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## ***Outsourcing: The End of HR As We Know It (And We Feel Fine)***

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### ***Introduction***

For the mid-career professional in human resources, the growth of outsourcing arrangements is the greatest opportunity for career growth the HR profession has ever seen, but it also a threat to those who lack the necessary skills and direction to thrive in the new workplace environment.

Much of what you have done and learned in your career has now changed and will continue to change. What were once the most important services you could provide – reliable HR transactions and one-to-one employee service – may now be of declining value to you and your company. But at the same time, for professionals who think outside the box – who think of HR in business terms and not service terms – opportunities are now limitless.

The HR manager concerned with the strategic needs of the company and developing unique people matters expertise can have a seat at the corporate strategy table and can be thought of in the same breath as CIOs and CFOs when considering future leaders of the company.

This article will detail the ways the HR profession is evolving, the ways technology and outsourcing are revolutionizing the way business leaders think of HR and the skills a successful HR professional will need in the near future to thrive in this environment. But before we progress with ways to help HR professionals become strategic people partners in all organizations, let's first examine a common trap many in our profession face today, what we call the transactions conundrum.

### ***The Transactions Conundrum***

Many HR professionals advanced to where they are today by being effective hands-on managers of HR transactions. By taking personal responsibility for the speed and effectiveness of HR service delivery, these professionals have demonstrated their ability to be the go-to person. With hard work have come professional trust and the earned respect of peers. But there's been a cost for this competence.

The more you do, the more people rely on you. Even if you are well compensated for this work, the mountain of work will never get smaller. Perhaps you are in an organization willing to increase its HR budgets, paying more so you can do more. At some point, you will reach your limit, which is a big reason why HR has one of the highest burnout rates of business professions.

You and your staff will eventually reach a breaking point where budget growth must cease, qualified, competent people leave or both.

To avoid this trap, many HR professionals have relied on the managerial aspects of the profession, leaving subordinates to take care of the transaction processing work while concentrating time, energy and attention on the more strategic people matters. However, there's a risk in this approach as well – an over reliance on staff.

If your staff performs well and if the transactional needs of the organization are being met, you need to do whatever it takes to hold onto your staff. If you do not, others will and you will lose valuable assets that may not be easily replaced.

In short, getting transactions processed effectively has long been the bread-and-butter of HR management. But while corporate expectations for the delivery of these services has remained high – and has increased with the proliferations of new technologies – the ability of an in-house HR operation to deliver cost effective transactions has never been higher. Just getting the basics right can take up all the time and focus of the best HR professionals.

Given these facts, change in the HR industry should not be viewed as a threat, but rather an opportunity to get out from under the Sisyphusian task of making HR transactions affordable. Change requires adaptation, but in this case adaptation means opportunity and survival for people long overworked and unappreciated.

### ***Adapt and Grow***

Adaptation is the key to success in any business discipline and human resources requires more of it than any contemporary field. In just the past 10 years, HR professionals have lived through booms and busts, rapid decentralization and even more rapid technology installations. They have been taught the value of shared services models and then told that outsourcing is the true wave of the future.

As human resources becomes more of a strategic business lever, individuals must decide whether their careers will be better served working for outsourcing companies that provide the types of services they have typically provided internally for years or whether to expand their horizons, see HR in strategic terms, and become more of a business generalist.

While professionals are making these choices, companies are deciding exactly what they want out of their HR functions. They are rethinking the involvement of HR in strategy matters. In some cases, they are studying whether, once transitions are complete, the HR department needs to exist at all. For HR to survive company-to-company and as a, it will need to better promote itself and “credentialize” those in its profession, demonstrating to the highest levels of management the unique skills that good people managers bring to any team.

### ***New Profession, New Professional Needs***

Companies as well are beginning to think of their HR professionals differently. For generations, HR professionals rose through the ranks. No more. Companies now look for business people

first for their Chief People Officers, often tapping those who have technical or financial expertise.

