

The What, Why, and Why Not of HRM Outsourcing

By Naomi Lee Bloom



Every time we buy something that is a product or service, we are engaged in outsourcing, so it should come as no surprise that all public and private sector organizations outsource extensively and are always looking at new ways of doing so. Within our own human resource management (HRM) domain, when we consider the broadest possible definition of HRM to include everything we do to organize, acquire, deploy, develop, assess, reward, lead, coach, support, inform, and equip a cost-effective and productive workforce, there are so many good reasons for outsourcing one or more functions, whole processes or whole packages of processes with integrated delivery. *Assuming that we select the right provider, negotiate the right contract, and manage that relationship effectively* – it is a surprise that we don't do more of it.

Human resource management outsourcing isn't new, but there is something very new about comprehensive HRM business process outsourcing (BPO). With greater speed than we went from mainframe to client/server to Web architectures for our HRM software, we're going from outsourcing individual functions and small processes to separate providers and then interfacing them to our own HRM delivery system (HRMDS) to outsourcing such a comprehensive set of HRM processes to a single provider that we are also turning over the primary responsibility for our HRMDS to that comprehensive HRM BPO provider. And that is very big news with very big consequences. Because once you've gotten out of the business of creating and sustaining your own HRM delivery system (HRMDS), especially for larger

organizations, there are substantial costs to changing comprehensive HRM BPO providers, let alone retaking responsibility for your own HRMDS.

No text could provide all of the guidance you need to address the what, why and why not of HRM outsourcing, let alone to whom and with what business terms. Furthermore, every consideration of these questions must be grounded in the specific nature of your organization's business strategy and needed outcomes; HRM strategy and needed outcomes; HRM policies, plans and practices; current HRM delivery system, and all of the issues/challenges you face in each of these areas. But we can certainly provide guidance on how to think about the what, why and why not of outsourcing and offer some of the questions that, when answered, will guide you to the when and to whom.

THE "WHAT" OF HRM OUTSOURCING

There are four major types of outsourcing that are relevant to HRM, and they constitute the "what" of outsourcing:

— HRM expert resources outsourcing, whether delivered as a finished product or as consulting services, and whether provided by individuals or a firm that only does this type of outsourcing or by a firm that engages in more IT-enabled HRM business process outsourcing;

— HRM IT outsourcing (HRM ITO), whether delivered by a firm that only does this type of outsourcing or by a firm that also provides IT-enabled business process outsourcing;

— HRM business process outsourcing (HRM BPO), which is pre-

sumed to be IT-enabled, at least to some extent, and delivered by a firm which may well offer HRM expert resource consulting and/or HRM IT outsourcing; and

— Comprehensive HRM BPO, which is increasingly delivered by firms that may also provide expert resource consulting, IT outsourcing and/or more bounded HRM BPO.

With HRM expert resources outsourcing we may be asking a provider to help us design a compensation plan, develop a staffing strategy or provide specific e-learning content. We may be getting a team of expert resources to help us develop our own HRMDS strategy and/or to help us to determine when and to whom we should be outsourcing HRMDS components. Whether delivered as a finished product, e.g., a stock training video, or via consulting services, e.g., actuarial consulting on our pension plan, essentially all organizations engage in this type of HRM outsourcing. However, there is little or no integration needed between these vendor-provided products and services and the overall HRM operating model or delivery system's software platform except to ensure intellectual integration with the rest of our HRM policies, practices and plans. An exception would be that e-learning content must be delivered across our e-learning infrastructure and, therefore, must comply with those technical standards.

Not so with either HRM IT outsourcing (HRM ITO) or HRM BPO, for here the products and services provided by the vendors are woven into the very fabric of how we do the HRM business and, therefore, into how the organization's overall business is con-

ducted. With HRM ITO and/or HRM BPO, we are often betting the business on the performance of our selected vendors and, therefore, on how effective we are in selecting and then managing our relationships with those vendors.

