

## An in-depth guide to HRO: How is HR outsourcing changing?

By Annie Makoff on 15 Jul 2019 in [HR transformation](#), [Artificial intelligence](#), [Automation](#), [Recruitment process outsourcing](#), [Workplace culture](#), [People analytics](#), [Latest News](#), [HR strategy](#), [Employee engagement](#), [Offshoring](#), [Outsourcing](#), [HR Technology](#), [Payroll](#)



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**HR outsourcing (HRO) has matured. Once little more than a cost-cutting exercise, outsourcing your HR – or specialisms within it – is a nuanced strategic decision which will be different for every organisation. Annie Makoff examines how HR outsourcing has changed and looks at what employers need to consider when they're deciding what to outsource.**

Not so long ago, HR departments were rushing to outsource their core functions in an effort to streamline operations, reduce headcount and ultimately, to cut costs. It was the era of offshoring, where outsourcing call-centre functions to countries such as India and Pakistan generated cost savings due to cheaper labour markets.

But times have changed. As society has become more ethically aware and tighter legislation has required companies to comply with labour market standards, the number of companies outsourcing key functions offshore are now diminishing.

"We've seen in sectors like retail and technology, companies are now having to be very clear about labour market standards in their supply chains and check any unacceptable practices going on," says Duncan Brown, head of HR consultancy at the Institute of Employment Studies (IES).

To achieve Living Wage accreditation you need to reassure assessors that your labour market standards also apply to your supply chain, not just to your direct employees."

While some specialists believe HR outsourcing is still being driven by cost-cutting, not everyone agrees. "Outsourcing is not going to save you money anymore, not unless you go down the offshoring path where labour costs are cheaper, but that area is definitely shrinking," says Peter Tiliakos, principal analyst at analyst consultancy, Nelson Hall. "What you're getting instead when you outsource HR is the impact it gives back to the business and how it drives the HR transformation journey."

Indeed, Kath Rau, global people operations director at people and culture platform Culture Amp points out that as the remit of HR has now expanded to include "large and critical programmes" for employees such as workforce wellbeing (and all that encompasses), HR capacity and expertise is being stretched to its limits.

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market or, as Dr Rita Fontinha, lecturer of international business and strategy at Henley Business School explains, because some functions like HR analytics are 'time-bound': it just wouldn't make sense to employ a specialist on a full-time basis.

The emergence of specialist HR areas has also made it difficult to recruit for, hence the skills gap issue. "In the old days of HR, there were HR generalists. But as HR disciplines have become more specialist and there's very little movement within HR departments, it can be difficult to get that niche experience like employee relations unless there is a vacancy," explains Andy Cook, CEO at employee relations consultancy Marshall James. "Organisations aren't great at nurturing and developing specialist talent, so they're having to rely on outsourcing to fill those gaps."

### Strategic HRO: What should we outsource?

So given that skills gaps, improved business outcomes and improved HR efficiency are among the key factors behind a company's decision to outsource, HR needs to take a strategic view when it comes to deciding the hows and wheres of outsourcing.

IES's Brown maintains that growth in outsourcing is actually slowing – and in some cases – reversing, with many companies bringing some HR functions back in-house, reflecting what he describes as a "healthy scepticism" around outsourcing overall.

"We're seeing much more intelligent thought about the kind of services which are best provided by outsourcing and those which are best kept in-house," he explains. "Previous assumptions around cost savings and improved services have been called into question, and that's an entirely healthy situation, to look at the pros and cons of all possibilities rather than just blind faith."

But Tiliakos insists that while the business process outsourcing (BPO) market, where companies outsource their entire HR function to one provider, appears to be shrinking, outsourcing in what he calls 'point solutions' is definitely not. Instead, there's a move towards a pick and mix approach: Businesses, more outsourcing-savvy than ever, are starting to operate on a much more strategic level, selecting different vendors to help with their specific needs.

"The days of outsourcers doing everything are probably over," adds Jonathan Smith, head of service management at software and outsourcing services provider MHR. He has seen providers becoming much more nuanced, with many focusing much more on niche, specialist services like employee relations or data analytics.