A wide variety of business skills are required for today's HR professionals -- including marketing skills. This is especially true when positioning a company to attract talent. Effective internal marketing can create a strategic talent recruitment advantage for any company.

HR professionals are now seen as strategic partners (some may even prefer the term "player") who help form people strategies delivering tangible results. With this comes a greater appreciation for what HR professionals have been doing all along -- through efforts like total reward packages. Suddenly the way that pay, benefits, culture and learning come together is extremely valuable in a wide variety of strategic matters. The same holds true for transactions. Expectations will continue to be demanding for HR to deliver high quality, fast, accurate and cost-effective service. If HR continues to respond in the traditional way, the same old frustrating result will inevitably follow -- termination or burnout.

But there is hope for HR professionals and tremendous new opportunities. While many companies will continue to look outside HR to find their HR management, at the same time those who rise to the head of people management and succeed are suddenly on the cutting edge of corporate strategy. While the CFO and CIO might today be on the fast track to the CEO position, Chief People Managers will soon find themselves in a similar position. In fact, because HR is all about managing people, they have some inherent advantages on that score.

To move ahead in their careers, HR professionals need to understand the interdependence of business issues -- from issues of corporate governance to sales channels. They also need to understand the dynamics of the global economy and the variety of laws, cultures and business styles practiced outside of the United States. They also need to be humble and cautious in promoting policies globally -- piloting out best practices instead of imposing them from corporate headquarters.

Overall, an effective people manager must be a CEO's right-hand man or woman, someone who has a handle on all the issues he or she must control while providing unique insight and expertise on the workforce issues driving strategic imperatives and a deep knowledge of the talent within and beyond the organization so that the company will continue to thrive and survive by attracting, retaining and motivating key talent year after year.

### ***A Chance for Reinvention***

The HR profession cannot shrink from this opportunity. Now is the time to initiate a discussion with senior leadership in your organization to determine the parameters of the HR function and align it with the company's strategic needs. Just as legal, marketing, IT and finance all ensure their stature by serving as constant and continuing advocates for their functions, the HR professional will give up a vital seat at the table if they abdicate their natural role.

A big part of the problem today is that the HR function is more amorphous than those others, demanding attention for its day-to-day activities and drawing attention to its costs, while not clearly defining how it can add benefits to the organization, therefore earning higher status and stature. To make matters worse, the organization can more likely survive for a longer period of time without a heightened level of performance from HR than it could without full performance from each of the other functions mentioned.

As a result, companies grow to accept from HR for a longer period, without realizing the short- and long-term consequences on organizational performance. The HR profession will never gain the attention and resources necessary to deliver higher value services to the organization unless the executive team is educated about what HR can do for the organization.

### ***Beyond Transactions***

What are the vital people-based issues that are being neglected by this focus on HR transactions? There are a wide-range of issues, including but not limited to:

- **The changing nature of work and offices.** Workforces are becoming less centralized, more global and distributed. Momentum is heavily in favor of more telecommuters, employees in satellite offices, contractors and other loosely-affiliated members of corporate teams. While companies may be global, multi-ethnic and multi-lingual, most people are not. Mergers and acquisitions are forcing companies to rebuild corporate cultures from scratch. Managing talent across national boundaries – and dealing with a wide variety of inpatriate and expatriate issues – is becoming increasingly complex. Companies are also learning that their global culture greatly impact their global brand and that their employee experience can have as much of a hand in building that brand as their customer experiences.
- **The Global Talent Hunt.** As issues of offshoring and foreign affiliates become more prevalent, the search for the best qualified employees will no longer be the perennial local hunt for talent, but a truly global one – with its required local execution also effectively in place.
- **Managing Employee and Customer Privacy.** Privacy is another issue that requires heavier attention than ever before and the HR profession is the natural one to implement and administer effective policies. Every nation -- and in some instances every state or province -- deals with issues like employee privacy in different ways. Complying with these laws and a slew of other employment regulations is increasingly laborious, requiring far more expertise than needed in previous generations interconnected and more complex, more sophisticated skills are required to manage it.

