



## HR Business Process Outsourcing Back On the Radar

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Human Resources outsourcing has been around for many years with processes such as payroll and benefits commonly outsourced by businesses and the public sector. Multi-process HR business process outsourcing (BPO), commonly called HRO, became popular in the 2000s with several high-profile organizations outsourcing multiple HR processes to a single provider. But multi-process HR BPO growth slowed considerably after the biggest recession in 50 years hit the economy in late-2007. Buyers also exercised caution due to several well-publicized HR BPO engagements that got off to a rocky start earlier in the decade.

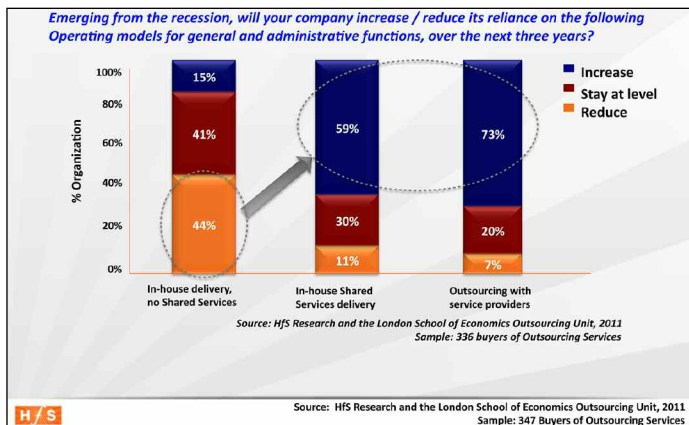


Figure 1. Outsourcing and Shared Services Delivery dominate global service models over next three years.

Looking ahead, the market once again appears ready to embrace outsourcing and shared services as a preferred model to manage key business processes. Buyers recognize the value created by these now mature service delivery models and many are evaluating these models as part of their HR service delivery strategy. In relatively few cases do customers that have already outsourced processes plan to bring those processes back in-house. Even most of the early adopters of HR BPO that experienced the challenges that resulted from new, immature service delivery models have extended their HR BPO contracts or entered into new contracts with a new provider that better fits their needs. Some early customers have rearranged the scope of their HR BPO engagements, but few have brought all of the original outsourced processes back in-house.

### HR Outsourcing is Maturing

The HR outsourcing industry has gone through a lot of change over the last decade. There has been a great deal of consolidation driven by the need for providers to strengthen service delivery capabilities or to establish a broader customer base in strategic geographies. As a result of this consolidation, providers are stronger and better positioned with the people, processes, and technology needed to successfully deliver for their customers. While some of the consolidated providers are relatively early in their integration life cycle, most indications are that the consolidation has been good for the providers and their customers.

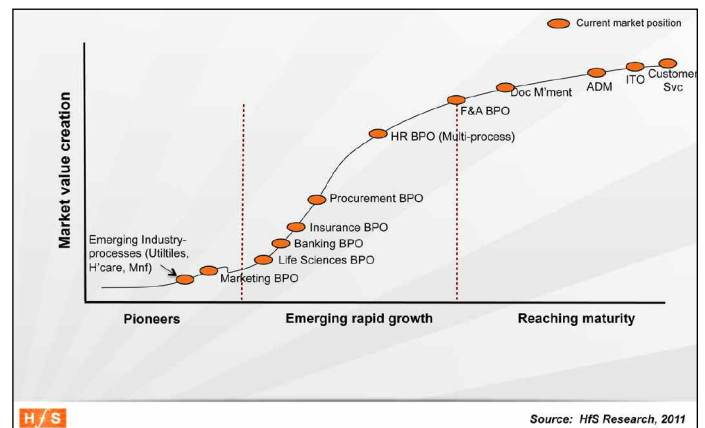


Figure 2. Outsourcing maturity curve in 2011.

### Standardization Is Taking Hold

Human Resources BPO providers have made considerable investments and put significant effort into standardizing service delivery processes and the underlying technology that supports these processes. As a result, service delivery quality has improved, customer satisfaction is up, and the provider's profit margins are better, which allows them to continue to invest in technology and processes that foster continuous improvement. Buyers are now much more recep-

tive to (and, in many cases, demand) this increased level of process and technology standardization. Buyers recognize that standardization improves the reliability and quality of the services, as well as reduces costs.

