Thriving in the Age of Outsourcing

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Charles Darwin once said, "It is not the strongest of the species that survives, nor the most intelligent. It is the one that is the most adaptable to change." The same sentiment characterizes the survival and growth of HR outsourcing.

The winds of economic turmoil have wreaked havoc on the public and private sectors. Business growth essentially went cold in a sudden and catastrophic upheaval. Programs and projects that were funded and planned were canceled in a reaction to the new global business reality. The titans of American industry, indestructible in the world psyche, became either co-owned by the taxpayers or fiscally bankrupt and went out of business.

The downturn also took its toll in the outsource sectors, nearshore as well as offshore. Contrary to past trends, the sinking bottom line and reduction in regular workforce numbers did not prompt a rush toward outsourcing. Instead, existing long-term customers sought contract renegotiation. Outsourced services once thought to be essential were scaled back, and the overall value of the market shrunk. In fact, some of the largest companies involved in offshore deployment of resources earnestly investigated nearshore as well as U.S.-based options to procure more favorable bottom-line situations.

The New Environment

Given those belt-tightening activities, 2008 and 2009 saw a fundamental re-examination of the outsourcing model, its ROI and overall value to corporations, as well as a demand to holistically demonstrate organizational value. While perceived by some as only suitable for technical disciplines, outsourcing has established a significant footprint in nontechnical domains such as HR, training and other support services as companies' core competencies are reviewed and revived.

Outsourcing companies sought to align their services to the changing market in several ways. The first was to adapt offerings and personnel to customers' new needs, including diminishing departments that were overstaffed and undersubscribed. Increasing services in HR and training shifted companies' talent skills, but not the number of employees used. Outsourcing firms reorganized to be responsive to business realities, adding services that needed immediate attention, while shrinking services no longer in high demand.

The overwhelming trend of the times has been corporate downsizing. As firms reduce their labor forces while retaining business practice and position, the remaining employees need to take on responsibilities and tasks they often are not trained to accomplish. Returning profitability to the bottom line may not be possible with reductions in place without outsourcing mission-critical services as well as ongoing operations.

The old axiom in this economic time has held true: "If you are not direct labor, you are expendable." Nowhere is this more evident than in the HR universe. From shrinking payroll and benefits, to staff recruitment and advancement, to training and up-skilling, to growth and performance improvement, talent professionals are becoming an endangered species. That is not to say the function is less important — rather the company desire to pay for internal resources is underwhelming. This gap between function and payment is the ace that outsourced HR plays during these economically uncertain times. The people who perform the tasks are no longer regular staff, but the void in service delivery must be filled.

For instance, on-boarding had been one of HR outsourcing's specialties, but in the past 12 months, off-boarding is an outsourced growth area. Previous economies demanded time to bring employees onto company rolls, but excessive layoffs demand talent leaders increasingly shift toward off-boarding expertise. Payroll and benefits remain steady in the number of contracts, while the absolute value to the outsorcing company has not increased.

Internal and customer training in technical and business skills was reduced in line with the wholesale reduction of staff training groups, and the absolute dollars spent in outsourced programs was reduced. However, especially in training, the gap between up-to-date skilled employees and customers influences the operational success of sales, product acceptance and the corporation itself. There are no absolutes in business planning, but it is a safe assumption that untrained employees and customers cannot maximize the introduction of new and upgraded products or releases. No amount of intuition will provide the ROI the supplier or the buyer seeks without knowledgeable staff. Accordingly, there has been an increase in training outsourcing, but not enough to meet the pent-up demand, leading to a gap between the need for training outsourcing and engagement of the service.

Training and learning is seen as an area of growth for outsourcing in the technical and business skills sectors. As internal trainers were being reduced in force, outsourcing companies would recruit them for contract assignments. The growth of a qualified contract base allows the trainer specialist firms to hold on to those skills for distribution back into industry, without the standard overhead and direct costs of having a full-blown learning and development department. Like other outsourcing opportunities, the model of replacing full-time staff trainers in favor of outsourced trainers suggests that services will be delivered when and where needed, with expertise and without direct personnel investment. New customers and internal staff, on the other hand, would need to be trained on everything from products to company culture, from sales and business leadership to product development and adoption.

Five Outsourcing Contract Areas to Consider

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When considering a partnership to outsource one or more of a company's functions, it is important to design and analyze the contract to meet multiple business requirements. All contract points should be synergized to guide the desired outcome based on their collective outcomes.

