

Evolution and Revolution in HR Outsourcing:

What Companies Do and Don't Learn from Themselves and Each Other



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About the research

There have been numerous research studies and reports on the evolution of the business process outsourcing industry. There is great wisdom from this macro-economic approach to the outsourcing evolution. Conversely, few, if any, research efforts have focused on the “micro-economic” study of how outsourcing of key internal functions spreads within an organization that buys one outsourcing program and what happens if they decide to engage in other outsourcing initiatives.

In this research, sponsored by Guidant Group and conducted by The HRO Today Institute, we set out to understand how outsourcing evolves and spreads through an organization, theorizing that out of the first one or two outsourcing experiences and implementations a map eventually emerges. We compiled and analyzed secondary research and then conducted a series of 25 in-depth interviews with both human resources (HR) and procurement professionals in leading global organizations. We tested our theory in two related processes, recruitment process outsourcing (RPO) and managed services programs (MSP).

Our supposition was that as an organization experiences success in one process it builds on that success, expanding its outsourcing geography through relatively clear, ordered paths.

However, after investigation our original theory was proven wrong. Through the evaluation we gained invaluable insights into how that evolution impacts current and future HR services outsourcing. The evaluation also led us to understand what organizations can do to discipline themselves to be more successful at the adoption of second and third outsourcing programs.

Several key issues stood out among all that we learned:

1. Without an internal champion, an outsourcing program is destined to underperform, if not fail.
2. Over time, through various outsourcing programs, buyer companies tend to learn about buying outsourcing, but do not transfer knowledge about the governance of outsourcing programs.
3. Workforce planning and management is not seen as a single effort applying to all critical “labor pools.” Many companies manage their permanent and contingent labor as two separate pools, though many providers offer both services. While companies recognize that many functionalities are similar in dealing with permanent and contingent workers, they have not merged these efforts.
4. There is no consensus on whether to acquire technology from an outsourcing provider or not, though all buyers feel technology is a key to success. Perhaps, more pervasive, is the belief by HR that they use little of the technology capabilities of the software they acquire from any source.



We also learned several things about the evolution of outsourcing within an organization. First, we found there is very rarely a direct route from one outsourced process to the next, and most often the decision to outsource one process is completely independent of another. This suggests an opportunity for companies to adopt a holistic business model approach to external services that would, certainly, improve outcomes.

And finally, we discovered that even as the outsourcing industry solutions sets are evolving and developing, individual customer organizations go through their own evolutionary process. Regardless of what's come before, while they can – and do – benefit from others who have been there before, each organization still has its own distinct developmental path. Each customer has to develop through their own unique experiences.

The results of our research analysis provide insights into the evolution of outsourcing within an organization and a view to future expectations, including:

- Program evolution and characteristics
- How outsourcing in RPO and MSP impact total workforce planning
- Technology and outsourcing evolution
- External forces impacting outsourcing evolution

Industry Evolution

As we noted at the outset, RPO and MSP have gone through their own evolutions. Some form of outsourced recruiting has existed for many years at least since the early 1970s when search firms such as Hiedrick and Struggles and Korn Ferry launched. However, the RPO industry as we know it today began gaining its current traction in the 2000s with the explosive growth of big tech companies, and the exponentially growing need and competition for tech talent. Added to these economic forces was a trend toward reduced general and administrative spending leading to outsourcing in all areas of business such as IT, finance, and HR. The concept of outsourcing as part of the internal recruitment operations became not only acceptable, but economically desirable.

From there, the RPO industry has evolved from identifying and sourcing talent to performing those tasks with the added challenge of containing or reducing costs. And the industry continues to progress as new technologies bring ongoing change, and the employment environment drives the need for new programs and services that balance cost and value and encompass the broader talent management landscape.

Managed Services Programs have developed significantly in the past decade, as well, growing quickly from its roots in temporary staffing. The last decade's growth in the use of contract talent (CT), its broader acceptance in the global workplace, and the wide variety of contract talent solutions – contingent workers, independent contractors, freelancers, temporary help, statement-of-work contractors, interim executives, consultants, etc. – make effective management of CT both more vital and more difficult. By consolidating resources, MSPs are able to develop and apply technologies and expertise that individual organizations can't bring to bear on their own, a need that will only grow in the coming decade.

Program Evolution

In reviewing the results of our discussions with buyers of outsourced HR services, we found two universal trends:

1. All organizations go through stages of development, or generations of outsourcing;
2. Each developmental path is unique.

