



## Change Management Challenges in HR Outsourcing

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### 1. Executive Summary

This paper analyses the topic of HR outsourcing (HRO) from a change management perspective. It is obvious and generally accepted by practitioners that HRO as any outsourcing initiative is a significant change programme and therefore requires appropriate change management.

Change management in HRO projects cannot be considered as a generic copy of any other change process: the change the organisation and – more important – each individual is facing has a very particular character, and particular issues arise requiring bespoke approaches. Although, from a birds eye perspective, HRO may look like “any other change programme”, this doesn’t hold true on closer inspection. This means that, while a sound general understanding of organisational change and a good repertoire of generic change management techniques is certainly useful, BPO and HRO in particular have specific issues and therefore need bespoke solutions.

We primarily focus on aspects that emerged as being distinct drivers – or barriers – to HRO:

- Change in an HRO project has two very different stages<sup>1</sup>: during analysis and migration until the day the service is handed over to the provider, only a small group of people is affected by and aware of the project. In stage two, the whole organisation is affected in the way their HR issues are handled.
- One of the most important stakeholder groups is by definition gone when the second phase starts: the HR employees whose jobs are outsourced. However, before that day, they have considerable power because their knowledge and commitment are required.
- Top management, who should be the sponsor of a HRO initiative, is very likely to lose interest, because the savings to be made are rarely significant for the organisation as a whole. They will

<sup>1</sup> Similar to a major big bang software implementation



only become aware of the project when something goes very wrong and the whole workforce doesn't get paid for a month.

- The expectations of client and provider often contradict each other. The clients' usual reluctance to give up flexibility, control or familiar processes makes it difficult for the provider to deliver the expected savings. Moreover, many clients are disappointed when they get only what they have asked for, because the requirements' definition was much too vague. This leads almost automatically to issues between buyer and provider initially and may be the major reason why satisfaction of clients as a rule gets to an acceptable level only after 2 years or more.

As possible remedies for these issues, we have identified a particular stakeholder management techniques which involve HR staff threatened by outsourcing in the decision process, and a clear and exhaustive requirements definition upon which to base a win-win partnership between client and provider.



## 2. Setting the scene

Readers familiar with the general context of HRO may skip this section and start with “The HRO transformation journey”.

### 2.1 HR outsourcing

In this report, I refer to HRO as the outsourcing of processes or tasks within the HR function in the sense of Business Process Outsourcing (BPO).

To get an idea which parts of the HR function are most likely to be outsourced, I look at Dave Ulrich’s model<sup>2</sup>, which defines 4 different roles for HR along two dimensions (see Figure 1).



**Figure 1: Roles of Human Resource Management according to Dave Ulrich**

The activities in the administration box are most suitable for outsourcing because they are likely to be very similar between various organisations, rarely considered to contribute to an organisation’s competitive advantage and the provider can make good use of economies of scale, when providing these services for many customers. Activities in the “employee champion” box may also be outsourced but much less often than administrative tasks. The two upper boxes cover areas where an organisation may buy in external consultants or professional trainers but rarely give away the responsibility for the process in the sense of BPO.

According various surveys the HR functions most likely to be outsourced are:

- Employee Service Centre

<sup>2</sup> Dave Ulrich, “A new Mandate for Human Resource Professionals “ in “Delivering Results: A New Mandate for Human Resource Professionals”, Dave Ulrich (Editor), Harvard Business School Press, 1998, pp. 29-44



- Domestic Relocation
- Expatriate Administration
- Payroll
- Benefits

All these functions belong into the 2 lower boxes of Ulrich's model and are very well suited to leverage economies of scale of process efficiency and IT systems, or highly specialised knowledge (such as legislation for expats in Uzbekistan) that's not bespoke to one organisation.

The 5 activities least likely to be outsourced are:

- HR strategy
- Organisational development
- Employee development
- Succession planning
- Performance management

These are all located primarily in the two upper boxes with some elements of the "employee champion" box.

Section 2.3 deals with the objectives of HRO in more detail. Roughly speaking, the major reason for doing it is cost reduction and sometimes just headcount reduction. An improvement in service quality and the opportunity to focus on strategic tasks are quite often quoted as at least as important in official statements. However, when speaking to practitioners off the record, cost and headcount are the most important points to justify the business case in the majority of cases. This may already hint towards a possible issue. When the business case is built on hard figures in cost reduction, other expectations that exist and are created in fancy presentations are not likely to get a high priority.