HR has a huge role to play in defining the new ways companies operate. It is HR managers who are left with the strategic -- and often quite difficult -- issues involving people, culture and mergers, joint ventures and companies-within-companies. HR professionals understand that the hard work of global business isn't in shrinking cost structures; it's in making the pieces of the puzzle fit together and make sense. The old requirement to think globally but execute locally will take on new meaning and implications.

### ***Technology, Outsourcing Redefine HR***

Fortunately for HR professionals, just as these more strategic issues have risen to the fore of our profession, opportunities have arisen to help us deliver them while not shirking the traditional responsibilities of HR. The human resources profession was changed forever by the adoption of new management techniques and the implementation of new human resources technologies in the 1990s. Ten years ago, HR departments worldwide were being rapidly downsized and

centralized to help cut costs. Customer-employee service was being slashed; companies were looking for every way possible to cut transaction costs to the bone.

About the same time, HR information software solutions began to reach the market that helped cut down on the laborious nature of HR transaction processing. Today, this technology frees transaction processing from administration, putting cold hard data in the hands of managers about their work force and allowing HR managers to be better business advisors. But given the high cost of implementing an HRIS solution across an organization – and making the continuous upgrades necessary to keep it state of the art – many companies have begun shifting their HR transactions to outsourcing companies, and more recently companies have even shifted their entire HR functions to outsourcing providers.

Outsourcing changes the value-add equation for HR by making every service prove its intrinsic value. Functions that had previously been thought of as a general cost of doing business now have a definite price tag -- and if a company cannot provide less expensive, higher quality service in house, the value proposition for moving it outside becomes compelling. In this way, outsourcing has proven beneficial to companies in helping to quantify the value of HR in financial terms.

### ***What Skills Do HR Professionals Require?***

The good news for HR professionals is that our expertise is sorely needed in today's business world. The bad news is that the HR profession has not done a good enough job of promoting these kinds of skills and "credentializing" those who have them. Throughout its existence, HR departments have been the Statue of Liberty of the corporate world -- beckoning anyone yearning to field complaints, hold hands and fight tooth and nail for every budget line item.

Now that HR is evolving rapidly, the question must be asked: what is the proper human resource skill set? When an HR professional comes to mind, what educational background is expected of that person? What career path should this person follow? Sadly, the profession has no such requirements and has had little professional leadership. Now that outsourcing has become central to HR operations, the skill gap has grown even wider.

While we're not suggesting that all HR professionals be required to pass a professional exam, expanding the education and providing credentials is not only valuable, it may be vital to the survival of the profession. Because anyone can claim to be an HR person, the profession's credibility has been weakened. Because there is still not yet a standard HR skill set that is widely recognized, it becomes impossible to compare the effectiveness of one organization to another. It is certainly true that at least three professional HR organizations (SHRM, World at Work, and the Employee Benefits Institute) have taken serious steps, with significant research, to identify the skills HR professionals need to possess to perform in a competent manner. At the same time, the problem is that each of the tests, developed as a result of the research, and vigorously tested for validity and reliability, is testing for content that is functional (for example, recruitment, selection, compensation, benefits, legal). As a result, the tests help to perpetuate the false heightened importance of transactions in the HR profession.

The greatest risk of having a poorly defined profession is that, as outsourcing grows and the requirements of HR change, some companies may begin to replace HR departments altogether with the false belief that HR is not one of the organization's core competencies -- this, in spite of

the fact that the uniqueness of each organization, as well as its successes, is always due to the employees it has been able to attract and retain. We believe this would be a very bad choice for any company, for a variety of reasons, but as long as the profession refuses to promote itself, the risk is real. Proficiency, along with never-ending, state-of-the-art skill development, will ensure the survival of the profession and we believe there are some simple steps that can be taken to do that.