Standardized technology and process solutions have made HR BPO more attractive in the mid-market as well. The scalability of standard solutions has enabled providers to deliver best practice solutions to mid-market customers at an attractive price and without a large up-front capital investment. Mid-market HR BPO growth will likely accelerate in 2012 as more companies look for solutions that enable their HR team to focus more of their time on supporting the talent needs of the business and less time on important, but less strategic administrative functions.

Buyers should look for providers that have standard processes and technology platforms, which most closely align with their requirements and desired business outcomes. Selecting the best-fit provider from a capability and a cultural perspective is arguably the most important consideration when selecting a HR BPO provider.

## Buyers and Providers Are More Focused

A third trend in the HR BPO market is that buyers are narrowing the scope of the HRO projects and outsourcing discrete processes with more frequency than the very broad multi-process outsourcing engagements that dominated the early to mid-2000s. While multi-process HR BPO engagements are still common, the functional scope of these engagements is often not as broad as we saw 5 to 10 years ago. Specifically, buyers are more likely to outsource transactional processes such as workforce administration transactions, payroll, and benefits administration to providers that have particular strengths in these processes and choose other providers to manage processes such as recruiting or learning management.

In the old days of “outsource everything to a single provider,” the providers had to figure out how to win the deal despite having limited capability in certain of the processes that were included in the customer’s proposed scope. With today’s “focused scope” deals, buyers are achieving better outcomes from outsourcing engagements because the providers are better equipped to deliver on services for which they have strong competencies. Providers are also able to achieve better profits because they don’t bid on processes for which they don’t have strong delivery capability.

## Global and Regional Solutions

Many of the large HR BPO providers have solid global service delivery capability. In addition to their North American locations, most of these providers have delivery centers in Europe, Asia, and some have centers in Latin America. These centers not only offer the benefit of lower labor cost, known in BPO circles as labor arbitrage, but they also provide a more local service experience for employers located in those regions.

There has also been growth in the number of HR BPO firms that are headquartered in Europe and Asia. Others specialize or have particularly strong delivery capability in various regions of the world. The Asia Pacific region has been

an especially active market in the last few years as companies expand there, increasing the demand for HR services.

Buyers that have needs in a specific country or region should consider providers that can deliver in that region. Some buyers have found that using a local provider can enhance the service experience for employees in the region because the provider has a better understanding of the local culture of the employees. Other buyers prefer the benefits of a single global provider that can deliver a more integrated and standard service around the world.

## Outsourcing and Talent Management

Talent management is at or near the top of the strategic agenda for many companies today. But how does outsourcing fit into a talent management delivery strategy? Many buyers have come to realize that a solid workforce administration foundation is needed to support an effective strategic talent management process. In the past, some buyers have tried to implement a comprehensive talent management solution before fixing the core administrative processes only to find that they lacked the critical data and information needed for an effective talent management process. Through outsourcing, buyers are able to offload the task of fixing the administrative processes and are then able to focus their time and resources on talent management.

For some buyers, the outsourcing provider can also deliver the talent management technology and consulting services required to support some of HR’s more strategic processes. Several HRO providers own their talent management software or partner with leading talent management software firms to deliver solutions to their customers.

Buyers in the market for HR service delivery solutions should first define their desired business outcomes and then develop a complete HR service delivery plan before jumping into provider selection. Once armed with a clear vision of business outcomes and a solid service delivery plan, buyers can then evaluate and select the solutions that best fit their unique needs. For many, HR BPO will be part of their comprehensive HR service delivery solution.

## About the Author



Keith Strodtman is a research fellow for HfS Research, with specific focus on the HR services industry and the critical factors shaping the future of workforce development in today’s environment. He is one of the pioneers of HR outsourcing. His work in HR services and business process outsourcing (BPO) spans more than two decades. Before joining HfS Research, he spent eight years as the leader of the HR Outsourcing (HRO) business at Ceridian. Before that, he was director of HRO solutions at PricewaterhouseCoopers and was at Fidelity Investments during the launch of their HRO business. He has spoken at many conferences, participated on industry panels, and written several articles on HRO. He is a member of the advisory board of *HRO Today* and has been recognized on *HRO Today’s* HRO Superstar list several times. He can be reached at [keith.strodtman@hfsresearch.com](mailto:keith.strodtman@hfsresearch.com) or on Twitter: @kstrodtman.