## 2.2 Current trends in outsourcing

Outsourcing is still high on the agenda. According to surveys many companies intend to expand the scope of outsourcing usage into new functions, activities or regions, while only few of them consider reducing outsourcing usage. HR is amongst the most popular functions for BPO: 56% of organisations used BPO in HR.

There have been some changes in the market as well. Service providers have become much more mature<sup>3</sup> and many smaller players have been bought by larger companies. Quality of service has increased over the last 10 years, among other things owed to the fact that providers bid for business less aggressively and take only contracts they have a good chance to generate a profit while delivering good service.

There is also a trend towards global outsourcing deals, where one provider or consortium is responsible for HR services in more than 20 countries for organisations like Unilever, Procter & Gamble or IKEA.

<sup>3</sup> See e.g.: Mark Hodges, "Strategies to baseline, monitor, and optimise the value of HR IT outsourcing activities", conference paper, HR2007 conference, 12. – 14. March 2007, Las Vegas, p. 11



### 2.3 Objectives and results of HRO

According to various articles, case studies and surveys the single most important objective is a cost reduction between 20% and 45%. According to Schaffry<sup>4</sup>, actual cost reduction averages 20% while Hodges estimates savings between 10% and 25%<sup>5</sup>.

Focus on strategic tasks, service improvement and introduction of new services are further important objectives. Again, according to Shaffry only 56% of buyers reported that outsourcing helped to improve the alignment of HR processes with the business strategy.

There is, however, a wide range of results. Centrica claims to have achieved 40% cost reduction through HRO<sup>6</sup>. This is a very high value which was possible through off-shoring and a 10% reduction of absenteeism, attributed to HRO. Whether the reduction in absenteeism is really a result of HRO can probably not be decided unambiguously. But without taking secondary effects on cost (positive or negative) into account, the picture will be incomplete. This shows a dilemma of HRO: even the financial results are difficult to track and this is even more true for qualitative ones. The question of causation is often reported as a big problem.

So, one might get the impression that HRO delivers some benefits but often fails to meet the objectives, that the results are often measured arbitrarily and that on top of this the objectives are not always clear. Nevertheless, most HRO projects are considered to be moderate though not extraordinary successes<sup>7</sup>. However, these results consider organisations that decided in favour of HRO. Initiatives that never went that far are not included in success statistics.

### 2.4 Fear of Outsourcing

Watching public discussion sometimes makes outsourcing look like the modern scourge of mankind. The google search "outsourcing + fear" shows 1.1 mn hits – only 300.000 less than "outsourcing + benefits".

Common headlines are:

- "61% of Americans **fear** job-loss due to outsourcing"<sup>8</sup>
- "**Fear** of losing control over compliance inhibits financial outsourcing"<sup>9</sup>
- "IT Outsourcing: Alleviate **Fear** of Dependence"<sup>10</sup>
- "Outsourcing Buyers **Fear** Lack of Flexibility"<sup>11</sup>

<sup>4</sup> Andreas Schaffry, "Zwischen Theorie und Praxis des HR-Outsourcing klafft eine Luecke" (There's a gap between theory and practise in HR outsourcing), CIO – IT-Strategie fuer Manager (IT strategy for managers), p. 1

<sup>5</sup> Mark Hodges mentions savings between 10% and 25% in "Strategies to baseline, monitor, and optimise the value of HR IT outsourcing activities", conference paper, HR2007 conference, 12. – 14. March 2007, Las Vegas, p. 12

<sup>6</sup> Hetti Barkworth-Nanton, "Building the case for HR Outsourcing", conference paper, HRO Europe conference 6.-8. November 2006, Brussels, p. 10

<sup>7</sup> See e.g.: Mark Hodges, "Strategies to baseline, monitor, and optimise the value of HR IT outsourcing activities", conference paper, HR2007 conference, 12. – 14. March 2007, Las Vegas, p. 37

<sup>8</sup> See <http://inhome.rediff.com/money/2004/mar/17bpo1.htm>

<sup>9</sup> Logica CMG, website, 28.3.2007

<sup>10</sup> Richard Peynot, "IT Outsourcing: Alleviate Fear of Dependence", Forrester Research Paper, 19.3.2003

<sup>11</sup> Datamonitor Computerwire, 18.11.2005



So, a general unspecified fear together with a generally perceived ambiguity about objectives and benefits set the scene, when a discussion about HRO starts in an organisation. This makes it difficult to convince stakeholders that it is worth the risk and pain to begin this journey.

### 3. The HRO transformation journey

The HRO process can be divided into 9 steps as outlined in Figure 2.

