



OUTSOURCING

BY NAOMI LEE BLOOM

Historical Inevitability

More and more C-level executives will see the historical trend away from in-house HR and toward outsourcing wherever possible.

At *HR Executive's* 2003 Technology Conference, I made the startling (to some) prediction that, by the end of this decade, the dominant deployment tactic for the human resource management delivery system, or HRMDS—including the processes, people and HRM technology—would be via a long-term, comprehensive HRM BPO relationship with a single provider.

Many industry thought leaders disagreed then, and disagree now, with this prediction, but I am more convinced than ever of its validity. Except for those locations throughout the world where labor laws so constrain labor arbitrage and where privacy laws so constrain the movement of HRM data that the needed cost model for success in this business just isn't achievable, I really think the discussion will move very quickly from "should we or shouldn't we" to "with whom should we?"

Rather than try to persuade you to this point of view, I've summarized here the observations that led me to this prediction so you can draw your own conclusions.

First, a little history. In the mid-'60s, I began my career writing commission accounting software at a large life insurance company. My colleagues and I conceived, designed, wrote, debugged, documented, implemented and maintained all of our employer's business-applications software, learning as we went. Except for some early technical journals and the occasional conference, there were no industry mechanisms for leveraging the learning of other organizations, let alone for leveraging anyone else's

computer code. Fortunately, the business rules of the day were quite stable and the manual processes were quite rigorous—at least at my employer—so we could "automate in place" and



pray for no material changes to either.

In a similar do-it-yourself way, our organization selected, operated, and even built some of its own computer hardware, with some help from hardware manufacturers on installation and maintenance. HRM policies, plans and programs were designed, developed, implemented, administered and evaluated by our organization's own personnel staff. Our HRMDS was entirely manual (if you include punch cards) except that, as in other large organizations, we had begun to automate payroll.

It was a simpler time, before 401Ks, 360s and HSAs. We managed without the instant connectivity of wireless phones and instant messaging, and with only flat files to meet our data-management needs. With very few technology options and far less HRM complexity, especially regulatory complexity, it really didn't matter that only the largest organizations could afford to use computers in HRM—or so we thought until ADP was founded to provide payroll software, regulatory expertise, and computer access for everyone else.

Except for the hardware manufacturers, large end-user data-processing organizations were the centers of gravity for the best and brightest programmers, procedures and operations staff. Except for a few university professors, large corporate personnel departments were the centers of gravity for the very best thinking in personnel. And companies like my employer were the major sources of innovation in all of these areas. (Frankly, no one was more surprised than I was when our two-character year

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code innovation was identified as the cause of the great "Y2K crisis.")

By the mid-1980s, complexity had increased tremendously in every aspect of HRM, as well as in our technology choices and their operational requirements. Business-applications software packages, written for the mainframe beginning in the early 70s, had really caught on, even though most corporate IT shops still thought they could do better.

With the introduction of the PC by IBM in 1981, organizations of all sizes now had access to application-software packages that were designed, developed and maintained by vendors (think outsourced development), and they drew upon a range of systems consulting services to help them select and then implement those packages. Similarly, organizations of all sizes were using lots of consulting help to select, purchase/lease, and install their IT infrastructures. And by the

mid-1980s, the HR/personnel department was also using very specialized outsourcing providers for pension administration, EAP programs, payroll processing and even tax filing.

With this growth in complexity, in both IT and HRM, it's not surprising that specialized vendor and consulting organizations emerged, with their concentration of talent and career opportunities, to help design those HRM programs, plans and practices, to design and build those packages, to help us select and then use those packages, and to help us select and operate our IT infrastructures. Gradually, the centers of gravity for the best and brightest programmers, operations staff and HR people—and for their innovations—moved from the end-user organizations to those application software vendors, HR consultancies, functional HR outsourcers, systems integrators and IT outsourcers. For these

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firms, the business of HRM and IT was their speciality, and they provided, in many cases, our best career opportunities.

HR and IT management had made the business case quite easily for that first or second round of automating the HRM delivery system, by eliminating roomfuls of clerical staff (round one) and some data entry staff (rounds one and two), and by increasing management's span of control (primarily round two). Those were hard savings, but they were quickly overtaken by the need to keep those packages upgraded, to accommodate increased demands as our organizations began to appreciate what information systems could do, and to cope with new regulatory demands when governments at every level saw in that automation the ability

to administer increasingly complex labor laws.

