



Analyst Naomi Bloom explains why she thinks business-process outsourcing will soon be the dominant form of HR delivery—and what companies should do to avoid getting burned.

Some analysts question whether HR business-process outsourcing really is the wave of the future, but Naomi Bloom is not one of them. Bloom, managing partner of the consulting group Bloom & Wallace in Fort Myers, Fla., has been an energetic proponent of HR BPO for several years, going so far as to predict that within the next five years, HR BPO will be the primary form of human resource management delivery.

Never one to mince words, Bloom is familiar to many HR executives through her regular appearances on the Industry Analyst Panel at *Human Resource Executive's* HR Technology Conference®, where she has captivated the audience with her witty and observant takes on the state of HR technology. Bloom recently spoke with Special Sections Editor Andrew R. McIlvaine about the myths and predictions surrounding HR BPO.

You've said that you see HR BPO as the next logical step in an evolutionary process that began when companies started buying HRM software packages from vendors instead of developing their own. Yet other analysts believe it will only be part of the HR landscape, a tool that may fit some companies better than others, and that many firms might be reluctant to outsource so many important processes to a single vendor that could be acquired or go out of business. How do you respond to their arguments?

First, I'd ask them to go back and study history. It's not that there isn't any custom-built software being built today—a lot of companies are building or adding things here and there. Custom code has not evaporated from planet Earth. But by and large, when we think of HR delivery systems today, we expect that the bulk of the software development has been outsourced to package vendors and systems integrators, and that's the way it'll be with BPO. The core delivery system will be available on a subscription basis, surrounded by people—also used on a subscription basis—who do a range of BPO work. The center of gravity changes.

This is really profound: When the center of gravity changed from custom to packaged software, you didn't know it was happening until after it had happened. Many of the best software people moved from corporate settings to package vendor and system integrator settings, but you still had people who understood how to care and feed for SAP. Today, many corporate IT organizations don't even know how to do that. That's not the only reason. Think about the amount of technology required to keep you functioning: Palm Pilot, laptop, digital camera, cable television—the average person still cannot program a VCR, but everyone wants technology. Making it all work together, ironing out the kinks—that takes specialized expertise, and fewer and fewer companies can afford that expertise on their payroll. They're going to save their expertise for their core business.

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For something that's talked about so much, the number of companies that have actually contracted with an HR BPO firm is still fairly small, at 50 or so companies so far. Do you expect this number to grow rapidly in the next couple of years?

Those numbers you're speaking of are deals at the high end of the market. Let's say the high end is *Fortune* 500—that's a huge percentage in a very short period of time. In the period from 1972 to the end of that decade and into the '80s, most of the *Fortune* 500 had held on to their custom HRM software. So this is good progress in a short amount of time.

But don't forget other deals that are happening outside the *Fortune* 500. Look at Ceridian, at what they think of as their comprehensive outsourcing—that'd be another 50 to 100 deals, and these are clients with 5,000 or so employees. Then add in the analogous deals ADP has been doing—comprehensive BPO deals—and they've got another 50 or so medium-sized companies. Then look at vendors like Platform One and HR Excel, and what you see is that while the excitement and press has been focused on the big deals, a lot of other stuff has been going on quietly. I think that many so-called pundits are missing an awful lot of activity that's not flowing as visibly as some of the bigger deals. And we're going to hear about a lot more this year.

Do you believe the BPO phenomenon is surrounded by too much hype?

Yes, if by hype you mean ill-informed, poorly written, self-serving, sales-oriented gobbledygook—yes, absolutely. Between so-called research from the IT analyst community that's often paid for by specific BPO providers, sponsored journal articles and conference presentations, not to mention books being written by BPO executives—all of which is as questionable in its objectivity as drug research paid for by the drug companies, although not without considerable value—we haven't yet gotten to the point where there's as much substantive, thoughtful analysis as there needs to be. However, if you read carefully what's coming out on this topic from multiple sources, even less-than-objective ones, and then synthesize and triangulate, it's very possible to discern the real patterns in service offerings, platform decisions, pricing, provider momentum and so on.

On the other hand, do companies tend to have much too high expectations concerning the benefits they expect to gain from HR BPO?

There are naïve buyers out there who think this is the solution to mankind's problems. There's this idea that “I can farm out my mess without understanding my mess,” which is just

ludicrous. You also need to research the vendors. Just as in any other field, it's buyer beware. I feel strongly that as part of the due diligence you must do when considering BPO, you need to

develop a set of scenarios and literally have each provider run through them.

Here's one example: You're an advertising firm and you require candidates to submit a portfolio of their

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work along with their employment history. Some things in a portfolio can only be submitted physically. Well, how does the proposed provider hook together in its recordkeeping the physical thing with the electronic application? That would be a scenario. It's really no different than using scenarios to see how software per-

forms, only now you're not just testing the software but the vendor's business process. Scenario testing is how you educate yourself. It reveals whether or not the provider can do certain things better than you.

How do you see HR BPO faring in the middle market?

It's going to be great. Accenture launched a middle-market initiative in October. Aon just launched its own middle-market initiative. There's plenty of people already there. But you're talking about a huge number of potential customers, and they're really distinguished more by their degree of complexity than size. I think HR BPO

will fare much better in more complex companies regardless of their size.

One of the major drivers for outsourcing is the scope and complexity of your HRM delivery system—it's more costly to support when it must support many types of employees, many geographies, extensive strategic HRM, complex compensation plans that differ by line of business, etc. If you don't need a complex HRM delivery system, there's less advantage to having someone else run it.

I always use this comparison: Take two companies with 5,000 employees, each located in the same town. One is a landscape-maintenance company, with many part-time employees—their HR policies are pretty straightforward. They don't need complexity. Now consider that same number, 5,000 people, in a software-services company, and it's totally different. Their needs are going to be more complex, and HRM BPO is going to be more economical for that company.