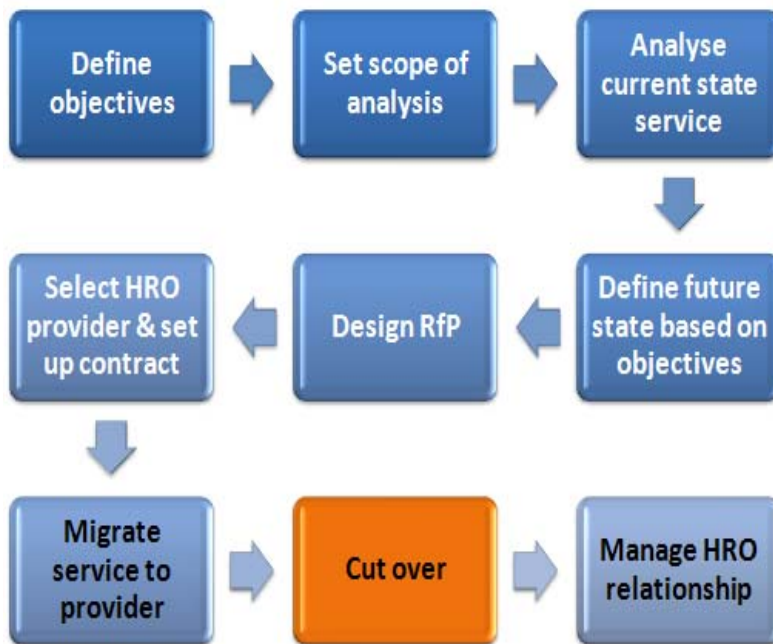


Figure 2: Steps of an HRO project

The actual change in the organisation happens in the second but last step, the “cut over”. This is the day when the provider takes over the HR processes in scope and the respective process changes happen. These changes comprise:

- The changes decided upon, when the future state was defined in step 4
- Further changes buyer and provider agreed upon in step 6
- Further changes the buyer was not aware of beforehand. These may be in breach of the contract and sorted out between buyer and provider but generally there will be many small unexpected changes happening within the limit of the contract.

Other organisational changes are:

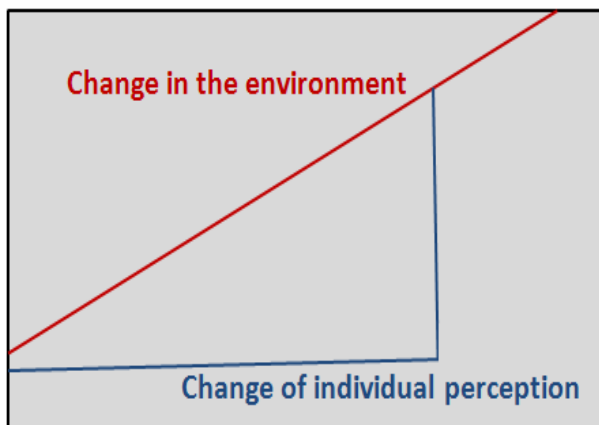
- Some HR staff will have a different role
- Some HR staff will lose their jobs
- All retained HR staff, managers and other employees will have new contact persons outside the organisations for some HR matters



So, there is a good deal of organisational change happening at the cut over day. However, to understand the whole change process, we must stand back a bit. First, there must be some trigger to convince people inside the organisation that HRO is a good idea. This will come from changes in the environment such as:

- Pressure to cut costs
- Increased complexity of HR administration due to ever more challenging legislation or business requirements
- Development of an HRO industry which becomes ever more mature and competitive

Although these changes happen gradually, the insight that “we should outsource our HR function” usually comes at a single point in time (see Figure 3). This is what Luc de Brabandere calls “Changing twice”<sup>12</sup>. It is important to keep in mind that the change of perception happens on an individual level and at different points in time for different people. For the organisational change process to be started, some decision maker or influential person must change his or her perception and then convince enough other people to gain sufficient support.