With respect to HRM ITO, we might outsource:

- Applications software development and enhancement via the licensing of packages or subscribing to relevant Web services;

- Applications software implementation and maintenance support through consulting contracts with systems integrators;

- Infrastructure management and maintenance when we use traditional IT outsourcers to provide that infrastructure on a utility basis or when we license or subscribe to applications software that is hosted either by its owner or by a third party ASP; and

- Pre-integration of application software components when we license not just a single HRM application, but an entire suite of HRM applications and, perhaps, many more of our core business applications from a single enterprise applications suite vendor.

Many organizations that do operate their own HRM delivery system (HRMDS), as described in Figures 1-3, which is nearly everyone who doesn't move to comprehensive HRM BPO across most of their HRM processes, don't realize that, by licensing vendor software to create their HRMDS platform, they are adopting that vendor's vision of the HRM business. If that vendor hasn't provided for support to contingent workers or doesn't envision an individual holding two part-time positions with different but complementary work schedules (as in retail, health care and branch banking), then your ability to support such HRM practices will be hampered. Therefore, even when just outsourcing the IT work associated with your HRMDS, it's critical to get a good fit between your software vendor's HRM vision, processes and data design and what's needed to run your own organization.

But when organizations outsource at the HRM function or process level, the impact on their ability to execute

HRM practices that aren't supported by their selected provider(s) is much greater.¹ The best licensed HRM software can usually be configured to do what you need it to do, but in their need to reduce their costs, few outsourcers provide that degree of configuration flexibility as regards to their offering. Thus, with outsourcing of business functions or processes, it's even more important than when licensing software to make sure that there is alignment between the HRM vision, practices and processes supported by the provider and what you need to run your business.

Here, too, it helps to look at the different ways that the business processes themselves can be outsourced, to include:

- Functional outsourcing, where discrete and quite narrowly defined functions (applicant background checking, traditional payroll service bureau gross-to-net calculations, or tax filing) are performed by the provider in response to information we provide, returning results that we approve and/or use as we choose, and for integration with the rest of our HRM process model and the HRMDS we are responsible for;

- Business process outsourcing, where more broadly defined and even grouped functions (benefits administration or complete payroll processing) are performed by the provider with considerable control over how they respond to the relevant business events, a more extensive bi-directional information flow, the expectation of extensive customer contact support in addition to self-service, the responsibility for acting upon the intermediate results as appropriate to the process and interacting as needed with other third parties, while we continue to take responsibility for data and process integration with the rest of our HRM process model and the HRMDS. This is a particular challenge where employee and manager self-service are involved; and

- Comprehensive HRM business process outsourcing, where the breadth of data and processes supported by the provider are sufficient to shift to the provider — and this is a *major* shift — the primary responsibil-

ity for the HRM delivery system's software platform (to include most but not necessarily all of the software involved), customer view (to include most but not necessarily all of the self-service and customer care capabilities), and a good bit of the people and processes of the operating model view, e.g., the customer care center, shared services in support of the delivery system's software, and center of excellence in HR operations.

Although HRM functional outsourcing and BPO are well established, comprehensive HRM BPO is a relatively new except for those smaller organizations that have always met their HRM needs via the totally comprehensive HRM BPO provided by professional employer organizations (PEO). Perhaps the most important developments in HRM outsourcing over the last few years have been the growth in the number of providers, the breadth of covered processes being offered, and the range of target markets served by comprehensive HRM BPO. But regardless of the success of comprehensive HRM BPO, which is still a territory of early adopters at the high end of the market, or how much they rely on HRM expert resources outsourcing, each organization clearly retains the responsibility for defining and executing its own HRM strategy, business rules, HRM practices and key strategic processes, e.g., identifying high potentials, not to mention having to select, engage and manage all of their outsourcing relationships. And the responsibility for determining by what metrics they will run their HRM business, regardless of who provides or manages the underlying data, rests squarely inside the organization.