Anil Vijayan, practice director at research and consulting firm Everest Group confirms there is still plenty of growth within the outsourcing market, particularly within multi-country payroll outsourcing (MCPO), which reflects the ongoing need for companies to keep on top of compliance and global regulation.

So in their endless quest for HR transformation and competitive advantage, how can HR decide on the optimum level of outsourcing for their company?

If you can deliver a great employee experience by outsourcing artificial intelligence services like digital assistants, which enable staff to can get information 24/7, you're able to strip out the massive burden of transactional queries. That's the holy grail for HR" – Andy Davies, People First



As Andy Davies, head of global enablement at HR solutions platform People First points out, there is no one-size-fits-all approach. One of the key reasons companies outsource these days, he explains, is to access higher levels of skills and knowledge. But it wasn't always the case: during the start of the economic downturn there was a 'massive rush to outsource', fuelled by the need to reduce headcount and to make cost savings.

Yet those that rushed into outsourcing found it didn't work: if people 'blindly sign up' to outsourcing provisions because the company next to them has, and they've not properly scoped their own needs, it can be counter-intuitive, he explains.

Companies then, are faced with several possibilities: business process outsourcing (BPO), shared services outsourcing (transactional or administration functions are outsourced among several vendors) and application and facilities services HRO (HR infrastructure and/or technology platforms are outsourced).

Here are some examples:

### Payroll outsourcing

Traditionally, it has always been the transactional, administrative functions that have been outsourced in order to free up HR to engage in more strategic-led functions.

Payroll in particular, partly because of the massive compliance and legal issues arising from getting it wrong, and partly because it makes business sense. Brown says IES has seen a 50/50 split in the number of organisations who were outsourcing payroll and those who were keeping it in-house.

### Recruitment process outsourcing

Recruitment too has always been a big area of outsource. According to Owain Wood, head of marketing at executive search firm Carmichael Fisher, hiring and recruitment is one of the greatest time consumers for HR: Building talent pools, screening candidates, engaging with them and setting up interviews can take anything from three to twelve months. And for more senior positions, the process is even lengthier.

That, coupled with record-low unemployment, does make things harder for hiring managers trying to search in a shrinking talent pool. It's no surprise then, that the market has seen a spike in the number of HR departments outsourcing their recruitment operations: there were 12,500 recruitment agencies and executive search firms in 2013, while today, six years later, there are over 40,000.

### HR analytics

Now though, HR is getting braver and starting to outsource more strategic operations like HR analytics to third party suppliers. Sven Brucker, VP analyst at global research and advisory firm Gartner says a "maturing HR" function is now taking more risk-driven decisions while preparing itself for strategic direction. "They are getting better in risk management over time, so they've become more focused," he adds.

"HR is now getting its moment in the spotlight," adds Scott Brown, HR and transformation officer at payroll service provider SD Worx. "Businesses want to be as efficient as possible whilst reducing the administrative burden on their employees so that they can concentrate on adding more value to the business."

It's why HR analytics and strategic consulting are growing trends in the outsourcing space. Data analytics is crucial in helping businesses make informed decisions in terms of talent management, engagement, succession planning and health and wellbeing. As Dr Fontinha explains, data can reveal different patterns of workplace behaviour, analyse demographics and workplace absence. It can help inform wellbeing interventions and workplace culture, it can help improve work-life balance and engagement. Strategic consulting too can bring another layer of expertise to a company.

"Without external input, companies may become more static and less likely to adjust to the market," Fontinha adds. "Different external perspectives can help provide solutions to business problems."

### Outsource everything or outsource tactically?

The jury may be out on the best approach to HR outsourcing, despite trends identified by Nelson Hall around the shrinking of BPO providers and the emerging preference towards a flexible pick and mix approach. Yet some specialists *Personnel Today* has spoken to are adamant that BPO and their end-to-end offering is the only way forward if HR transformation is to be achieved.

### Case study: Asset Match

The end-to-end approach is exactly what shares trading platform Asset Match did when it made the decision to outsource.

As a small company with a current workforce of just seven, it decided to outsource every non-core aspect of the business so they could focus entirely on their business which was trading stocks and shares.