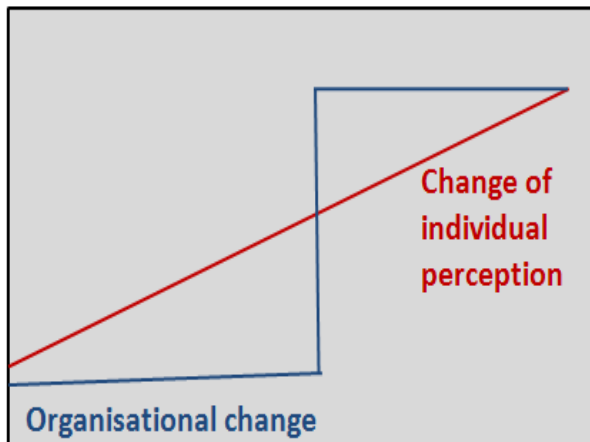


**Figure 3: Changing twice: perception follows reality**<sup>13</sup>

So, we face a second change of reality, this time inside the organisation. In the case of HRO, this usually happens in one step as already described in Figure 2. The individuals’ perceptions however, are more likely to change gradually over time. E.g. a line manager will understand from pre-transformation information that he has new contact persons for compensation changes, and that changes need to be submitted 7 days before pay day. However, he will only fully understand the implications for his day to day job after the migration, when he learns that the new contact person may change every week and doesn’t understand the terminology of his organisation, and that an exception from the 7 days rule needs to be confirmed by the HR director and costs 100 Euro allocated to his cost centre. As illustrated in Figure 4, some changes in perception happen before the actual organisational change and some afterwards. Again, the curve of perception change will look different for each individual.

<sup>12</sup> Luc de Brabandere, “The forgotten half of change”, Dearborn Trade Publishing, 2005, p. 14

<sup>13</sup> Adapted from Luc de Brabandere, “The forgotten half of change”, Dearborn Trade Publishing, 2005, p. 14



**Figure 4: Organisational change and its perception in an HRO environment**

Looking at the two types of individual perception (perception of the environment and of the organisational change), it seems desirable that both changes are completed before the organisational change happens. In this case, all stakeholders will understand the need for change as well as how it affects them early on. However, there may be cases where change managers prefer not to unveil the full consequences of the change in order to gain more support.

#### 4. Stakeholders in HRO projects

In this section I develop a generic stakeholder analysis to show the relevant groups affected by HRO and their likely power and attitude. Although each case will be different, the huge majority of cases are likely to follow a similar pattern.

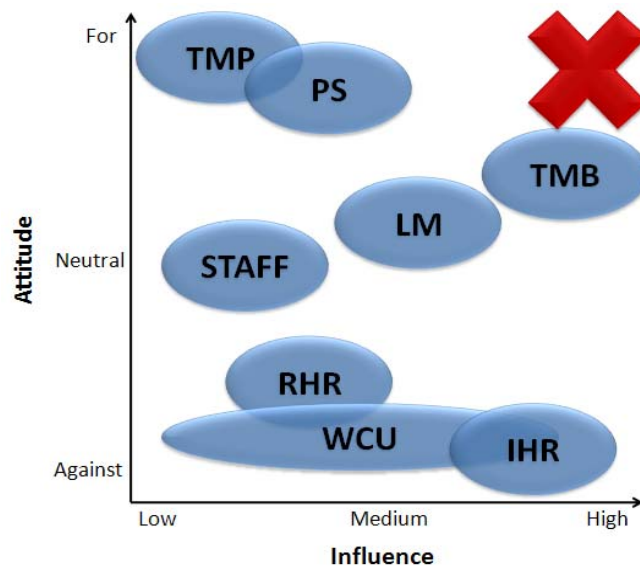


Figure 5: Stakeholder analysis pre-transition

The following stakeholders are identified and mapped on the chart in Figure 5 (Acronyms in brackets represent the acronyms in the figure):

##### 4.1 Top management of the buyer organisation (TMB)

Top management support is crucial for the success of the project. They are likely to have strong influence and be supportive of the primary objectives, particularly cost cutting. However, there is some danger that they drift towards the neutral zone when other priorities arise, because savings in absolute numbers are low compared to other strategic projects. All too often, this leaves the critical upper right corner of the stakeholder matrix vacated by the time the HRO project actually starts. It is also very important that a top management sponsor knows about changes in service and stands firmly behind them.

##### 4.2 In scope HR staff (IHR)

The HR staff, whose jobs are likely to be gone after the project, are probably strongly opposed. They also have considerable power, because their knowledge is needed during the analysis as well as migration phase to select the right provider, set up the right contract and transfer knowledge to the provider's staff.

However, some employees with knowledge about the outsourced processes will have to be retained anyway to manage the provider relationship and this is an opportunity to give some perspective to this group. In large organisation, the project team could be made up from this group. Smaller organisations



may use the prospect to belong to this group as an incentive for cooperation. Transfer to other departments, transfer to the provider or a golden handshake are other means to deal with this fear. Nevertheless, this group is always critical because they have more issues to deal with than job loss. The implicit accusation that they didn't do their job efficiently is probably amongst the most prominent. To mitigate risk of sabotage from this side, they should be involved into the decision making as far as possible to understand the objectives and reasoning behind the change. On the other hand a thorough analysis, when necessary supported by external expertise that doesn't rely too much on input from individuals from this group, is key.

