

# The Start of Something Big

**THE FOCUS OF THIS NEW COLUMN WILL BE ON THINGS WE'D ALL RATHER AVOID THINKING ABOUT AS WE EXPAND OUR USE OF OUTSOURCING. BY NAOMI LEE BLOOM**

**T**here are so many good reasons for outsourcing one or more human resource management (HRM) activities, functions, whole processes, or integrated packages of processes. We can:

- Reduce costs, make them variable with business activity, and create predictable expenses;
- Gain access to best-in-class HRM consulting, programs, and delivery system capabilities whose costs are prohibitive if obtained directly for all but the very largest organizations;
- Gain access to good HRM and HRM delivery system (HRMDS) practices—no one in their right mind shares freely a truly best HRM or HRMDS practice because that's what creates competitive advantage;
- Move more quickly than we could on our own to implement specific HRM and/or HRMDS capabilities that are needed to run the business, e.g. widespread self-service and/or the ability to handle important new programs in variable compensation or candidate sourcing;
- Achieve better service levels than we could on our own, because that service will be delivered by a firm for which that HRM activity, function, or process is their core competency—but care is needed here to select the right metrics and target values so that you don't just hire poor performers faster;
- Eliminate the capital investments needed every year to create and then maintain the state-of-the-art HRMDS that a workforce exposed to Amazon.com and Landsend.com has come to expect;
- Gain immediate access to that state-of-the-art, highly automated HRMDS without having to construct it for the first time—and without having to understand in detail how it's constructed, supported, and evolved;
- Free up valuable management attention to focus on running the business; and, going a step further,
- Reduce the time, expense, risks, and distractions of directly managing a portfolio of outsourcing relationships and integrating a portfolio of HRM delivery system components through more integrated business process outsourcing.

Outsourcing sounds like a pretty good idea, and it is, as long as your provider can deliver the expected/promised benefits. To make all of this work, and produce the

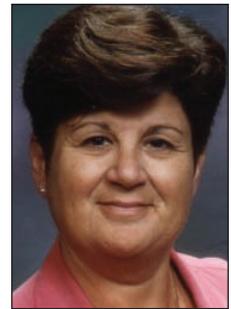
benefits for which we've signed up, our providers must be able to deliver the promised services (1) profitably for them (or they won't be providers for very long, and that means big disruptions for us) and (2) at an acceptable price and level of benefits for us (or we won't sign up in the first place). And these services must also be delivered with good data security and privacy, with flexibility to address our special and future needs, with full regulatory compliance, with constant improvement of their offering, etc. Yes, providers, must deliver, and therein lies the catch.

All of the good things promised by outsourcing providers of technology-enabled HRM activities, functions, and processes depend on the capabilities of their software. The breadth, quality, and cost-effectiveness of their services, now and in the future, depend on what that software can and cannot do—or cannot do easily. Customer satisfaction, at least in the short run, can sometimes be achieved, even when the underlying software is poor, by heroic feats performed by committed staff members, but this is done at a very high cost that translates into low or no profitability for provider—and this manual approach isn't robust, scalable, or sustainable. In the end, whether you insource or outsource, the devil is in the details of the software.

What it can do easily and well, you or your provider can do at a manageable cost and with predictable service levels. What it can't do easily or well holds us and our provider hostage. Those business applications software components constitute the outsourcing provider's manufacturing process; the more robust and appropriate the software, the more likely the provider is to be successful. And appropriate is important here because software must not only be designed to "manufacture" specific capabilities but must also be appropriate to a target market, economic/business model, technology environment, etc. The devil is indeed in the details.

## ASSESSING THE SOFTWARE

As though we don't have enough to do, we must add one more section to our outsourcing evaluation process entitled "Assess Provider's Underlying Software." In this section, we will consider not only the software's current capabilities but also its underlying architecture because it's the architecture that provides the clues to what that



Naomi Lee Bloom, managing partner of Fort Myers, Florida-based Bloom & Wallace, may be reached at 239-454-7305 or naomibloom@mindspring.com.

software will be able to do well and/or easily in the future. Whether the provider has developed their own custom applications software or licensed someone else's for their business, you the buyer need to care about that applications software—all of it—although not in the same way as if you were planning to license the software for in-house use. The assessment of a provider's manufacturing capability, i.e. of their applications software, can safely leave out many IT issues of concern when insourcing. Compatibility with your internal IT infrastructure, the selection of reporting tools, and direct integration across business applications are all important when insourcing, but they are outside the scope of consideration when outsourcing.

#### BE DETERMINED!

But you cannot leave out the determination, within the proposed scope of outsourcing, whether or not the provider's software can actually deliver your needed business rules, content, embedded intelligence, and business processes—at least to the extent that the provider offers to accommodate these. If you're a very small company, you know that you'll have to live with whatever the outsourcer offers, but it's still useful to know how much work you'll be doing to work with or around that standard offering.