Every administrative and transactional element was outsourced including payroll, accountancy and HR.

"There was no point having in-house HR or IT as we're such a small team, so it made absolute sense to outsource," explains chief operating officer Rohit Nanda.

Asset Match uses MorePay which offers the full HR complement. It manages payroll, sick leave and annual leave as well as dealing with general HR-related queries.

It's also self-service so staff can log in anywhere anytime to view payslips or to request time off. And following the introduction of auto enrolment, Asset Match now also uses pension provider SmartPension to ensure legal requirements are met.

"The value and affordability of these systems made it a no-brainer for us," says Nanda. "We're benefitting from the provider's own investment in their platforms and it frees us up to focus on our business."

For independent HR consultant Rita Trehan, it's the difference between a company staying in their industry and a company that won't be around for long. End-to-end outsourcing goes hand-in-hand with technology and automation and without it, companies just won't survive, she believes. She cites recent figures that show that the average FTSE 500 company lifespan has decreased from 60 to 15 years.

"Companies are coming to the market faster than ever and can outpace their competitors who have been around for decades," she says, "So if you do piecemeal outsourcing for a particular issue, you won't get the benefits, it becomes disconnected and disjointed and can become a massive recruitment and retention issue."

## The evolution of shared services

Donovan's assertion that outsourcing in volume equals improved strategic direction, doesn't always work in practice, though. Research by McKinsey & Company in 2017 revealed that HR is still spending around 60 per cent of its time and resources on transactional work, despite 'spending decades' outsourcing such operations via shared services.

In essence, shared services refers to transactional, routine elements of HR such as payroll and recruitment being shared in one centralised place across the entire organisation.

It usually forms part of international HR specialist Dave Ulrich's three-legged model, made up of shared services, HR centre of excellence and business partners, to create what Marshall James's Cook describes as a way to "unencumber HR" in order to create a more strategic centre of excellence. Yet there are some areas, Cook insists, like industrial and employee relations, which should never be put into shared services – they should be dealt with in-person, face-to-face rather than via call centres.

Interestingly, Ulrich himself is no longer sure his three-legged stool model works in today's digital world. During a keynote speech at an HR conference in 2018, he admitted that while it had been a good idea back in 1998, but that "the world has changed". Instead, HR should move towards digital transformation, creating multi-functional teams and encouraging a culture of digitisation and digital competence, he argues.

## The agile approach

Multi-functional teams are precisely what Trehan herself advocates. She warns that HR is too often viewed in isolation, separate from the rest of the organisation and the outfit as a whole, operates as a series of different silos.

The age-old conflict between HR and finance is a case in point, even though arguably these two functions have the most to gain from a joined-up approach and sharing employee and business data. Shared services goes some way to addressing this, she says, but the three-legged model as a whole continues to keep them disconnected.

Organisations, says Trehan, need to be more agile, and do away with silos all together. She believes it's time for the "amoeba organisation", with agile teams forming, reforming and dissipating depending on the situation.

## Employee experience

All this has a massive impact on employee experience because a less bogged-down HR has the means to improve its service levels, whether relationship-led and/or through next generation automation and artificial intelligence.

Nelson Hall's Tiliakos insists employee experience is now a 'number one' priority for businesses, with employers having to create a genuine workplace culture while creating genuine engagement within the workforce. "Employers have to walk the talk," he insists. "It's no good just saying it's a great place to work and say there's great infrastructure, they actually have to live it."

### Case study: State Zero Labs

Blockchain investment company State Zero Labs opted for a more piecemeal approach to outsourcing. "We wanted to pick the right parts to outsource and work out which parts needed to be kept in-house," explains Katie Mills, co-founder.

"Our business is built around relationships so it was important we retained that focus for our staff. We've kept the elements which are people-led and outsourced the administrative, transactional elements."

The company outsources to CharlieHR, which manages payroll including P60s, annual leave and various perks including mental health days, a benefit unique to State Zero Labs, allowing staff to take four additional days off a year if they need it.

The set-up means the company can focus on providing additional benefits to staff and supporting their emotional and physical wellbeing.

