

HRO: What HR Functions Are Retained vs. Those Outsourced?

Among major groups of services outsourced, there is still room for growth, even among those traditionally handled by external partners. **By Mark Hodges**

During the past two years, EquaTerra's benchmarking group has had the opportunity to review and collect data on more than 50 HRO contracts. In last month's column I used this data to report on HRO pricing trends since 1999. This same data allows an examination of various HR processes—and their sub-processes and activities—to determine what portion of those processes can be outsourced effectively (frequently referred to as “in-scope”) and what should be—and most often are—retained by the HR organization.

A high-quality and thorough statement of work (SOW) for HR often can exceed 100 pages. As each of the 23 HR processes are decomposed to a very granular level, the amount of work that takes place in each process becomes explicit. This view into the required activities enables an HRO provider and buyer to agree on which party is responsible for a given activity or sub-process or process.

The 23 discrete HR processes can be segmented into three major groups. Group I consists of seven HR processes that are heavily outsourced; Group II contains nine processes in which activities are moderately outsourced; and Group III is comprised of seven processes that are largely retained in-house by the HR organization.

Group I processes are part of a comprehensive HRO relationship in which more than 70 percent of the work is the responsibility of the HRO provider. These processes include: employee service center (94 percent of the activities are managed by the HRO provider), employee/manager self service (88 percent), domestic relocation (84 percent), payroll (77 percent), expatriate administration (75 percent), benefits (73 percent), and recruiting (71 percent). For buyers considering HRO, these seven processes are routinely outsourced to providers with good results.

Group II processes have the majority (> 50 percent) of their work performed by the HRO provider but not at as high a proportion as those in Group I. These nine processes include third-party vendor management (63 percent), HRIT (62 percent), employee communications

(61 percent), workforce analytics (60 percent), severance administration (59 percent), data records and management (58 percent), compensation administration (57 percent), policy and legal compliance (55 percent), and training/learning (51 percent).

Typically, between 10 and 50 percent of the total work activity of **Group III processes** are outsourced, meaning that the majority of the work related to these processes is internally retained. These processes include performance management (46 percent is outsourced), M&A support (45 percent), organizational development (40 percent), labor and employee relations (39 percent), succession planning (34 percent), employee development (31 percent), and HR strategy (10 percent).

In EquaTerra's opinion, the percentage of HR work outsourced in Group I is appropriate—not too aggressive and not too conservative. The percentage of Group II HR work outsourced is a bit low. Most HRO customers find themselves increasing the percentage of HR work that



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is outsourced after year two of their contract anyway, and they penalize themselves economically for not being braver in the initial contract phase. Many outsourced Group II processes can be increased safely by 5 to 10 percentage points, depending on the process. Group III HR processes can also increase. Outsourced performance management and M&A support, in particular, can be increased without incurring undue risk.

As the HRO market has matured over the past six years, there is virtually no HR process (with the exception of HR strategy) that cannot be leveraged effectively by an outsourcer performing a significant portion of the transactional, administrative, and technology-intensive HR activities. **HRO**