The profession needs to cultivate HR professionals focused on making businesses successful. HR also needs to set performance standards for the profession. In addition, professional organizations, in cooperation with business and professional schools, need to create curricula and set standards that will promote the profession and the areas of expertise needed to excel in it.

### ***A Standard HR Syllabus***

There are some very basic skills that every HR professional needs. This list is not intended to be all-inclusive, but we believe it forms a strong foundation for basic knowledge and competence of today's people managers.

#### *Understanding of Outsourcing Strategies.*

One of the first issues any contemporary HR professional should know about is the availability of outsourcing as a strategy in human resources. HR professionals need a broad understanding of the skills necessary to make "buy or build" decisions when considering outsourcing. They should know the strategic implications of outsourcing decisions, the financial aspects and internal consulting requirements of an outsourced solution. In addition, they should have a general understanding of the detail work of an outsourcing engagement – RFP's (Requests for Proposals), contracts, legal requirements, internal communications and vendor management. As part of that awareness, HR professionals need to make the intellectual leap and realize that outsourcing is not just a new word (or "flavor of the month" term) for vendor relationships but represents a really deep, strategic alliance that needs to be considered a long-term, mutually beneficial partnership with the provider selected.

#### *Strategic Planning.*

Another vital area of knowledge is strategic planning. All HR professionals need to know how to balance long-term survival with short-term profitability. They need to know how to address key questions about the strategic planning process – from developing management objectives and long-range strategies for an organization to establishing immediate plans and priorities. They also need a basic understanding of situation analysis, change management, plan implementation, contingencies and commitment. As part of this strategic planning skill, the HR professional needs to see the potential of outsourcing not only for the HR arena but also to realize that outsourcing is a practical, viable option to consider for any of the organization's non-core functions including legal, IT and Finance and Accounting.

#### *General Business Skills.*

If HR managers are to be taken seriously as strategic partners, they need to have a solid understanding of basic business disciplines and practices. A successful HR professional should understand basic accounting and corporate financial statements. They need to know the theory, tools and techniques of project management. They should have a basic understanding of the legal issues of HR, especially involving outsourcing contracts. An HR professional should also know how to develop an RFP.

### HR Functional Competence.

HR professionals should have an in-depth understanding of cutting-edge HR issues like performance management that at this point continues to be a weak area by any serious measure in most organizations and at the same time become aware that the lack of internal HR expertise offers one more opportunity for HR to respond effectively with an outsourcing solution whenever internal strength is lacking.

### Communications.

They also need to know about communications issues, because every effective HR professional should be an expert communicator, internally and externally. We believe this forms a solid foundation for any HR professional curriculum – and it is a good overview of the HR professional curriculum currently provided by New York University (NYU) in conjunction with the HR Outsourcing Association (HROA).<sup>i</sup> HR professionals need to learn to be the eyes and ears of an organization, the business leaders who have their finger on the pulse of the workforce and who can report back to the management team about how strategic decisions are being implemented or impacted by its people.

### Relationship Management.

As a recent exciting and thought-provoking book<sup>ii</sup> states, that emphasizes HR roles over functions, HR professionals need to become experts in relationship building and in rapid deployment so that through the constant exchange of information, the HR professional will, first of all, be able to recognize opportunities for improved organizational effectiveness.

### Business Knowledge.

The HR professional needs to build a knowledge of the marketplace, in addition to relationships beyond the organization. The result of this combined effort will be that they will know where to go to quickly identify the best sources for the most appropriate solutions and effective cost -- without worrying about the quality of the provider's staff or their ability to retain them. Being in tune with business needs means being attuned to the changing nature of business – knowing about issues like supply chain management and using them to make your aspect of the business run more smoothly. The skill set will continue to broaden.

### Change Management.

This means understanding business issues, having consulting skills and becoming the most valuable change managers in the organization. An HR professional needs to know how to coach, negotiate and sell a vision.

