition

| From  | To  |
|---|---|
| <b>Administration</b> <ul style="list-style-type: none"><li>• Payroll</li><li>• Recruiting</li><li>• Benefit Claims, Pension, Relocation, 401K and Compliance</li></ul> | <b>Business Consultant</b> <ul style="list-style-type: none"><li>• Compensation Planning</li><li>• Talent Acquisition and Retention Programs</li><li>• Practices and Policies</li><li>• Vendor Management</li></ul> |
| • Administrative Management   | • Strategic Workforce Leadership  |

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### HR Value Shift

| To Service Providers  | Highest Internal HR Value   |
|---|---|
| <ul style="list-style-type: none"><li>• Specialty Knowledge</li><li>• Execution Management</li><li>• Administration</li></ul> | <ul style="list-style-type: none"><li>• Strategic</li><li>• Implementation</li><li>• Vendor/Relationship Management</li></ul> |
| Change in Core Competencies?  | Change Management, Skill Sets and Cultural Issues?  |

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Corporate HR Transformation – Redefinition

- Factors Dictating Stage of Transformation
  - Skill Sets
  - Culture
  - Financial Pressure
  - Size of Organization
  - Business Environment
- Will Dollars Overrule Culture?

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### “What Should/Should Not be Outsourced?”

- Corporate Objectives
- HR Objectives
- Culture
- Service Efficiency and Effectiveness
- Customer Focus vs. Employee Transactions
- Cost Savings
- Options Analysis
  - In-house, Outsource, ASP model, Blended

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Selection Criteria for HR Outsource Service Providers

- Processing Center Experience
- Technology
- Stability and Financial Strength
- Culture
- Strategic Objectives Fit (Functional, BPO, HRO)
- Service Quality and Flexibility
- Experience (Current Clients, Similar Services ...)
- Expertise
- Costs

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Approval Process

- **Team of Participants Driven by Senior Finance**
  - **Functional Leaders, Business Unit Reps, Subject Specialists – Legal, IT, Purchasing ...**
- **Level of Approver Determined by**
  - **Culture, Number of Businesses Impacted, Dollar Amount and Length of Agreement**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Implementation

- **Length of Time**
- **Readiness**
- **Staff Resources**
- **Technological Compatibility**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Three Evolving Service Models

#### 1. Transactional Model

- Administrative Transactions
- Functionally Oriented
- Anticipated Reduction in Cost/Transaction
  - Minimal Impact on Total HR Bottom Line
  - Administration Less Than 10% of Costs
- Relative Ease of Implementation
- Widely Used

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Three Evolving Service Models

#### 2. Integrated Operations Model

- Multiple Functions & HR Line Management
  - Owned, Alliances, Partnerships, Selections
- Policy and Program Standardization
  - Self-Help Tools for Employees & Managers
- Centers of Excellence (Benefits, Retirement, ...)
- Less Than 20% of Fortune 2000 But Growing
- Served by End-to-End Providers as Well

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Three Evolving Service Models

#### 3. End-to-End Outsource Model

- **One Lead/Primary Provider**
  - **Service Provider Infrastructure Scaled?**
  - **BPO Optimized?**
- **Layering of Service Relationships**
  - **Direct Corporate Relationships Limited**
  - **Selection & Management by Lead Provider**
  - **Owned, Alliances, Partnerships, Selections**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Three Evolving Service Models

#### 3. End-to-End Outsource Model (continued)

- **Growth Potential**
  - **Less Than 2% of Current Global 500**
  - **Growth Limited to a Few Service Companies**
  - **Limited Number of Corporations Ready**
- **Greatest Potential Value to Corporation**
  - **HR Focus on Business Objectives**
  - **Cost Savings Maximized**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Examples of End-to-End Deals

- Motorola ACS
- Knight Ridder Mellon HR Solutions
- Borden Chemical Accenture
- Florida Convergys
- IBM Fidelity
- Prudential Exult
- Deutsche Bank Spherion

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Examples of Functional Deals (Payroll)

- General Motors ACS
- AT & T ProBusiness
- FMC Corporation Ceridian
- Goodrich ADP
- National Equipment (NES) Ultimate Software
- State of Florida Convergys  
(Department of Management Services)

Enterprise Achievement®  
Copyright 2003



## Future Landscape

**What Business Environment Might You Be Operating In?**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

**HRO Economics - Can Integrated and End-to-End HROs be Financially Successful?**

- **Economic Models**
  - **Untested**
  - **Viability of Long Term Contracts?**
- **Lack of Historical Client Cost and Performance Measures**
- **Low Margins**
- **Leverage Scale and Technology to Profits**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### HRO Agreements - Economic Components