Those who lose their job through the project will of course lose their influence after the migration.

#### **4.3 Retained HR staff (RHR)**

What I said about the last group largely applies to this group to a lesser extent. They will feel threatened when they see their colleagues fired, and may think they could be next. While their influence may be lower in the pre-migration period, they have all opportunities to sabotage the project, if they do not cooperate with their new "external colleagues" afterwards. It is also likely that they only recognise the full effect on their day to day work when they no longer work with the person next door but have to call the provider's staff.

To bring them on board, they should also be involved in the decision making. Ideally they see that outsourcing one part of the HR function leaves the HR department as a whole more competitive.

#### **4.4 Employees (STAFF)**

Ideally, the workforce should not be affected very much and certainly doesn't expect to be. Depending on which process changes come with the HRO, they will affect all employees, e.g. by forcing them to use online self service applications or by providing a central telephone hotline instead of personal contact numbers with a name attached to it. As long as these changes are reasonable and well communicated, there is not much opposition to be expected. But as long as the in-house service wasn't dreadful, there won't be active support either.

What could put this group into a position of power and strong opposition is the failure to meet basic expectations on a large scale (e.g. delays and errors in salary payments). Although individuals don't have much power, a whole disgruntled workforce can have a big impact – particularly in comparison to the benefits gained from HRO.

#### **4.5 Line managers (LM)**

Line managers are in a similar position as all other employees. They expect a similar level of service to continue. As they tend to interact more often with the HR function and have stronger influence on top management, this group is probably slightly more important than the rest of the workforce.

Also, there are some ways to achieve a positive attitude. Cost reduction will be seen positively as less cost will be allocated to their cost centres and a more strategic focus of the internal HR function is probably welcome as well.

#### **4.6 Works councils and / or unions (WCU)**

They are generally opposed to all measures that reduce headcount and the word "outsourcing" is a red rag to them. Their power varies immensely between countries, industry sectors, organisation sizes, and even individual organisations due to union membership rates and the influence of strong personalities. As a rule, they will be easier to deal with if the workforce as a whole is positive or at least neutral



towards the change, but unions blocking changes against the will of the majority of the workforce has not been unheard of.

Ignoring them where their power is low and otherwise convincing them with arguments around saving even more jobs through increased competitiveness are the obvious choices. However, there are often opportunities for “packaged deals”, which include other elements to sweeten the outsourcing part. In one example from the United Kingdom the union agreed to cut 145 jobs in Sandwell council though outsourcing because, amongst other things, the provider agreed “to move at least 450 jobs into the Sandwell area”<sup>14</sup>.

#### **4.7 Top management provider (TMP)**

They can be expected to be strongly positive about the change as long as the terms are good. Their power in respect to the buyer organisation is low initially but gets stronger after the migration depending, amongst other things, on the contract duration.

#### **4.8 Provider’s staff (PS)**

The team of the provider responsible for the migration project and later for service delivery is likely to be positive as well. However, they may be more inclined than top management to oppose the project, if they fear a poor buyer relationship after the migration.

They have some influence in the negotiation and migration phases and could certainly sabotage the project just by showing poor performance. However, this is unlikely because they would put their own jobs at risk. They have more power after the migration when the contract is fixed and the buyer may depend on their good will in many details. By going out of their way to satisfy employees, line managers and retained HR staff on the buyer’s side they can contribute significantly to the success of the change initiative. The relationship to this group is often neglected and its potential not used. Dealing with them on a partnership level instead of a transactional level can influence their attitude positively thus supporting the change as a whole. The relationship will continue to thrive, if both sides feel they are part of the same team.

#### **4.9 Further stakeholders**

There are other stakeholders such as authorities to receive statutory reporting, local councils, etc. However, they are unlikely to play a significant role unless things go very wrong or the scale of job cuts is very high. Both are very uncommon in HRO projects. Shareholders are not mentioned as well, because their interest in this context is represented by top management.

