

# Outsourcing Buyers Speak out on the Good, the Bad and the Ugly

Would they outsource again? You bet. But buyers are clearly dissatisfied with the engagement they currently have and would consider an alternative provider.

By Mark Hodges

**C**ost reduction was most frequently cited as the leading benefit of HRO, according to EquaTerra's recent HRO Buyer Pulse study. However, cost reduction was followed closely by access to external skills and knowledge. The importance placed on this benefit highlights that HRO success will prove difficult to achieve simply by shifting HR work to a lower-cost market or to a provider who achieves lower costs via economies of scale—unless they can pair that scale with proven HR knowledge and expertise.

The findings were collected in the second half of 2006 from more than 50 North American and global organizations engaged in multi-process HRO. Results suggested that providers' value proposition must change from pure cost savings and capital expenditure avoidance toward transformation and HR's value to the business.

## SUCCESS IN ACHIEVING BENEFITS

On a scale from 1 to 5, with 1 being "benefits not achieved" and 5 being "benefits fully achieved," none scored a ranking greater than 3. HRO's capacity to enable a shift in focus to more strategic activities and its ability to reduce costs ranked the highest among benefits achieved. Results for all benefits were clustered between 2.5 and 3.0.

While the level of HRO success needs improvement, weigh the benefits achieved against pre-outsourcing HR performance and costs. The reason most organizations have undertaken HRO is to address problems that existed in pre-outsourced HR operations.

More than 50 percent of respondents said their organization and HRO service provider(s) should share the responsibility for HRO successes and problems. Buyers noted, for example, that in some cases prior to outsourcing, they did not have good visibility into their HR process performance and cost levels and had unrealistic expectations about outsourcing. At the same time, buyers were more likely to credit their organizations for benefits gained and more likely to point the finger at the service provider for problems.

A key question was whether buyers felt the HRO industry is mature and experienced enough to deliver the

benefits and goals they seek. A slight majority flat out said no. However, a large percentage were on the fence, depending on the provider being considered, the complexity of the deal, the amount of processes being bundled, and the global scope of the deal.

Only 10 percent planned to eliminate their HRO efforts and bring the work back in-house. The balance of respondents planned to re-compete some work with the incumbent provider and/or a different one. Bringing some processes in-house, outsourcing others, and swapping work between service providers is expected and positive in a changing and maturing market.

Buyers were more dissatisfied with their current HRO relationship and service provider than with the concept itself. A vast majority indicated that they would outsource again and fewer than 10 percent explicitly stated that they would not.

The market for buyers undertaking multi-process HRO continues to grow, although from a penetration standpoint, the HRO market is still relatively immature. Buyers' experiences to date in achieving benefits have been mixed.

Most buyers plan to stay the course with HRO; however, they will often change the mix of what they outsource and which service providers they utilize. Buyers currently in a problematic HRO effort need to dissect the situation to identify the root causes. They then must move collaboratively to address these problems with their service provider(s), recognizing that some amount of renegotiation and rebalancing of what HR work is outsourced and maintained internally may be required.

Problems left to fester will only get worse over time, and an adversarial approach towards the incumbent service provider is not the best course of action. HRO is becoming a mainstream tool for organizations to utilize when addressing cost savings and process improvement efforts in their HR operations. However, buyers need to determine when and where HRO can make sense for them, and where it fits with such other alternative service delivery models as shared services or selective outsourcing. With a lot of factors at play, most buyers will look to deploy a hybrid service delivery model to improve their HR operations. **HRO**



Mark Hodges is chairman and co-founder of EquaTerra. He can be reached at [Mark.Hodges@EquaTerra.com](mailto:Mark.Hodges@EquaTerra.com).