### Metrics Development.

Another area where HR professionals are sorely needed is in metrics development. Companies want HR to be strategically focused, but they must find ways to measure everything they do and to demonstrate the value of each investment in pure business terms. Outsourcing providers become a value ally to HR professionals in this respect. By working with an outsourcer to define and develop measures of success, companies can unlock value in HR that previously could not be measured.

## ***With Evolution Comes Opportunity***

If HR professionals embrace their new roles and the professional requirements for it, the HR department, as a core function, will not only survive, HR executives will thrive in all organizations.

Technology not only allows HR professionals to be liberated from transactional work, it allows them to have at their disposal – front and center – vital corporate data that will help them make better decisions about managing talent and that can help stimulate performance.

This holds especially true as outsourcing expands in the HR world, because HR professionals are needs to integrated outsourcing partners – even a sole provider – and to help mesh the delivery system. As businesses demand precise measurement and management of people costs, credentialed professionals will be in even greater demand.

The most powerful opportunity for HR professionals is to develop the strategies that can build a company's brand through its people. On people matters, HR executives are critical to defining valued employees – not just senior management, but those with special and exceptional skills and peak performers. Strategic HR means not only providing proper incentives to these types of employees, but also making sure they get the right training.

By protecting and promoting the HR profession, companies will be in a better position to develop metrics around factors other than cost cutting. This will allow them to improve the level of service provided to customers and give them access to information and metrics aligned with the language of business.

## ***Conclusion***

In the end, while outsourcing brings challenges to the HR profession, the rewards greatly outweigh the risks. The challenge for HR is not to be fearful of change. Outsourcing should be viewed as an opportunity for HR to enhance the caliber of its professionals and its role within an organization.

Outsourcing will lead to a shift – away from the HR specialist and toward the professional with a deeper understanding of business issues. It will see an employment shift – where transactional employees and high-touch specialists work for outsourcing providers and enhance their own career opportunities in the process.

There is no doubt that the old way of delivering human resources to employees is gone for good and with it has gone the HR profession, as we know it. While this may frighten some and raise whiffs of nostalgia for others, the fact is that this is a good development for everyone. It's good for business managers because now HR will be more strategic and costs can be more easily controlled. It's good for HR line managers because their horizons within their companies have now expanded well beyond their wildest dreams.

It's also good for the employees who will head off to outsourcing companies, because now they will become more proficient and productive in what they do (while truly enjoying what they are doing and be good at it!) – and in time that should mean they will be properly rewarded finally for that work. And it is good for the HR transactional employee who, faced with a choice of continuing what they do or upgrading his or her skills, decides to enroll in some HR education courses, fully embraces the profession and walks out a more valuable, skilled employee.

HR is all about managing people and managing change. We've entered a cycle of transformation and renewal, one that will help turn corporate people managers into some of the most valued leaders of the business world.

## **Endnotes**

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<sup>i</sup> This program is just one attempt by the HROA to join forces with prestigious institutions of higher learning that for years have been committed to training HR professionals with the practical as well as the intellectual skills required for an HR professional in today's world to succeed. Unlike HR programs elsewhere that are usually driven by academics, the NYU program will continue to draw current practitioners to share their expertise so that students will learn from the body of knowledge as it is being developed by those currently working on outsourcing arrangements as buyers, providers, consultants and counsel. True to its core belief that every profession demands lifelong learning, the NYU program is not intended to be a one-stop shop. We hope that this program encourages others to build on the body of professional knowledge and requirements and we look forward to extending opportunities to participate in these curricula in the future as professionals move through the program as it is offered in a variety of cities throughout the US and over the Web.

<sup>ii</sup> Human Resource Management in the Knowledge Economy: New Challenges; New Roles; New Capabilities by Mark L. Lengnick-Hall and Cynthia A. Lengnick-Hall, Berrett-Koehler, San Francisco, 2003

## **Recommendations for Additional Reading**

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