No problem, you say. I'm a global 2000 company with my own HRMS license which I'm conveying to my selected provider as part of an HRM BPO deal. They'll be running my HRMS for me (but interfaced or integrated with their other HRMDS components), and I'll have already determined that I made a good HRMS choice and have implemented it successfully. Well, think again. Can your provider achieve all of the promised benefits and savings, now and into the future, if they must run and upgrade constantly one instance of software and surrounding support services for each of their clients? Was the software you selected for in-house use designed to be run in an outsourcing environment, for example, can it run one-to-many? Did you make your HRMS selection on the basis of your internal IT infrastructure compatibility issues rather than on the basis of which HRMS software might be the best fit for you over the long term?

Even for those very few large organizations that can find an HRM BPO provider who will take over, even buy, their current applications software portfolio, the long-term success of your provider will be determined by the suitability for BPO of the software you chose and, even more importantly, how well you implemented it, again for BPO.

**In the end, whether you insource or outsource, the devil is in the details of the software.... What it can't do easily or well will hold you and your provider hostage.**

Before you reach for the Tylenol, and courtesy of *HRO Today*, help is on the way. In this column in the months ahead, I'll be discussing the most important characteristics that you should look for in the applications software of any provider of outsourced HRM activities, functions or processes—and in the applications software that you've licensed and plan to turn over to a BPO provider as part of the deal. The list isn't very long of the most important of those characteristics in terms of the provider's ability to deliver high-quality, low-cost services, but it's a very powerful list.

#### WHERE TO BEGIN?

Should we tackle first the proper handling of contract workers? Here's a hint: you don't want them stuffed into an employee data base with only arcane status codes to distinguish them. What about automated retroactive processing in this era of retroactive regulatory changes, retroactive union contract provisions, and just plain late everything? One sure topic will be the cost-effective processing characteristics of applications software that's intended to be run to serve many customers.

And then there's ensuring that the software can handle today's organizational structures, including multiple concurrent reporting relationships, teams, and matrixed

organizational designs. Since the data being managed by your outsourcing provider is part of your organization's larger data management and analysis picture, we'd better make sure that the provider's software can support competency-centric HRM processes if we think that's important. So many places to look, and so little time, so let's begin at the beginning: self-service. Because it's to achieve self-service for one or more types of events that many of us turn to outsourcing in the first place.

Of course we want self-service! It improves service levels very directly, lowers costs, increases speed-to-outcomes when managers are engaged through self-service, etc. Providers love self-service because it really reduces their costs of delivery. So where's the catch here? When self-service is done well—with sufficient effective-dated embedded intelligence and point-of-sale content (including essential regulatory content) to satisfy the user and avoid errors, misunderstandings, omissions, and regulatory gaffs—all of the expected benefits accrue to both customer and provider. But when it's done badly, as simple transactions, not only are more frequent and more complex calls placed to the call center (or, worse yet, to both the customer's HR staff and the provider's subject matter experts), but many of the resulting problems aren't known until they've really escalated.

Consider the manager about to conduct an applicant interview who isn't forcefully reminded of the questions she must not ask in a particular cultural or regulatory context. Consider the employee who did an address change but wasn't told that his HMO would not provide coverage to his new address and he learns of the problem when he brings his sick child to his old HMO's location. And let's not forget the manager who approves overtime for one of his employees without realizing that the labor laws for that state placed lower than Federal limits on overtime for workers of a particular age and/or doing particular kinds of work.

Self-service without embedded intelligence and content produces costly-to-correct side effects. Whether those side effects are borne by us or by our providers, they are not going to help us achieve the business

benefits for which we outsourced in the first place. So perhaps we'd better look very carefully at the extent and intelligence of the self-service capabilities promised by any outsourcers under consideration.

You're absolutely right when you observe that the focus of this column is on things we'd all like to avoid thinking about as we expand our use of outsourcing. Can't we just let the providers worry about the quality and capabilities of their software? Isn't one of the rea-

sons we're outsourcing in the first place to get out from under all this technology stuff? Yes, yes, and yes. But unless you're outsourcing very discrete HR functions (e.g. tax filing and/or EAP) to firms that have done so for enough years to have demonstrated their ability to do it well and profitably, you are likely to be a fairly early adopter of outsourcing services from the many newer providers or of the expanding services by established providers where there just isn't

enough of a track record yet to allow you to assume away an interest in their software. Caveat emptor.

Until next time, I leave you with the following diagram—part of a set of three—that I use to explain the HRM delivery system graphically. This is the platform view, which identifies the software and data bases which are at the core of the HRM delivery system. Feel free to contact me with your thoughts about the diagram—or this column. [HRO](#)

## HRMDS—Platform Component View

