

Global outsourcing trends and HRO

With the use of outsourcing growing, outsourcing models and methods are reinventing themselves to adapt to market forces and disruption. To track the ongoing journey of global outsourcing, Deloitte reached out to industry leaders from organizations of various sizes and operational footprints in the Americas, Europe, and Asia. The executives surveyed in our 2016 Global Outsourcing Survey (GOS) represent various legacy functions—including IT, finance, and human resources (HR) — from more than 25 different sectors. Our analysis reveals a vibrant pathway for outsourcing to drive innovation into the enterprise.

In the area of HR Outsourcing (HRO), several relevant insights emerged regarding the state of the HRO market. While HR services are expanding, there is no “one size fits all” for all services in all geographies. More companies are participating in selective outsourcing to extract the most value from the market.

Additionally, survey results show that it is crucial that the organization undergoes constant monitoring to ensure that outsourcing contracts continues to deliver the value that the organization had in mind when originally signing them.

For detailed survey results, visit www.deloitte.com/us/2016GOS.



Global outsourcing perspectives

Zoom in on value

Human resources outsourcing (HRO)

From 30,000 feet

Facing increased pressure to cut costs and optimize HR service delivery models, organizations continue to look to HR outsourcing (HRO) for performance and cost advantages—and the majority of HRO providers are delivering. Such was a finding in Deloitte's 2016 Global Outsourcing Survey (GOS), which polled executives at the front lines of outsourcing and innovation. Some 78% of GOS respondents said their HRO provider either met or exceeded objectives related to cost.

New opportunities are emerging within the HRO marketplace as value extends beyond cost to the enablement of innovation and differentiation. Once defined by large—scale enterprise resource planning technology solutions and multiprocess outsourcing relationships, the HRO of today has shifted to focus on Software as a Service (SaaS) solutions that demand standard processes, employee—centric experiences, and a thoughtful end—to—end service delivery model.

With new paths to value emerging, the HRO industry has experienced solid growth and is projected to increase by 8.5% year

over year through 2019, developing into a \$100B market . This projected growth represents a crucial time for providers to permeate the market. They can also gain market share by offering clients new outsourcing services and additional models to leverage outsourcing capabilities.

Challenges and opportunities

Three areas of focus can help organizations make the most of their outsourcing relationships: Measuring provider performance, developing value—add partnerships, and designing the right HR service delivery model.

Measuring provider performance

To effectively gauge progress and drive long—term success, organizations should regularly assess their satisfaction with provider services, measuring provider performance relative to established standards and target measures. **Of GOS respondents surveyed, only 19% reported a “challenging” or “difficult” relationship with their outsourcing provider,** indicating a general level of satisfaction among organizations outsourcing HR services.

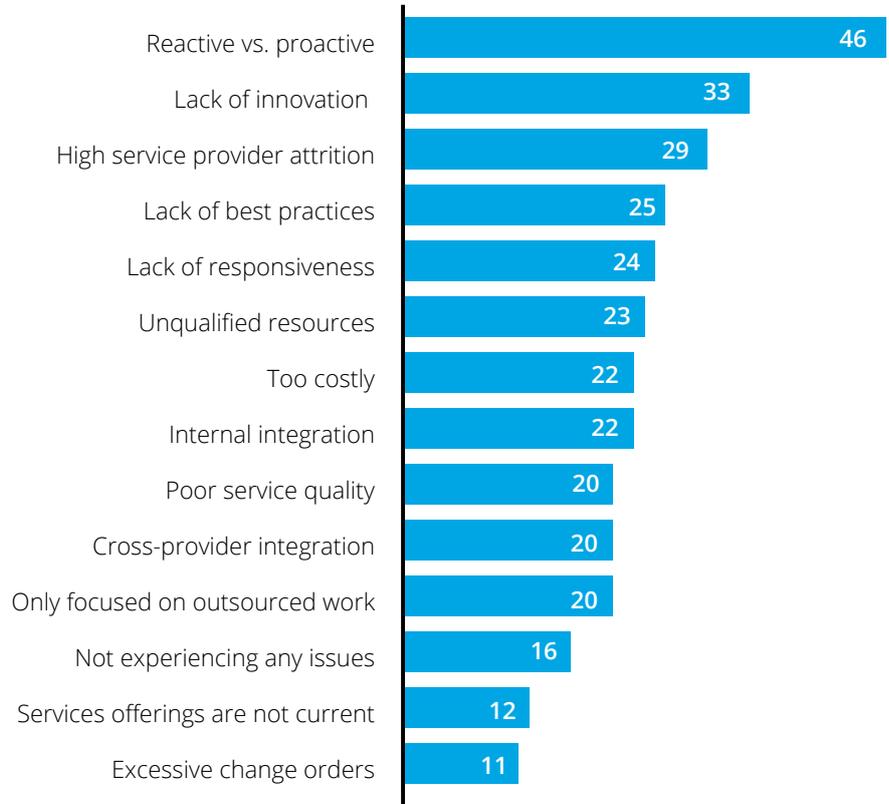
In addition to the up—front challenges in selecting an outsourcing provider, most issues that arise during outsourcing relationships are typically from provider service delivery during an ongoing relationship. **Of the respondents reporting issues with current provider(s), 44% cited their main issue as providers being more reactive than proactive.** This is a common concern among organizations that are looking to their outsourcing providers to proactively address legislation and market changes while bringing innovative solutions to the table to help address organizational challenges.