- **Fixed or Base Fee for Services**
- **Annual Systems Fees**
- **Service Level Guarantees – Incentives/Penalties**
- **Cost/Savings Sharing**
- **Customization Fees**
- **Consulting Fees**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Increased Number of Companies Seek End-to-End Capabilities

- **Perceived Economy of Scale**
- **IT Investment Leverage**
- **Client Strategic Positioning**
- **Large Dollar, Long Term Agreements**
- **Diversification of Revenue Sources**
- **Selection and Management of Other Vendors**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Growth Rates Subject to Macro-Economics

- **Poor Economy**
  - Financial Drivers Continue to Support Outsourcing
  - May Buy Time to Create Proof Sources
- **Good Economy – Low Unemployment**
  - High Turnover or Staff Shortages
  - May Not Buy Time to Create Proof Sources

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Growth Risks For End-to-End Model

- **Competencies and Capacity Stretched**
- **Multiple Business Models**
- **Survivors?**
  - Untested Economics (Profitability and Cost Savings)
  - Service Delivery
- **Limited Number of Corporations Ready**
- **Client Leverage**
- **Very Competitive**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Industry Consolidation

- **Functional Service Delivery Channels**
  - Create Scale and Improved Economics
- **“Shake Out”**
  - Poor Performance – Stretched Companies
- **Economic Models That Don’t Work**
  - Relocation: Can’t Afford Investment in Technology and Product Diversification
  - Value of IT and BPO Leverage

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Reduction in Fragmentation

- **Consolidation**
- **Three Service Delivery Models and Related Service Companies Become Recognized**
- **Increased Corporate Pressure to Examine Outsourcing Decisions**
- **Dominant Functional and HRO Leaders**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Continued Growth in Outsourcing

- **Shift in Growth Drivers from Economic Dominance to Specialized Knowledge**
- **Service and Positioning Differentiation is Critical to Service Provider Growth**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Growth Areas Assuming Reasonable Risk

- **Integrated Operations Relationship Model**
- **Small and Intermediate Corporations**
- **Entry From Functional or as an Aggregator**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Implications

- **Layered Service Relationships**
  - **Creates New Clients**
    - **HROs, Functional Leaders, Corporate**
    - **Specific Service Package and Value Propositions Required**
    - **Service Delivery Costs Need to Be Reduced to Meet Revenue Sharing Models**
  - **Existing Relationships at Risk**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Implications - Sponsored Market Buyers

- **Lack of Expertise**
  - **HR Turnover**
  - **Use of Purchasing and/or Bidding Services**
- **Financially Driven**
  - **Costs to the Corporation**
- **Service is a Given**
  - **Look to “Like Company” Experience for Comfort**
- **“Safe” Decisions**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Implications – Buyer Criteria

- Range of Services, Brand, Financial Strength, Technology, Expertise, Relationships and Customer Base, Process Management, Service Center Excellence, Capabilities and Capacity
- How Do You Use These Criteria?
- How Do You Re-position Yourself?

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - *Overview and Implications*

### Implications and Outcomes to Consider

- Unisys – HR Deal With Abbey Life
  - 10 Years and \$360 million
  - Cost Savings of 22%
  - Error Rate Dropped From 5% to 2%
  - 95% of Claims Settled in Four Less Days
- Will There Be A Competitive Advantage to Companies That Manage Outsource Relationships Better Than Their Competitors?

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Implications and Outcomes to Consider

- **Accenture – HR Deal With BC Hydro**
  - 10 Year \$1 Billion
  - Cost Savings Anticipated of \$180 Million
  - 1/3 of Staff to Accenture (1,564 employees)
  - BC Hydro Creates 8 New Management Positions
    - **Oversee Deal Components**
- **Will Contract Performance Management, Processes and Modeling for Relationship Success Need to Become a Business Core Competency?**

Enterprise Achievement®  
Copyright 2003



## HR Outsourcing - Overview and Implications

### Consider

- **What Will Your Employer Value Most?**
- **What Will Your Employer Need to Be Successful?**
- **What Are Your Clients and Prospects Going to Need From You?**
- **Where Are Your Personal Skills and Employer Core Competencies?**
- **What Do You Need to Do to Create Short Term and Long Term Value?**

Enterprise Achievement®  
Copyright 2003