"We have full visibility over everything," Mills adds. "The shared platform and staff calendars mean you can see whenever someone is off, so we don't ever need to turn down holidays. It has full integration via Slack so it puts control back in staff hands."

Rob Donovan, co-founder and CEO of CharlieHR adds: "HR is fast moving from an administrative cost centre towards a powerful and strategic weapon to win the best talent and give them space to excel. That means the more administration you can outsource, the more time you have to really make a difference."

For Helen Payne, strategic consultant at global professional services firm Aon, it's about employers ensuring their internal brand and employee experience reflects their external brand and corporate values in order to attract and retain the best talent. "You can't claim to be a cutting-edge technology firm and then expect your employees to fill in forms to apply for benefits," she points out.

This is where technology and next-generation automation and artificial intelligence comes in. Its role in employee experience is absolutely crucial. It's about leveraging technology to create real-time, up-to-date experiences. Filling out paper forms, manually updating information, trawling through FAQs on the company intranet: these are all old ways of working, insists People First's Davies.

"One of the biggest drains on HR teams is the list of questions people come in with every day. Intranet FAQs can't be accessed outside work and you still have to trawl through a lot of irrelevant information first. But if you can deliver a great employee experience by outsourcing artificial intelligence services like digital assistants, which enable staff to can get information 24/7, you're able to strip out the massive burden of transactional queries. That's the holy grail for HR," says Davies. Digital assistants, he believes, have the ability to transform employee experience. Afterall, how can companies stay relevant to their employees if HR only operates on a 9 to 5 basis?

"Imagine an employee sat with their Macbook on a Saturday night, searching on Lastminute.com and being able to turn to a digital assistant or an HR chatbot, ask about annual leave and book a holiday without having to wait three or four days for a response from HR. That's the quality employee experience which HR departments should be looking to provide."



### What's next for HR outsourcing?

Most industry specialists agree that HR outsourcing is here to stay. For experts like Nelson Halls' Tiliakos in particular, outsourcing remains a healthy market, with strong growth in most areas apart from the broad multi-purpose deals which companies are no longer buying into.

Tiliakos foresees an app-based marketplace which will work in much the same way as the consumer market. As consumers, we download the apps which supplement our lifestyle needs. HR outsourcing, Tiliakos predicts, will be done in much the same way. "It will be a massive opportunity to help drive HR transformation," he adds.

Automation and AI will also underpin all outsourcing offerings in the future. People First's Andy Davies is convinced that humans will no longer be the first point of contact within HR. Digital assistants and on-demand, relevant information available 24/7 will become increasingly important. HR departments who can't provide that, he warns, and those 'stuck in old HR worlds' will pose a recruitment and retention challenge.

"Employees, especially millennials, expect to access information instantly. The demand now and in the future is to get HR guidance in real-time, not next week, but now, in the moment, when they need it," he says.

All this marks a sea change for HR, not least because as a department, it has traditionally been an area slow to adapt to new technology. And no wonder: SDWorx's Brown points out that HR was rarely on the list for investment. But outsourcing technology is changing that. Whether it's payroll, recruitment, data analytics or another essential HR function, a data-rich automated service underpinned by artificial intelligence is the key to HR transformation.

Brown predicts that HROs will play a 'vital role' in giving HR the freedom to manage the rapid evolution of the workforce. By lessening the burden of compliance and repetitive administration tasks, they will give in-house HR the means to handle an increasingly complex workforce made up more of freelancers, part-timers and flexible workers.

At the same time, Brown explains, HROs will be increasingly relied upon to provide data-rich foresight and technical expertise to

aid businesses in making smart decisions in which to drive HR transformation. Data held within HR departments, he maintains, is some of the richest within any organisation, offering insight into a vast arrange of areas from engagement and retention to absenteeism, wellbeing and productivity. HRO will be pivotal in cutting through the noise and making sure that businesses make the right decisions.

“We’re moving towards a significant evolution in the business world,” Trehan concludes. “A world which embraces a digital transformation and joined-up thinking. Companies that understand this will be at the forefront of robotics and artificial intelligence; they will be the players of the future.”

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