THE "WHY" OF HRM OUTSOURCING

With this greater precision about the various types, the "whats" of outsourcing, and always assuming that any outsourcing we choose will be done well, we can begin to select the right type of outsourcing to achieve specific HRM objectives, where those objectives may include:

- Reducing HRM costs, make them variable with organizational

activity, create predictable expenses and, in some cases, turn in-house facilities, staff and intellectual property into revenue-generating assets;²

— Gaining access to best-in-class HRM consulting, products and/or programs as well as delivery system capabilities whose costs are prohibitive if not obtained through HRM BPO for all but the very largest organizations;

— Moving more quickly than we could on our own to implement specific HRM and/or HRMDS capabilities that are needed to run the organization, e.g., widespread self-service and/or the ability to handle important new programs in variable compensation or candidate sourcing;

— Achieving better and more sustainable 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 real care is needed here to select the right metrics and target values so that, for example, your selected provider of outsourced staffing processes doesn't help you to hire poor performers faster and at lower cost;

— Eliminating the capital investments needed every year to create

and then maintain a state-of-the-art HRMDS, where the standard for what the workforce expects is being set by their experience with such commercial Web sites as Amazon.com and Landsend.com;

— Gaining access to good HRM and HRM delivery system (HRMDS) practices — no one in their right mind shares a truly best HRM practice with potential competitors because that's what creates competitive advantage;

— Gaining 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;

— Freeing up valuable management attention to focus on running the business; and going a step further,

— Reducing the time, expense, risks, and distractions of managing directly a portfolio of outsourcing relationships and integrating a portfolio of HRM delivery system components through comprehensive HRM BPO.

It's clear that HRM outsourcing, including when used as an HRMDS deployment tactic, can be used to achieve many objectives. However, achieving these objectives depends

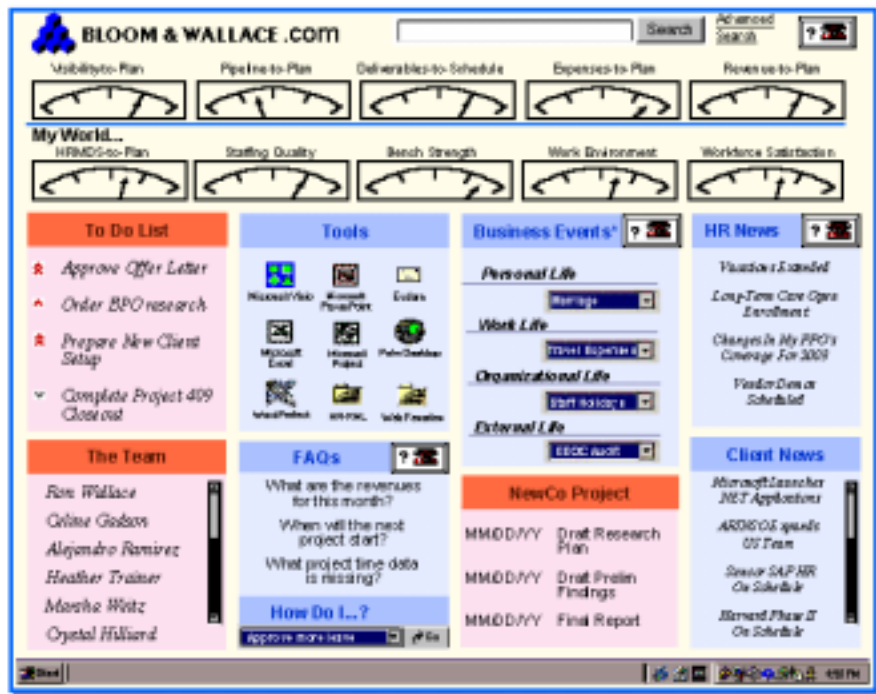
on selecting the right type of outsourcing for the benefits sought, selecting the right provider, negotiating the right contract, including the service level agreement, setting realistic expectations for the benefits sought, and most importantly, on whether or not the selected provider is able to deliver the expected benefits. With so many "ifs, ands or buts" between you and a successful outsourcing experience, and with outsourcing on every business leader's mind, we need to get in front of the likely questions and issues before our own CEO or HR executive asks, "Why don't we outsource HR?"

“WHY NOT OUTSOURCE ALL OF HR?”