#### **4.10 The power shift**

As already mentioned, power and often also attitude change after the transition point. However, the change process is not yet over at this point, because people have to get used to the new processes and, if they are not accepted or do not deliver the expected results, the change can still fail. Therefore, it is important to do a new stakeholder analysis at this point and it is likely to look similar to Figure 6

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<sup>14</sup> Will Hadfield, “Council heads off a clash with unions in 300m deal”, Computer Weekly, 9.1.2007, p. 4

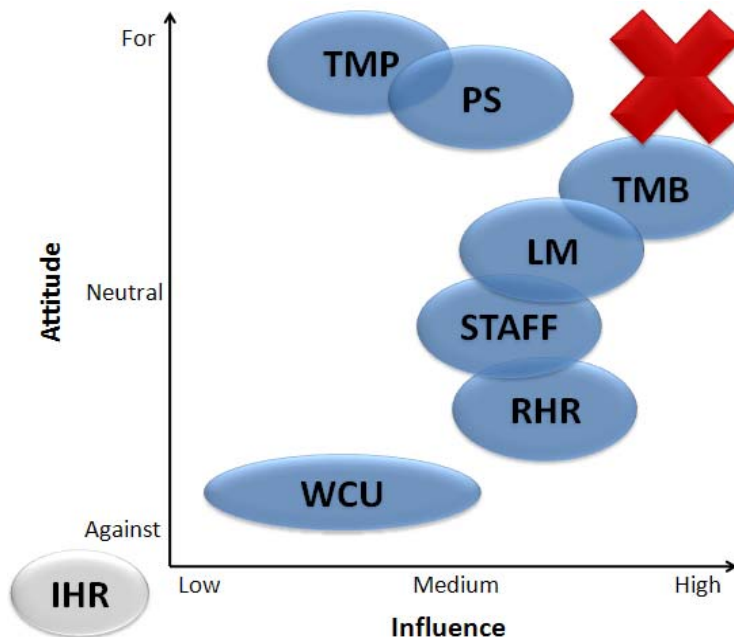


Figure 6: Power shift

At first sight, the situation looks more positive, because the strong opposing force, the outsourced HR staff, has gone. However, there are 3 groups of significant power, who have to be carefully managed. Line managers, retained HR staff and the rest of the workforce are all likely to have neutral to half-negative attitudes and failure to meet expected service levels can tip the balance towards a very negative attitude.

Good governance of the outsourced processes right after the transition is as important as communication and management of expectations before. This is particularly important as surveys show that satisfaction with provider performance may only be reached after more than year.

Unfortunately, most organisations have problems with governance initially, because the capability to manage outsourcing relationships has still to be developed. As building this capability from scratch takes very long, some organisations chose to hire experienced professionals or use consultants.

#### 4.11 Consequences for managing the stakeholders

Some ideas are already mentioned above when dealing with each stakeholder. The most important points for stakeholder management are summarised here:

- Looking at the stakeholder matrix makes it quite obvious that the vacated upper right corner will be a problem. While top management may occupy this position temporarily when the project is started, they all too often lose interest and drift more or less far towards a neutral position, because the project is not important enough. Keeping one top management sponsor or a senior manager empowered by top management in the upper right corner is therefore crucial to avoid an overall lukewarm attitude towards the project.
- In stage one, the HR staff directly threatened by outsourcing are obviously the most important group to manage by winning their heads, if not hearts, for the project and contain any negative influence they can have on the course of the project and the attitudes of other groups.



- In stage two, the groups that then have to interact with the provider’s team need the main focus. At this stage, the most important point is to manage the outsourced processes well enough to give no reasons for major complaints. To make this easier, it is important to manage expectations and explain the benefits for the organisation in stage one already. This will be difficult, as line managers and the rest of the workforce are likely to say: “I don’t want to hear about this now. I’ve got other fish to fry”.
- It is important to keep in mind that this generic approach will not apply to each case equally well.

## 5. The broader context

To analyse the broader context of typical HRO initiatives, I refer to the methodology of the Change Kaleidoscope<sup>15</sup> (see Figure 7) to briefly discuss various aspects<sup>16</sup>.