When asked about innovation, though, 76% of respondents encouraged outsourcers to innovate, while 74% said they do not yet measure the value delivered by their outsourcer through innovation. Though innovation can be somewhat challenging to measure quantitatively, providers who leverage innovation to drive workforce and service productivity tend to be seen as more proactive providers.

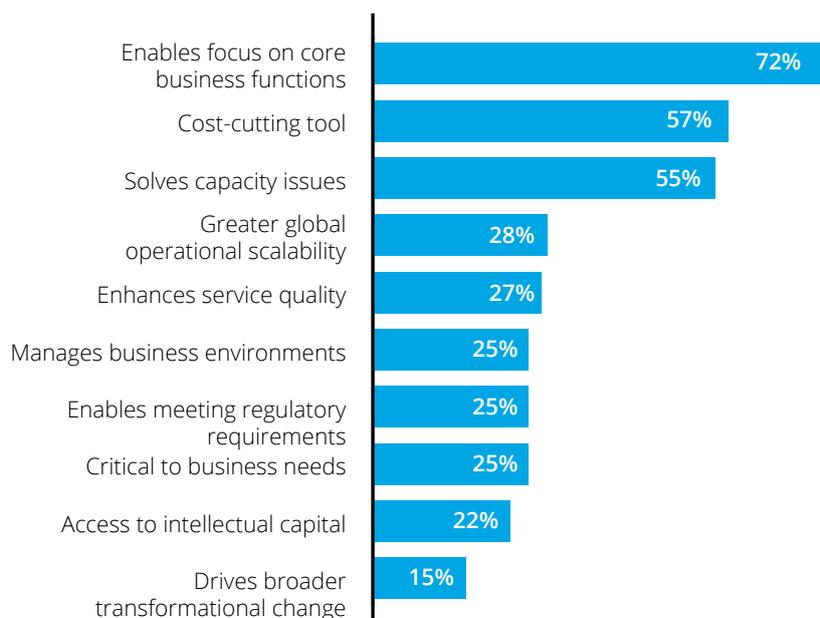
One example of innovation from HR outsourcing providers that has helped evolve the outsourcing marketplace is the adoption of cloud—based solutions and the associated impact on providers' behavior and services. As organizations continue to adopt standard, cloud—based solutions, outsourcing providers too should adapt to this idea of simple and standard, creating the concept of a "build and operate" (rather than customize) model.

The movement toward cloud solutions has started to change the conversation around customization and the desire to become as "standard" as possible. This mentality has affected the new wave of HR outsourcing as well, as organizations continue to seek solutions that offer leading—practice processes, deliver an intuitive employee experience, and are more quickly implemented.

Which of the following issues are you currently facing with your outsourcing provider(s)?



How does your organization perceive the benefits of outsourcing?



Developing partnerships to drive business value

Recent market trends have shown that organizations are continuing to develop their understanding of the outsourcing space, particularly, in terms of HR, according to GOS respondents. **For the first time, “focus on core business functions” was the most important driver for companies, with “cost” falling to second place.** In the HR space, this shows that now more than ever companies are viewing outsourcing as a strategic option that focuses on business value.

As organizations leverage outsourcing to focus on core business functions, more companies are realizing the importance of mutually beneficial relationships with the outsourcing providers they select. Instead of looking primarily at cost in a “race to the bottom” mentality or ignoring misalignment of processes to complete a “lift and shift,” organizations are becoming more strategic in their outsourcing endeavors. They are beginning to ask themselves how they can best leverage provider relationships to drive the outsourcing engagement forward – with an understanding that they are as much responsible for the success of an outsourcing engagement as the provider.