By the mid-1980s, the great debate of buy versus build — which began with the release of the first HRMS (think payroll plus) packages in the early '70s—was over except for the shouting, and buy had won by a landslide. By the '90s, most HRMDS were cobbled together from multiple packages (run in-house and ASP), interfaces to myriad outsourced functions, amateur call centers and lots of hard work. Is it any wonder that the few HRM professionals who remained in end-user organizations—i.e. those who hadn't been downsized or left for what they thought were greener pastures—were feeling overwhelmed?

It was clear by the late-'90s that the costs, risks and

complexity of creating and operating our own HRMDS, including selecting and managing relationships with packaged software vendors, ASP-delivered software vendors, EAP providers, background checkers, tax filers, and benefits administration providers, etc., had gone through the roof, especially when you considered pulling all those interfaces together into a coherent self-service experience. The C-suite had no patience left for HRMDS business cases explaining why the HR department needed more money, more time, more vendors, consultants and outsourcing providers, just to sustain the HRMDS when the important HRM issues were getting short shrift. And we're talking here about organizations with very little HRMDS talent

left, and with their limited IT talent focused elsewhere.

Missed the Boat

If some missed the boat of technology change, from mainframes to client server, from hierarchical to relational data structures and from green screens to windows, which of today's HRMS and ERP software vendors, not to mention functional outsourcers, will miss the boat of deployment tactic change, from licensed software to software by subscription and from in-house deployment to comprehensive HRM BPO?

Is it any wonder that the promise of comprehensive HRM BPO to reduce costs and make them variable with business activity, to improve service levels and take measurable accountability for them, to free up the few HRM folks left to address the real people issues of the organization, and to ensure that the HRMDS' use of technology was state-of-the-art was music to the ears of the C-suite? Is it any wonder why some pioneering end-user organizations believed that comprehensive HRM BPO, leveraged in the same way as functional outsourcing and IT outsourcing, could bring even greater benefits of economies of scale and concentration of expertise than they could sustain on their own? Is it any wonder that CFOs facing capital outlays for more HRM software ("what do you mean we don't get all the self-service stuff under our existing license?") demanded bullet-proof, hard-dollar-savings ROI calculations? And that was before the next architectural generation—often called Web services—called for yet one more reimplementations of our applications.

For all of the legitimate concerns about privacy, security, flexibility, long-term pricing, reliability, etc., comprehensive HRM BPO is the logical next step on a journey that began decades ago when my large corporate employer stopped writing its own file-handling routines and used some written by IBM. The very forces that pushed us from custom to packaged business applications, and then from stand-alone HRM applications to comprehensive suites of HRM applications, are now pushing us from our patchwork-quilt HRMDSs to comprehensive HRM BPO. The very factors that make it so difficult for end-user organizations to create, maintain and operate the much-needed, state-of-the-art HRMDS are making it very attractive for comprehensive HRM BPO providers to do so on behalf of multiple clients.

There are sure to be some train wrecks, and some hot providers of 2004 will be only distant memories by the end of this decade. Exult, which created the comprehensive HRM BPO business, has already been acquired by and folded into Hewitt. It won't be easy to create a set of durable providers for each major market segment and geography, including global, whose business models and HRMDSs can meet reliably ever-more demanding service-level agreements while generating both revenue growth and solid profits.

But such providers will emerge, and I am confident that the dominant HRMDS deployment tactic by the end of this decade will be to outsource much, if not all of it, to these comprehensive HRM BPO providers.

But which providers will be left standing? It will be those with the best combination of HRM process knowledge, BPO-ready software, HRMDS design and IT operational expertise, labor-arbitrage capabilities and management team—and a little luck. Since these winning firms are becoming the new centers of gravity for many of our best HRM, IT and operations professionals, not to mention the clients for Bloom & Wallace, we'd all better check on the flight schedules to Bangalore.

Naomi Lee Bloom, managing partner at Bloom & Wallace, is a consultant and thought leader throughout the HRM delivery system industry. She has worked as a change agent and process coach for organizations including Cisco, Suncor, Harvard University, General Mills, International Paper and Hewlett-Packard.

She has also been an adviser on product direction and positioning for vendors including Oracle, SAP, PeopleSoft, Authoria, Exult, Ceridian, Mellon HR & Investor Solutions and Microsoft Business Solutions. Bloom 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, Bloom is the author of *Human Resource Management and Information Technology: Achieving a Strategic Partnership*.

She holds an MBA from Boston University, was a senior principal with American Management Systems and in 1995, her contributions to the industry were recognized by IHRIM's Summit Award.