Outsourcing development within an organization is much like childhood development: although endless numbers of children have come before, each child still has to go through the same developmental steps, and in a specific order. You can learn from those that have come before, but that doesn't enable you to skip from toddler to teen. Similarly, although lessons from those that have come before may help to ease the outsourcing journey, our research shows that each organization still goes through the developmental steps, generally in order, and one at a time. We say that in spite of organizations learning from some of the more critical lessons available from past experiences.

At the same time, while each organization has to go through the same developmental journey one step at a time, its actual path is unique. We found myriad reasons for this – the organization's own history (venerable old brand vs. upstart tech concept vs. amalgam of mergers and acquisitions), its global footprint, and its unique character, just to name a few. As a result, although every organization is looking at the same developmental map, they all take different journeys in reaching their destinations.

Generational Characteristics

Something we found interesting in our discussions with leaders at organizations all along the developmental path is that there are broad attributes that can characterize generations of outsourcing. The generations themselves aren't common – they can't be determined by the age of the contract, or even the number of times contracts have been renewed. But the broad outlines of generations reveal themselves based on the characteristics of the relationship.

Gen 1 Outsourcing: Limited understanding of real need

The first generation can be characterized as **“we don't know what we don't know.”** This is not to say, of course, that first generation buyers tasked with sourcing partners often don't do the proper research, and aren't knowledgeable about their own organizations and about outsourcing. So often it is more about knowing what is necessary than any willful ignorance of proper preparation. Rather than learning from others (through personal networks or professional associations), like the childhood development analogy, these companies have to experience it to truly understand it.

RPO and MSP – talent sourcing and management – are complicated programs, with a wide variety of nuanced, and sometimes overlapping, services. Even after some research and with some level of experience, it can be difficult for buy-side organizational leaders to know exactly what they need. For example, RPO providers tell us that they regularly field queries from organizational leaders seeking RPO services, but after discussion it appears they are instead looking for a “recruiter on demand” service. And to complicate matters, some providers may offer this kind of program, while others focus on end-to-end talent management programs exclusively.

Furthermore, in this first generation, organizations often **struggle to identify and target their real need.** Many buyers told us that, contrary to their original expectations, once they got deep into program analysis and launch, cost savings was a secondary goal to coordination, consistency, and compliance. Of course, the expectation is that outsourcing engagements will ultimately lead to cost savings, but many found that the cost savings goal moved down the list in the first generation of their programs.

Relatedly, nearly all of the buy-side executives we spoke with indicated that ultimately they **weren't thoughtful enough about exactly what they should outsource**, and so they made significant errors in what they outsourced in the first generation. For example in spite of the HRO industry's failed early efforts to “outsource my mess for less,” organizations continue to outsource broken functions in hopes that the service provider could fix them. These companies eventually realized that failure to recognize their true internal capability, coupled with the other first generation growing pains, often unduly burdened a fragile developing outsourced program.

Other companies outsourced high-volume or the most challenging job families only, contrary to the original plan, again failing to take advantage of the full opportunity presented by outsourcing. In some cases this selective assignment of jobs or higher than anticipated volumes was burdening the provider with unexpected program costs, increasing the likelihood of failure and complaints from line staff.

Although few will be surprised by this finding, our research also confirmed that the first generation is often characterized by a **resistance to change** in the buyer organization. Although buy-side leaders don't always portray problems as change management issues, our review of our conversations uncovers common change management challenges:

- Resistance among some in HR to “give up” what they view as their core competency;
- Resistance among hiring managers to accept and implement changes in talent acquisition and management processes;
- Resistance among procurement staff to recognize differences in sourcing and negotiations for large scale program driven services versus inanimate objects;
- Resistance among organizational leaders to fully embrace and support the transformation their organizations needed in order to realize the benefit of the outsourcing program.

This resistance to change, and the limited attention paid to planning and implementing effective change management initiatives, is more common than one might anticipate, and it adds to the struggles companies experience as first generation outsourcing buyers.

Finally, an interesting characteristic of the first generation that emerged from our conversations was that early outsourcing contracts tend to **place the full burden of proof of effectiveness on the provider**. Many of our respondents noted that, in retrospect, they had essentially left the provider to prove, on their own, the effectiveness of their programs. Even those buyers who had worked through long and difficult negotiations, who had made decisions they were happy with, who had developed good relationships with their providers did not, in turn, serve as internal champions for their outsourcing partners. They expected the provider to take on the full burden of proving the value of the contract.