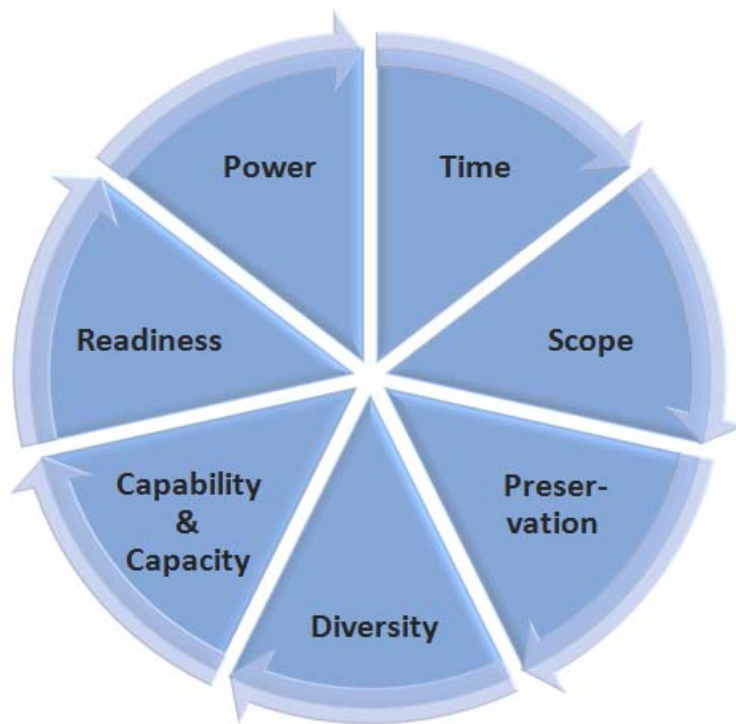


Figure 7: The Change Kaleidoscope<sup>17</sup>

**Power (o):**  
see section 4.

<sup>15</sup> See Julia Balogun and Veronica Hope Hailey, “Exploring Strategic Change”, p. 57

<sup>16</sup> Aspects that are likely to be in favour of successful change are marked with (+), (o) stands for neutral and (-) for negative.

<sup>17</sup> Adopted from: Julia Balogun and Veronica Hope Hailey, “Exploring Strategic Change”, p. 14



**Time (+):**

HRO projects are rarely urgent, so that the organisation can take its time, as long as the HR staff in scope can be retained long enough.

**Scope (+):**

Small scope as the change is restricted to a certain part of the HR function and affects other employees only marginally.

**Preservation (o):**

Generally the processes in scope are not changed to an extent the internal customers will perceive as too challenging<sup>18</sup>. Informal processes can be a problem here. To preserve them in the new environment they may have to be formalised – and to be recognised in the first place.

When the administrative elements of HR are outsourced, there are some issues around preserving knowledge the retained HR function needs for strategic tasks, e.g. designing compensation policies. This can be managed by anchoring some of this knowledge with the “interface function” and using the provider’s expertise in other cases. This requires trust as it means being dependant on the provider. However, if the buyer wants to avoid dependency he is certainly not ready for this sort of change.

**Diversity (o):**

Although the whole workforce will be affected, these effects are not significant. The only group that is affected strongly is the HR staff, which can be considered quite homogeneous as long as the project focuses on one country. Global HRO projects have to deal with much more diversity adding huge complexity to the project. Similar problems can arise to a smaller extend, when different companies within one organisation are in scope.

**Capability and Capacity (-):**

Few HR departments have the capability to manage outsourcing projects and as streamlined overhead departments they often lack the capacity to staff the project. Particularly as those employees, who are about to lose their jobs, are required to do extra work in the project.

From personal experience, HR departments are very poor at knowing to an adequate level of detail which services they need and often don’t have any helpful documentation of the current state.

To a certain extend these problems can be dealt with by including other departments with outsourcing experience and hiring consultants.

**Readiness for change (o):**

This factor depends completely of the quality of communication in the organisation. Except for the HR staff in scope, it doesn’t look too hard to get the organisation ready. However, resistance to change towards standardised processes is one of the major problems in HRO.

An important aspect of change readiness is organisational culture. Hofstede describes 6 dimensions of culture (see **Figure 8**) and argues that the best configuration to enable the transformation is the one shown in **Figure 9**.

<sup>18</sup> Although adopting best practise standards from the provider ranks among the top success factors.



- Process vs. results oriented
- Employee vs job oriented
- Parochial vs. professional
- Open vs. closed system
- Loose vs. tight control
- Normative vs. pragmatic

Figure 8: The 6 dimensions of corporate culture<sup>19</sup>

- Process vs. results oriented
- Employee vs job oriented
- Parochial vs. professional
- Open vs. closed system
- Loose vs. tight control
- Normative vs. pragmatic

Figure 9: Corporate culture best suited for successful transformation<sup>20</sup>

As culture is very difficult to change, this has to be considered early on in the decision and transformation stages.

## 6. The Buyer – Provider Relationship

Many of the success factors outlined in the appendix relate to the relationship between buyer and provider. The last aspect of HRO I want to look at are the expectations commanding this relationship. Clients sourcing formerly outsourced processes back in<sup>21</sup> are still rare but increasing in number, as initial contracts from the last HRO wave are ending. This suggests that a significant gap between both sides' expectations might exist.