Furthermore, companies appear to be getting smarter about the engagements they enter (both consumers and providers). Both sides are looking carefully at contracts and taking into consideration the overall business value, rather than just the cost savings or profit margin. Gone are the days of “evergreen” contracts, with many companies opting for shorter engagements that offer them more control. This helps encourage providers and companies to work together to ensure the partnership is effective and efficient for all parties from day one.

This trend toward well—defined yet flexible relationships is a key driver for selective outsourcing, as it enables companies to pick and choose the areas where the most value can be gained as they look to build out their individual solutions. As more organizations incorporate or expand outsourcing as a key component of their overall strategy and service delivery model, organizations and providers alike can leverage one another for a more efficient outsourcing experience.

Designing the right HR service delivery model

The organization’s business strategy and HR service delivery model are also creating the decision—making framework for outsourcing. Before moving into the design phase, it is important to evaluate the organization’s current—state model and develop a future—focused plan to be able to meet the business needs and better serve HR customers or employees. During this strategic evaluation, organizations should drive to understand how HR outsourcing fits within the desired future—state model, remaining aware of the change required from today’s environment to achieve the desired state.

By evaluating the appetite for outsourcing or retaining specific services, organizations are able to begin to explore the available outsourcing options and plan for the necessary resources and change management implications. As organizations begin to have conversations with current or prospective outsourcing providers, it is important to have clear objectives and be cognizant about what services are selected for outsourcing. This exercise is heavily dependent upon the HR and business strategy, current capabilities, and the maturity of outsourced services.

A changing mind—set

The competitive landscape for providers is not consistent across the HRO marketplace and varies significantly with the maturity of services. For emerging services, such as Recruitment Process Outsourcing, the marketplace consists of multiple large providers competing against niche players, creating a high—growth environment with continued consolidation. Conversely, providers of commonly outsourced services such as benefits administration and payroll face increasing levels of competition that are driving differentiation and innovation into well—established services. Organizations should take note of the provider marketplace and maturity of outsourced services when designing their outsourcing model.

A key area of concern across the maturity spectrum of service providers is a lack of options around truly “global” HRO solutions. On a global scale, there are very few providers that offer comprehensive solutions given local compliance and regulatory requirements, varying market conditions, challenges in providing a standard employee experience, and difficulty in inclusive reporting. This remains a key pain point for many providers looking for a single formula solution.

As the HRO market matures, some organizations are adopting cosourced or best—of—breed (selective outsourcing) approaches for the outsourcing of core HR functions. If an organization adopts a best—of—breed approach, they often have multiple outsourcing relationships with specialized providers. Instead of adopting multi—process outsourcing relationships or individual relationships to outsource all HR services, organizations can select certain functions to keep in house based on business needs or current capabilities. This flexibility can help organizations approach HRO in new and powerful ways.

Clearly, the “outsource it all” mentality of the past is giving way to more strategic and innovative outsourcing approaches. Organizations are becoming more selective, with many choosing to strategically keep certain HR functions in house and develop internal capabilities. Others choose to bring outsourced services back in house due to quality issues with a provider or a business need for more control. In fact, **out of the 57% of GOS respondents who said they have insourced, 9% of them said it was due to substandard outsourced service quality, while others cited a need for more organizational control, especially over cost or culture.**

In addition to bringing functions back in house, internal HR Shared Services organizations are being scaled up and re-skilled to perform numerous services that had been traditionally outsourced. For example, several companies had chosen to outsource Associate Relations (AR) as part of multi-process outsourcing relationships. Today, however, most organizations are bringing the AR function back under the control of the internal HR function to service employees more efficiently and more closely control company culture and policies.

Bringing it all together

When considering whether to outsource or retain key HR services, organizations should take into account the holistic service delivery model, organizational priorities, and employee experience. They should also consider the cohesive experience for employees as part of their strategy, taking time to understand the various handoffs and creating a smooth transition. Just as importantly, organizations should ensure that the workforce walks away from the outsourcing transition trained and confident about their new knowledge.

Each company has specific needs amid the rapidly growing HR outsourcing market. While cost reduction is still a key value measurement, a more strategic and qualitative focus on HRO is gaining traction. Ultimately, organizations need to find the right mix of services to outsource, depending upon their business strategy, delivery model, and HR objectives. It takes vision and experience to effectively manage the challenges and opportunities emerging in HR outsourcing. If you are looking for ways to navigate the path to HRO value, Deloitte Consulting LLP is ready to share perspective and ideas with you at your request.

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