To answer this question, and not with outrage or fear, we first need to understand why we are even getting this question? One reason is that the real "costs" (total cost of ownership) of a contemporary and effective HRMDS have escalated tremendously as the performance bar has been raised. We've gone from having a back office system for personnel record-keeping, payroll and some benefits administration to wanting and need-

Figure 1: HRMDS - Customer Self Service View*

- Everyone
- Anywhere
- All The Time



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* Includes HRM Business Events

ing an HRMDS with role-based intelligent self-service, integrated customer care services, analytics, support to all of our strategic HRM processes, and the ability to integrate many processes across our entire workforce rather than just for employees — and that’s just for starters. Clearly, only the largest and most IT-savvy organizations can afford and have the talent to design, develop, operate and sustain this type of HRMDS. Furthermore, as we’ve expanded our use of outsourcing across HRM, the portfolio management, vendor management and systems integration challenges of piecemeal HRM BPO, to include acquisition of software and becoming our own systems integrator and shared services provider, are outpacing our capabilities in these areas. The difficulties of coordinating and managing many standalone service level agreements (SLA) is becoming a serious business risk.

Perhaps even more relevant to why this question is being asked now is that the importance of excellence in the HRMDS has grown as self-service exposes our HRMDS problems to every employee, and management relies much more directly on strategic HRM

processes and related analytics. As with corporate IT capabilities, HRMDS talent shortages and retention challenges have grown as talent moves to those vendors, consultancies and BPOs, which can offer greater career opportunities to the very best people in this field. Add to these consciousness-raising factors the broader discussion about doing more with less, aligning whatever HR does more closely with the business, and aligning HR’s IT strategy with that of the larger organization, and no competent CEO can avoid asking about comprehensive HRM BPO. And let’s not forget the influence of the market on our executives, who are bombarded with marketing pitches from all those who stand to gain from the expansion and success of that comprehensive HRM BPO market.

YOU NEED FACTS AT YOUR FINGERTIPS!

To address these questions, we need to have the right facts at our fingertips. Long before management raises these issues, and just to manage effectively our current state HRM business processes and HRMDS, we’d better have answers to the following:

— What are the HRM business

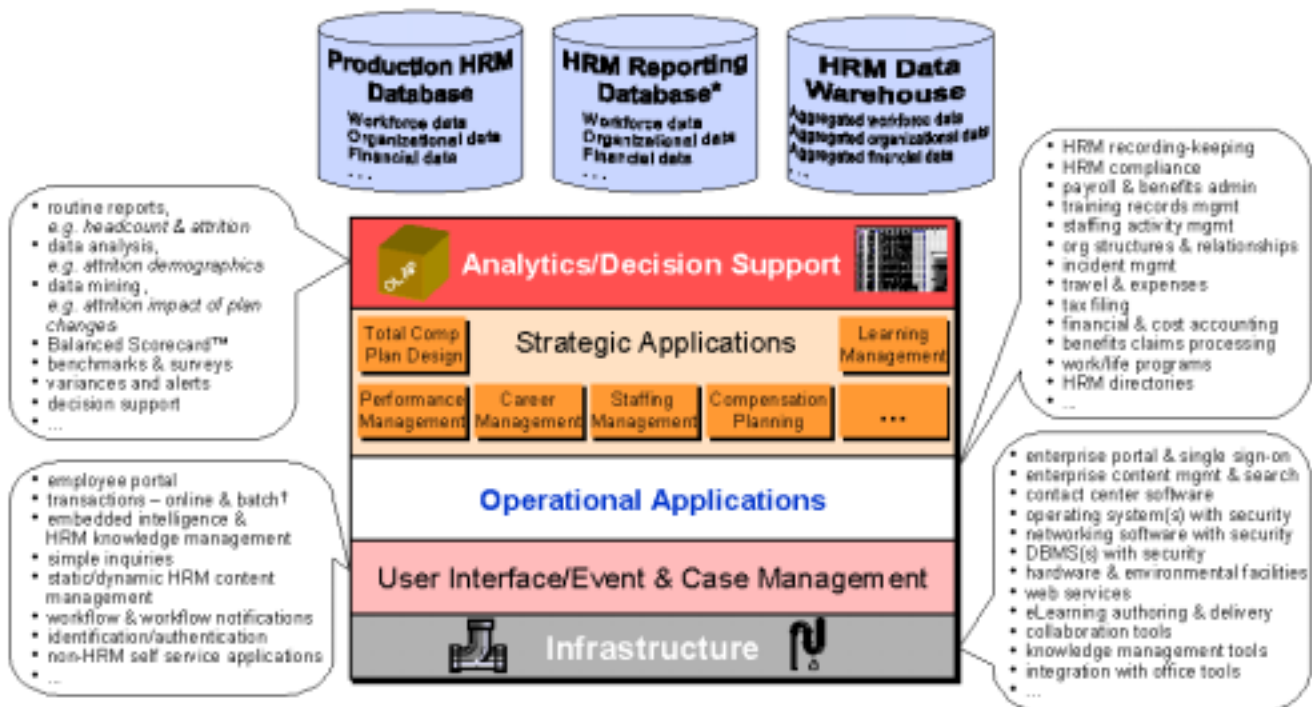
outcomes to which all HRM processes and the HRMDS must contribute to the achievement of? How are these intended contributions going to be made and when? At what levels of investment for what target values of the HRM outcome metrics? And who is accountable for what outcomes?