1. **Service level agreements (SLAs):** An SLA is an official document included in the master contract for an outsourcing agreement that includes a detailed description of services required and level of performance needed. When preparing an SLA, design it to meet the needs for project success in deliverables as well as financials. Set a standard when reviewing potential outsourcing partners' capabilities and making a provider selection. Outsourcing requires a high level of trust, and only with careful planning, monitoring and execution of the SLA will success be obtained.
2. **Legalities:** Hire a legal firm, or use an in-house legal expert to take advantage of his or her experience designing outsourcing contracts. Look for specific verbiage on the contract that covers risk mitigation, change orders, regional compliance issues, delegation of tasks, partial or total delegation, ownership of IP and future retention after the contract term, contract termination measures, transition of tasks, and other items that may be necessary.
3. **Expertise:** The goal is to make the outsourcing process seamless — new assets are just like talent. Whether it's an outsourcing provider's technical proficiency, specific industry niche experience or ability to perform at the expected level, on time and budget, draw on that provider's expertise. If the project will require ongoing compliance to changing laws and obtaining various certifications, engage an outsourcer with a proven track record. The outsourcing partner must be knowledgeable of requirements for initial project phases and have the capabilities and be forward-thinking enough to obtain what the organization needs to remain compliant and on target.
4. **Milestones:** Setting milestone achievements is key in the outsourcing contract. Milestones should involve any and all actions toward specific needs. Product delivery phases, personnel deployment, fee allocations, acquiring specialized permits or certifications, obtaining government approvals and creating valuable training programs are just a few items to include when expecting milestones to be met during contract duration.
5. **Backup plans:** Even after completing due diligence in selecting an outsourcing partner, an organization needs a plan B, or backup plan, as a contingency. In some cases, it may help to have a plan C. Outsourcing partners may be acquired or suffer an unexpected financial decline, even though their past financials reflect a strong position. Unexpected acts of nature, wars, embargoes, natural and man-made disasters, sudden passing of key management figures, and many other factors can contribute to a sudden change of contract plans.

Outsourcing is a necessity today. Enhancing company value to shareholders while focusing on core competencies is a daily challenge. If talent leaders monitor and balance talent assignments, equipment allocation and other assets while performing within financial constraints, with the right preparation, attention to detail and ongoing oversight, outsourcing contracts can become a key business asset. TM

The standard suite of HR outsourcing offerings usually is composed of one or more of the following: payroll, benefits administration, screening, recruiting, on-boarding, off-boarding, organizational development and growth, employee and employer liabilities, and employee assistance. Additional areas include learning and training, background and other identification investigations, governmental compliance and compensation studies.

As internal expertise diminishes, the outsource company takes over traditional HR functionality. Enterprises are no longer relying on their internal resources, either human capital or IT, so in many instances, the value of reduced overhead, up-to-the-minute compliance, best-in-class processes and reliable coverage are enough to encourage the C-level to diminish its own staff.

Benefits are accrued due to the community of expertise located within the outsource team. The caveat is that a master service agreement with applicable service level agreements must be ironclad to protect the company's investment in the outsource organization. Service delivery satisfaction from the outsource source to the company must be clearly defined, measured and addressed for maximum results. Best practice is to have the contract and related documents clearly tied to measureable results, service and ROI.

Tactics for Survival and Growth

The economic downturn has led to outsourcing opportunities based on absolute dollar investment — outsourced level of services and price versus established internal cost. While some companies remain reticent about outsourcing any part of HR's functions, most seem relieved to do so, at least in certain areas, such as training, off-boarding and compliance monitoring. This opportunity — streamlined companies seeking to outsource their non-core functions — is a source of contract growth for the outsource industry. This trend likely will accelerate throughout the recovery, as hiring will focus on core competencies, not on ancillary services once fully operational internally.

It is also assumed that payroll and benefit administration will be special areas of growth, while recruitment and on-boarding may be close behind. As economic stabilization firms, outsourced off-boarding organizations will see a slowdown in their business and likely will change their core competency to on-boarding.

Further, the now pervasive service discounts offered by outsourcing companies will diminish, and a restorative and competitive price structure will emerge. For example, one pricing scenario might be a simultaneous increase in cost for off-boarding in relation to the diminished costs of on-boarding.

The outsourcing adoption of new lines of business while shedding less profitable ones is akin to the Darwinian theory of evolution — the strong survive environmental changes and adapt to the reality of the situation. However, constantly enforcing change in response to economic realities can create entry barriers for new outsourcing concerns unable to acquire the knowledge or staff to efficiently implement new expertise, initiate difficult changes for companies hanging on for survival, and simultaneously force concessions, retrenchment, and new business models for the adaptive survivors. The strongest business model for outsourcing firms is to move with elasticity and alacrity, add customers and services, maintain the bottom line through their own expense reduction, and position themselves for the return of sustainable economic global growth.

> **A return to profitability may not be possible without outsourcing mission-critical services as well as ongoing operations.**

Simply stated, the global economic outlook shapes the outsourcing model as well as the competitive nature of the business. Survival and growth depend largely on the full-service outsourcing company's willingness to temporarily modify its long-term contracts while positioning itself to recapture margins once economic recovery is firm.

There will continue to be mergers and acquisitions of all kind of enterprises, including outsourcing companies, where midsized firms offering similar services will merge with each other or go out of business entirely. For specialty outsourcing firms, the popularity of their particular niche may be the key determinate of their ability to thrive in the current business environment. Generally, the non-core HR services, such as payroll, benefits and safety, will continue to be active. Particularly in the trainer market, the corporations' needs and their ability to internally fulfill requests for skill acquisition and upgrading make survival and growth in this sector viable.

The entire economic interconnected web is influenced every day by market instability and fundamentally upset and reshaped by massive and sustained economic volatility. Outsourcing will see a return to larger contracts and margins in the second half of 2010 while absorbing some of the transformed value of contracts that were renegotiated during the past year and a half. Specialty and niche outsourcing companies, if situated in the most in-demand areas — trainers, payroll, benefits — stand to have an explosive second half of the year. Companies that have neither adapted to the changed environment nor fundamentally reworked their business propositions will continue to lose value and market share. TM

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