What criteria should companies use in finding the best HR BPO provider?

There's a number of things that need to be looked at. First, who are the people who are actually going to be delivering the service? In the end, it's no different than picking a system integrator, or picking a wife: It doesn't matter if her mother was lovely, it's what *she* is. All too often vendors will send in their best and brightest to do the spiel and close the deal, but you need to know who the real people are who will actually be working with you once the deal is closed, and that's why you do site visits, meeting with the people who are hands-on with other clients, and you take the measure of them. Another area, of course, is scenario testing, ensuring that the service you need will be delivered in a very repeatable, well-documented way.

Another factor is how much they're investing in their delivery capability versus their marketing and sales efforts. One of the toughest things to determine is, Who's going to be left standing? How do you spot the losers? Some clues are when HR BPO is not central to their business, it's not getting the investment it needs, the provider isn't taking on lots of exciting new projects and customers. And, when you look at the details of new customers, find out what they've really signed up for. Some firms don't really do payroll. Well, if you can't do payroll, you're not going to be in this business a long time. Also, find out things like, How do they make money? What are they doing that we can't do for ourselves that's going to make them money? If they're running on lousy software that they're paying too much for, they're not going to be successful. If the HR community is going to be any good at this—and they must be—picking winning providers and crafting

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partnering agreements will be core competencies. One of things HR folks have to do is dig in and learn about HRM BPO, whether they want to or not.

necessary for getting the same or even greater results. When we're able to, in a digital way, move the remaining people to lower-cost locations, we

disintermediate more people in the United States, and that's just life, folks. We could be doing more in terms of public policy that would mitigate what's

happening, but yelling and screaming about it won't change anything. However, there will always be a well-paid need for those HR professionals

You've written in the past that "there are sure to be some train wrecks" concerning HR BPO. Easy for a consultant to say, but what about a potential client that can't afford to be in one of those train wrecks? What might a train wreck involving HR BPO look like and how can a company avoid ending up in one?

Train wrecks are going to come in several different flavors. There are going to be situations where a provider did the deal, can't make money on the deal, tries to re-do the deal and either loses its shirt or loses the customer because the customer gets mad. There's going to be others where the deal isn't clear: "I thought I signed up for A, B and C, and I'm not getting C." There's going to be situations where the provider switches from one software system to another, as Fidelity is doing in moving from Oracle to HRAccess, and although Fidelity's got plenty of resources and probably doesn't have to worry, many times when a provider changes software in mid-stride, that can cause a train wreck.

Think about the software community: Does anyone remember some of those old vendors, once thriving, now dead as doorknobs? That happens all the time during the early stage of an industry, and this is a new industry. It's important to pay attention to the likely success of the vendors you sign up with: Do they have a good management team, good service, are they carefully selecting customers, do they have a reasonable plan for making money? One thing that amuses me is the rush into this area of IT outsourcing firms that think they can do this easily. It's not the same thing at all.

There's a lot of concern, particularly among lower-level HR staffers, about what HR BPO means for them. Based on what you've observed so far, does HR BPO mean many people will have to find new jobs at different organizations? What's typically left behind after a company outsources to an HR BPO provider?

Well, they should worry, because most of the work they do is either being automated or moved offshore, whether by their own companies or via outsourcing. In any case, they're going. Sorry. It's happening in every field. What happens is when we apply technology in ever more sophisticated ways, we reduce the number of people

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who are either process experts or great consulting generalists, and many of those positions will remain in-house.

A Towers Perrin study on HR BPO found that although companies felt they were achieving most of the cost savings they'd sought, they were mostly disappointed in the areas of service quality and time

savings. Does this spell trouble for the market?

The Towers Perrin study—well, I think two different things were going on. In some cases the survey respondents said they wanted cost savings and took the lowest-cost offer, and got cost savings. [Then they said] “But

wait, that's not what we really we wanted!” The other thing is, there really are service and time problems and part of the reason is people never did scenario testing. If we are so foolish as to set an unachievable service-level agreement, well ... in many cases, these SLAs are really stupid. They focus too much on things

that are easy to count rather than things that matter. If I'm trying to fill a position, it doesn't matter how many applicants I see or how soon I can fill the position, but did I get the right person? But there's often no SLA that measures that.

And it's also a start-up problem, it's a new industry. Moving down a new path is complicated and scary, and mistakes will be made. The first time I went sailing, I loved the experience, but I experienced it when someone else was [piloting the boat] and had no idea of the really hard work that goes into it. It's the same with BPO. Exult has done well because it had a tough-as-nails management team, and when they saw something or someone that wasn't working, they cut their losses and moved on. That's what smart companies do. I think for anyone in a BPO relationship, a year into that relationship they've got to step back, look at the agreement and say, “Given what we now know, is this still working?” and, if necessary, adjust the agreement to allow for the growth, the change and the learning. That means

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that BPO agreements must allow for those assessments and adjustments.

Two further thoughts: First, at the heart of the HR delivery system are people, processes and technology. The successful BPO providers are the ones that get pretty much enough of each of those things right. As a prospective buyer, I need to look at all three of those dimensions. Second, even well-intentioned people tend to be optimistic if they're in sales and pessimistic if they're in delivery. Since most of the people you talk to until the agreement is signed are in sales, and then most of the people you talk to are in delivery, you get this schizophrenic shift, and I think we can do more as an industry to get people ready for that emotional shift. You bring the shiny new thing home and plug it in and you get a weird error message you're not prepared for. If you knew that was going to happen, or had someone holding you by the hand, you'd get through it without too much pain.

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