— What would the HRM processes and HRMDS need to look like to achieve these business outcomes? How does this future state of our HRM business model compare to our current state HRM business model? How does this future state HRMDS compare to our current state HRMDS? How are we planning to close the gaps? What are the benefits of closing the gaps? Are they sufficient to warrant the planned effort? Can we afford that plan?

— What are we outsourcing now and to whom? HRM policy/program design? HRM program administration? Litigation support? Software development? Systems integration? Hosted delivery of software (ASP)? Individual or integrated HRM processes (BPO)?

— What are the total life cycle costs and expected benefits of each outsourcing arrangement? Have those benefits been realized and/or have

Figure 2: HRMDS - Platform Component View.



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*Supports all outbound data exchanges.
 †Supports all inbound data exchanges.

those costs been exceeded or under run (as if this ever happens)? And don't forget the costs to enter into and then manage those outsourcing relationships as well as to integrate the results of those outsourcing relationships into our own HRM business model (both current and future states) as well as into our own HRMDS (current and future states).

— What other services do our current providers offer that may be of interest? Have any of them expanded their services in areas where we now use a separate provider?

— Why would we continue using separate providers in place of a more integrated offering from a single provider? Why would we hesitate to put more eggs in the same basket? Do the benefits of a more comprehensive HRM BPO approach more than offset the risks? At what point do you consider an integrated approach assumes responsibility for the bulk of the HRMDS platform and much of the operating model?

— What processes aren't we outsourcing currently that could be candidates for outsourcing? Why are they being done in-house now? What would need to change (in our business, our thinking, our culture, our processes, our systems, etc.) for us to consider outsourcing these additional processes? Would such changes help or hinder us in meeting our business outcomes?

— What processes do we consider off-limits for outsourcing? Why? What would need to change (in our business, our thinking, our culture, our processes, our systems, etc.) for us to consider outsourcing these processes? Would such changes help or hinder us in meeting our business outcomes?

— What are our true, *fully-loaded* enterprise-wide costs for conducting the HRM business? Have we remembered to include all of the time spent outside of the HR organization by those engaged in the HRM business, e.g., the time spent by managers to understand the practices involved, conduct, record, review, approve, etc., performance reviews and the time spent by employees to understand the relevant business rules, apply for, and schedule vacation time?

— What is the relationship between those costs and various surrogate measures of organizational activity, e.g., headcount metrics, and organizational outcomes, e.g., revenue metrics? What is the relationship between those costs and our required HRM business outcomes?

— Would more or less outsourcing affect those costs in a positive way without adversely affecting the quality, timeliness or other important measures of process outcomes? Would more or less outsourcing affect those costs without adversely affecting our required business outcomes?

— What are our decision criteria for when, how, to whom and with what SLAs we will outsource each type of HRM process? What is our decision criteria for collections of HRM processes and integrated collections of HRM processes to include shifting major responsibility for the overall HRMDS to the provider?

— Who makes these decisions? Are there any pending opportunities to influence them?

— How do we decide on the scope of each outsourcing relationship? Are we inclined toward one-off or more integrated arrangements? Why or why not?

— How do we manage these relationships? What are the performance incentives? Are there any problems with these relationships? What problem resolution techniques are we using? What problem resolution techniques should we be using?

