



# Cutting costs, not corners: how HR outsourcing can steer you to the competitive high ground

By Alan Bailey

WITH THE LATEST UNEMPLOYMENT FIGURE declared as 1.97 million, the highest in 10 years, and with that figure predicted to rise significantly, there's no doubt that the UK is in the grip of what is likely to be a long and painful recession. For companies across all sectors, this inevitably means that the competition for the lion's share of shrinking markets becomes harder to achieve. Differentiation will be in terms of talent retention, products, services and, of course, costs.

Since the late 1990s, HR functions have tried to support their businesses' competitive position from two disparate directions. From a bottom-up perspective, organisations rose to the generic challenge of cost-cutting and HR 'did its bit' by moving to a shared services model and reducing the cost of administration. Secondly, from a value-added perspective, HR functions waxed lyrical about 'winning the

war for talent' – good intent but an over-used phrase that didn't always deliver the required results.

As result of these challenges, many organisations kicked the tyres of the HR outsourcing vehicles that drove onto the scene at this time but only a limited number of companies stepped into them for the ride.

Without doubt, the current market conditions, nearly 10 years on, have heightened those same issues and the interest in HR outsourcing has never been as great. This interest springs from the convergence of these two major business issues that, in turn, stem from core economic and competitive forces. One is the need to provide the highest possible standards of employee engagement, particularly in a leaner company, or one facing challenging markets where employee performance is even more crucial. The other is the need to increase efficiency and control costs by

maximising resources, reducing fixed costs where possible and slowing or reducing staff costs.

At first sight, these two issues seem contradictory. How can you improve service to employees while limiting or reducing your resources? Fortunately for companies, two major ways to meet such a challenge emerged and were proven by the early adopters of outsourcing.

The first was the incorporation of technological advancements. The strategic use of technology within the HR function can allow a company to offer better services with fewer people. Access to people data for performance management and reward, rather than just for pay and ratings, is readily available. But technology is expensive, and the high cost of keeping ahead of the technology curve remains daunting to many companies, particularly those whose primary business focus is not about technology. And, even with increased technology, significant resources and time are still needed to accomplish all the 'business as usual' tasks such as recruiting and developing staff, and ensuring that they remain engaged and productive.

That's why the option of outsourcing has become so attractive to companies. Outsourcing presents a logical, low-risk alternative to performing tasks in-house because it can cut expenses, free up resources and allow companies to concentrate on more profitable core competencies. Companies and organisations outsource because, quite simply, it delivers results. It's a proven tool in improving business performance and transforming customer services.

More so, companies are no longer limiting their HR outsourcing to simple, mechanical functions like payroll. It's now a very mature market and both the scope and scale of outsourced functions have changed out of all recognition from the early days. Expert external providers are increasingly being used to oversee more complex, value-added and sensitive services e.g. devising and implementing wholesale pay reviews, case management and dispute resolution.

The following is a good example of where an organisation has relied heavily on their HR outsourcing partner for delivery of a rather sensitive employee initiative. In 2007, in line with a government mandate, Blackburn with Darwen Borough Council needed to develop a new pay and reward strategy to assist in the recruitment, retention and remuneration of a high-performing workforce under a more fair, equitable and transparent pay and grade structure. This affected nearly 6,000 staff employed both by the council and schools within the region, and it was the outsourced HR provider who had to ensure that the process went smoothly.

The existing data had to be validated – this resulted in 20,000 changes being required. An exercise was then undertaken to upload a whole range of data, including the job evaluation scores from the software used to undertake job evaluation, calculate the impact on each employee of the new pay structure, and back pay and salary protection from 1 April 2007 to 31 March 2008.

But it wasn't just a technical exercise. To achieve a successful implementation it was important to communicate fully and effectively with staff. For example, the team involved issued 27,500 letters to the council's employees over a period of eight months, which required 48,128

pieces of employee data to be merged with letters and forms. And, as part of the project implementation, the team managed 293,000 changes to information on the council's managed HR and payroll system over a four-month period, compared to 745 in a 'normal' month.

In addition, the service provider's team was faced with a series of challenges and changes to employees' pay that would have tested their ability and resolve even under normal circumstances. These included a fundamental review of the Local Government Pension Scheme, which involved 4,600 employees seeing a change to banded contributions, and a teachers' strike action in April 2008.

If an organisation does decide to make redundancies as part of its restructuring, it is crucial that it has a clear process of assessment to make sure that skills gaps are minimised. Again, it's often worth the investment of using an external provider to ensure that the assessment process is as equitable as possible. External providers may also be able to highlight issues that might be less obvious; it's not good enough, for example, to simply achieve a structure that can survive the lean times. In ensuring longer-term survival, it's important not to forget some of the basic principles of good talent management and succession planning.

In summary, in today's challenging macro-environment, the HR function of any organisation is still an essential player in the game for survival. A shared service model underpinned with an appropriate level of technology infrastructure and self-service capability will drive cost benefits and give managers better access to people data.

But the technology and experienced HR talent are not cheap to build and not cheap to maintain. Outsourcing continues to be a legitimate alternative approach to an in-house option, giving many more benefits:

- Variable pricing;
- Reduction of fixed costs;
- Investment avoidance, especially in self-service technologies, CRM and telephony;
- Access to consistent and compliant advice often not available in-house.

NelsonHall has just estimated that the HR outsourcing market in companies of 500–15,000 employees is set to hit over \$22bn in 2009 and is still growing. In such a mature market the risks are low.

In its latest forecast for economic growth and inflation, the Bank of England says that the UK economy will decline sharply in the first half of 2009 – and by as much as 4 per cent compared with June 2008. And it says there is a significant risk that the recession will be even longer and deeper than expected. So business needs to strap in for a bumpy – and potentially long – ride. Successful companies will create management bandwidth to focus on competitiveness, survival and core business – and let the outsourcers focus on theirs. ■



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