<sup>19</sup> Geert Hofstede, "How Cultural Resources Support Business Transformation", conference paper, HR2007 conference, 12. – 14. March 2007, Las Vegas, p. 18

<sup>20</sup> Geert Hofstede, "How Cultural Resources Support Business Transformation", conference paper, HR2007 conference, 12. – 14. March 2007, Las Vegas, p. 19

<sup>21</sup> As Britannia did with its outsourced HR payroll when they missed flexibility. See Christian Annesley, "Britannia insources HR and payroll systems to aid development plans", Computer Weekly, 30.5.2006, p. 12



### 6.1 Buyer's Expectations

I discussed the buyers' objectives in section 2.3. They expect the provider to deliver at least the same level of service at considerably lower cost. Management in HR also expect that they don't have to expend any effort on the outsourced processes after transformation thus allowing them to focus on strategic tasks<sup>22</sup>. They also expect the provider to keep very close to the old processes. In one sentence: they ideally expect no changes at all except for a 20% – 45% reduction in costs.

### 6.2 Provider's Expectations

The provider expects of course to make money out of the HRO contract. To do so and deliver a 20% cost reduction for the client, "he must run the outsourced HR functions up to 50 percent cheaper than the customer"<sup>23</sup>, because marketing and sales as well as governance have to be paid for on top of it.

### 6.3 The expectations gap

To achieve significant cost reduction, providers must be able to apply standardised and efficient designs. However, buyers are often not prepared to allow this. Surveys show that the general readiness to change existing processes towards best practise standards suggested by the provider varies between 20 and 60 percent for several processes.

Also, the provider must know exactly which services he is supposed to deliver to calculate a reliable fee. Buyers on the other hand often don't even roughly know what services their HR function provides today. Gartner<sup>24</sup> and other sources confirm that buyers rarely do enough analysis and planning to define requirements appropriately. This essentially leads to higher fees than expected, when requirements are widened after the transformation.

## 7. Conclusions

HRO projects require a considerable change management effort. Besides "general wisdom and methods" of change management, three distinctive points have to be considered:

- The 2-stage time line with a sudden change in organisational reality at the point of migration, where perception particularly of the non-HR part of the organisation is usually lagging behind.
- The often awkward constellation of stakeholder power, where a small number of rank and file employees can be quite powerful because the project needs their commitment to be successful while top management, though powerful, often loses interest due to the relatively small gains to be made.
- The particular role of the buyer – provider relationship and the expectations gap.

Approaches to deal with these issues include:

- A clear understanding about which services have to be provided to the stakeholders rather than a task-oriented approach only, provides the basis for a service oriented design of the HR

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<sup>22</sup> - Winfried Gertz, "HR-Outsourcing: Partnerschaft mit Tuecken" (HR Outsourcing: difficult partnership"), Personal-Journal, 15.1.2007, p. 2

<sup>23</sup> Gianni Giacomelli, "HRO Economics 101", HRO Today, April 2007/May 2007, p. 1

<sup>24</sup> Shared Expertise Forums, "Gartner: Poor planning leads to outsourcing failure", 23.12.2006, URL: <http://www.sharedservicesbpo.com/file/3731/gartner-poor-planning-leads-to-high-outsourcing-failure.html>



function and a green field to decide how these services are provided most effectively and efficiently.

- Including the affected HR staff in the decision process, while letting the internal option compete against the providers. This allows them to reach the conclusion that HRO is the best option themselves. Nevertheless, the risk of resignation and sabotage has to be managed as well.
- A good communication strategy to address the bulk of the workforce at the right time without boring them with “minor” issues.
- Engagement of top management.
- A clear and exhaustive definition of requirements in detail based on expected results, while leaving the provider enough room for manoeuvre on the process level to achieve the necessary cost reduction.

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#### Appendix: HR Outsourcing success factors

Success factors mentioned in several practitioner interviews, articles, and conference papers in order of importance:

Rk.	Success factors	Mentioned as		
		Most important	Important	Less important
1	Accept standardisation / best practise from provider	3	4	1
2	Stakeholder Management	2	3	2
3	Use 3 <sup>rd</sup> party advise		4	1
4	Clear definition of functional requirements up front	1	4	
5	Provider selection (particularly: don't make price the single most important criterion)	2	1	
6	Win-win relationship with provider	1	2	
7	IT systems	1		4
8	Line of sight to corporate strategy / objectives		2	
8	Keeping internal knowledge (some until transformation is finished, some even after that)		2	
10	Use native speakers for voice services	1		
10	Capacity for transformation project + day to day business	1		
12	Align internal policies to new processes		1	1
13	Keep internal option in the game until final decision for provider is made		1	