— What is the HRM business model (domain model) against which we consider processes for outsourcing? Is it sufficiently granular to eliminate ambiguity in the definition of what services we are including and not including in any specific SLA? Does it match each SLA already in place? What, if any, changes are we or should we be considering in our HRM business model and, therefore, in the related outsourcing relationships?

— What is our process for monitoring the financial and market health of our providers? Are we the first to know if there's a pending merger or acquisition? Are we the first to know if there is a management change or a change in their offering? Are there new providers we should consider?

— Are we investing enough in our competitive intelligence effort versus the risk of not doing it well? Are we able to monitor the financial health, market performance and future direction as needed to ensure the success of our outsourcing relationships? Do we know where our providers fit within the larger competitive landscape? Are there any changes or expected changes? Are they to our good or not?

— Would we be better able to achieve our HRM business outcomes with the capabilities of our HRMDS enhanced by further outsourcing? Would we be better able to achieve our HRM business outcomes by using more integrated outsourcing? If not, why not?

BRING ON THE PROPOSALS!

With all of this information available as background, we're now ready to consider any and all HRM BPO proposals that surface. These can be either ones we've solicited in an orderly way or ones which have shown up from aggressive vendors soliciting business as "bright new ideas" gleaned by our executives from the latest conference or trade show. The proposals could have been generated out of the peer-to-peer interactions between our HR executive and a colleague who has just signed up for comprehensive HRM BPO and would feel a whole lot better if their decision were supported by the similar actions of their colleagues. Unsolicited proposals or ideas can be quite vague as to the "what, why and how," and only formal proposals will contain a single "as to whom." Using the material discussed above, you now know how to get really clear on the what and why, but there remain many further questions for which answers are needed to explore the "how" and "to whom" and whether or not the overall proposal or idea is a good one.

Regardless of where the HRM BPO proposal or idea originates, and with the information described above truly at our fingertips, let's consider the broader issues before we get lost in the weeds:³

— Is this outsourcing idea/proposal compatible with our strategic

business and HRM plans, e.g., to improve our use of competencies in our strategic HRM processes, or is it intended to address temporary tactical problems, e.g., our reluctance to invest in the next upgrade of our core HRMS during a weak economy?

— Are the outsourcer's employees (or our employees "sold" to the outsourcer) going to give us better service than our own workforce did, even in the face of tight deadlines and downward pricing pressures? Why? How?

— How will we develop excellent HR generalists, specialists and vendor life cycle managers if we accept this outsourcing idea/proposal? If the provider is "hiring" our staff, how will we gain an increase in their proficiency?

— How will we control costs with sufficient granularity if the provider bundles everything into one fee?

— What are the implications of this outsourcing idea/proposal if we merge with another organization that is our size?

— What are the implications of this outsourcing idea/proposal if another organization wants to buy us at an attractive price? Are there any unattractive contract buyout provisions?

— What are the implications of this outsourcing idea/proposal if we sell off peripheral businesses and focus on our core business(es)? How are contract fees adjusted when business activity slows and/or we downsize our workforce or when we grow and/or business activity quickens?

— How do we know that these financial projections are real and accurate? Why would we expect them to be? What assumptions, which are simplifying, optimistic or just plain misleading, have been used to prepare these numbers?

— Since change is a sure thing, how can we be sure that the proposed outsourcing contract will protect us as much as it protects the outsourcing provider when change happens?

— What changes will our employees notice? Will our managers notice? Will these changes be received as positive? What's the upside and downside of their reactions?

— Will our best HR and HRMDS staff walk out on us the minute they sense the intent of this outsourcing idea/proposal? What's the upside and downside if they do?

— Why is this being discussed/proposed now? What's the impetus for

this outsourcing idea/proposal? Is the timing convenient with respect to our HRMDS planning cycle, budget cycle, organizational change cycle, etc.?

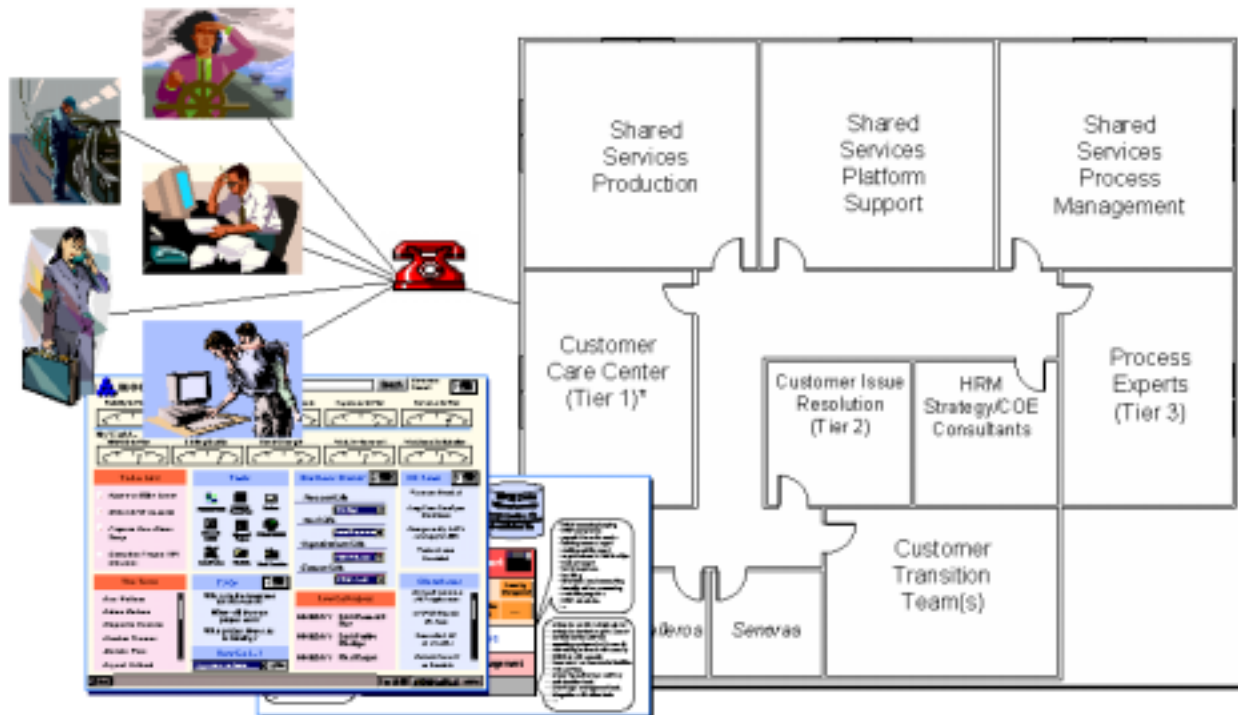
— Who's going to manage the performance and financial aspects of this outsourcing idea/proposal to ensure that we achieve the intended results? How? Do we have the people, processes and technology to do this effectively? What would it take to put those people, processes and technology in place? Has this been factored into the business case of this outsourcing idea/proposal?

— What if the outsourcing provider we select is then acquired by an outsourcing provider we rejected because of their management style, ethics, customer service track record, technology, geographic coverage, etc. How easily can we "escape"?

— Frankly, how can we escape from any comprehensive HRM BPO provider, among many other considerations, when a full self-service roll-out is part of the idea/proposal and any change to that roll-out, e.g., to another provider's self-service software, would be visible to and disruptive of our entire workforce?

— If we accept this idea/proposal,

Figure 3: HRMDS - Operating Model View.



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* Where Tier 0 is self service

is there any going back once it's implemented? If we change our minds in two or three years, what's involved in bringing this activity, function, process or integrated processes along with the relevant HRMDS components in-house? What would it take to move to another provider once we're implemented? Are we really going down an irreversible path here? Do we care?

— Has our lawyer negotiated at least as many HRM outsourcing contracts as the outsourcing provider's lawyer? Do we have the legal and vendor management horsepower needed to make this work for us?

— Where will our HR executive, CFO, CIO, etc. be five years from now? Would they be as enthusiastic (or as unenthusiastic) about this proposal/idea if they were going to have to be judged long-term on how well this works for our organization?

— What impact would implementing this idea/proposal have on meeting our organizational and/or HRM business outcomes?

— Is the cost of getting there, i.e., to an improved HRM process or set of integrated processes and related HRMDS components, justifiable in terms of achieving those business outcomes or is this primarily a cost of doing business, i.e., a fix-the-roof investment?

— Is the impetus for this idea/proposal contained in an investment plan to bring our current HRMDS to the standard needed to sustain our business? If we took a hard, careful look at what's really needed in our HRMDS to support our business outcomes, would we be shocked by the investment needed?

FINAL THOUGHTS

Many, if not most, organizations will have much to gain from comprehensive HRM BPO, especially as the provider landscape matures, if they select the right vendor, enter into the right contract, and then manage the relationship effectively. However, just like many in-house HRMDS implementations that have overemphasized the administrative aspects of HRM and under-invested in the more strategic HRM processes in the past, I am seeing a repeat of this short-term

thinking in the move to comprehensive HRM BPO, and by both the providers and their early clients. Presumably strategic, comprehensive HRM BPO deals are focused heavily on the basics, at least initially, and that's absolutely understandable. Unfortunately, these initial business rules, data structures, workflows and broader process designs, although able to deliver vastly improved administrative services metrics, are not always designed with sufficient attention to their foundational role in unleashing and supporting strategic HRM. The consequences of this shortsightedness are just around the corner for the earliest adopters. If you never enabled competency-centric HRM processes, if you didn't design your data and coding structures with sufficient granularity to support teams and role-based processes, if you didn't lay out your strategic analytics as part of the service level agreement, you're in for some substantial rework. So my final thought is that you should consider long-term HRM business outcomes and their HRM business model needs sooner rather than later when considering any outsourcing activity.

ENDNOTES

1 For more insight into the importance of your outsourcer's platform, please consider reading my column, Tech in Bloom, in each month's issue of *HRO Today*.

2 In the early stages of developing their comprehensive HRM BPO offering and delivery capabilities, a number of major providers "lifted-out" entire corporate HRMDS, e.g., ACS with Motorola and IBM with P&G, to include their staff, facilities, software and software licenses, etc. This approach gives the corporate sellers an opportunity to commercialize their investments, which are usually huge, in these assets while becoming the startup or very early client of a provider that is willing to offer up-front and/or ongoing payments in return for these assets. From the seller/customer's perspective, this would seem to offer continuing service by their own employees even as the buyer/provider needs to reduce their labor costs and utilization

in order to be successful. From the buyer/provider's perspective, this would seem to offer a very rapid time to market even as their future success depends on having a delivery capability that is as standardized and operationally efficient as possible, instead of the usually highly configured and company-specific delivery capability that they have "lifted-out." This is saying that one company's excellent HRMDS does not necessarily represent an outsourcing provider's desired HRMDS.

3 Some of these thoughts have been adapted quite loosely from an excellent article by M. Arthur Gillis, "Should You Outsource?" in *American Banker*, 12/20/02.

Naomi Lee Bloom, managing partner, Bloom & Wallace, is a renowned consultant and recognized thought leader throughout the HRM delivery system industry. She has worked as a change agent and process coach for many complex organizations, using information technology to achieve breakthroughs in their HRM business. She has also been an advisor on product direction and positioning for most of the leading vendors in this industry, including Oracle, SAP, PeopleSoft, Authoria, Exult, Ceridian, Mellon HR & Investor Solutions and Microsoft Business Solutions. She has been a consultant to the HR-XML Consortium, using her HRM Business Model "Starter Kit," which has been licensed by many HRM software vendors and outsourcing providers, as input to their HRM data exchange standards projects. A frequent author and speaker, Ms. Bloom wrote Human Resource Management and Information Technology: Achieving a Strategic Partnership and writes a monthly column, "Tech in Bloom," for HRO Today. Her current research interests are: (1) the delivery system enablers for the full range of human resource and enterprise performance-enhancing practices; (2) integrated HRM business process outsourcing; (3) competency-centric human resource management; (4) developing object and XML standards for HRM; and (5) putting intelligence everywhere in the HRM delivery system. Prior to founding Bloom & Wallace in 1987, Ms. Bloom, who holds an MBA from Boston University, was a senior principal with American Management Systems. In 1995, her contributions to the industry were recognized by IHRIM's Summit Award. She can be reached at naomi-bloom@mindspring.com.