Gen 2 Outsourcing: Clearly developing picture of uses and benefits of outsourcing

A main characteristic of the second generation is that buyer executives begin to **develop a clear picture of the most effective use of outsourcing** and its buyer-specific benefits: “I think as you move forward and mature and start getting some of that information, you, quite naturally, start to focus on the areas that really need attention. These realizations drive both the engagements we have with the supplier and also revisions to SLAs and KPIs, because we use those to incentivize both parties to focus on the right things.”

Each organization in the study found a unique answer to implement the changes referenced above. Some realized they did not want end-to-end or “full service RPO,” but instead wanted to focus on specific areas, such as high volume positions, executives, specific skill sets, or geographies. Others realize they do need to expand their programs and take advantage of full-service RPO services. Still others moved to add or remove geographies. The permutations are endless, but the commonality is that nearly every company made significant changes in their outsourcing programs – up to and including changing providers – in the second generation.

As we noted above, the need to control, or more likely reduce, costs never goes away, so **continuous improvement in cost and service** is a key characteristic of the second generation. And these targets present a greater challenge in the second generation as the “low-hanging fruit” may already have been picked: “When you move from a cycle time of 120 days and get it to 60, clearly you’ve made an enormous change. However, just sitting at 60 is not acceptable, so we expect continuous improvements with tenure and learning and the ability to focus on those things.”

As buy-side organizations become more sophisticated in outsourcing, their expectations of their providers grow broader. Buyers in this generation expect a **deeper, more collaborative relationship** with their providers based on both the buyers’ better understanding of how to work effectively with outsourcing in their organization, and the providers’ understanding of each buyer organization’s unique characteristics.

Specifically, Gen 2 buyers are looking for:

- **Best practices.** Buyers expect their providers to share the best practices they have developed and seen in their work across a broad range of buyers, industries, geographies and situations.
- **Market intelligence.** With a view into broad markets and the distance to recognize and evaluation trends, providers have a somewhat different vantage point than do most buyers. Buyers want their providers to share market intelligence, and, further, to help them understand how they use that intelligence to improve talent performance.
- **Process innovation.** Even beyond best practices, buyers want the latest innovations that will help them outpace their competition. Buyers look to their providers to bring innovations that they could not otherwise develop on their own.

Buyers also expect providers to be **more proactive, strategic and insightful** in their thinking in the second generation; they believe that providers should understand the business well enough to come to the buyer with insights.

Whereas in Gen 1 buyers characteristically place the entire burden of program effectiveness on the provider's shoulders, the second generation generally sees a dramatic shift, where a **buy-side program champion** emerges. There is recognition that the burden of proving effectiveness lies with both parties: "What we've learned is that it is equally important to position the vendor for success as it is to hold them accountable." This champion takes on the role of liaison or intermediary, helping the provider navigate internal logistics and politics. At the same time, the champion serves as change management and program leader internally, driving more effective use of the contracted program.

Given the often dramatic differences between Gen 1 and Gen 2, we found that it is very common for buyers to **change providers** from the first generation to the second. Almost 100 percent of the buyers we interviewed that were in their second or later generation of outsourcing had changed providers. This change was often because the buyer simply believed they had outgrown the contract and could not get what they wanted for the future from their first generation provider. According to our findings, a change in provider did not automatically signal unhappiness with the service provided.

In summary, the most compelling difference between Gen 1 and Gen 2 buyers was the appointment of a champion as a role with a defined mission and accountabilities as an ambassador and problem solver to internal stakeholders. This change coupled with the general learnings about focus and preparedness is clearly part of the reason for success of Gen 2 programs and the continued evolution to buy more outsourcing services.

Gen 3 and future: Consultative service

Gen 3 buyer organizations with the most outsourcing experience look to their providers to offer a more **consultative service** to their outsourcing programs. Clearly they continue to have the same expectations they had in Gen 2 – ongoing cost and service improvements, insights, and market intelligence. Many of these buy-side HR executives are being asked to expand their internal "service offerings," and they are looking to their providers to assist them in achieving that goal:

- **Labor consulting.** Increasingly, as organizations become more complex, more global, and more extended, many are looking to their HR staff to serve as labor consultants. HR will help business unit leaders make decisions about the best types of staff at the best price. "We [HR] are being asked to be labor consultants rather than just an FTE fulfillment shop." This represents a significant change in the nature of HR's work, and buyer executives are looking to their providers for market intelligence and advice in meeting those new needs.
- **Integration of customized best practices.** Beyond simply identifying the best practices across industries and geographies, buyers in Gen 3 are looking to providers for a more tailored offering, expecting them to customize the best practices they see among their clients and help them integrate those practices into their unique organizations.
- **Data analysis and business process engineering around talent.** As the use of HR data analytics has gained attention in recent years, the benefits have been widely recognized for organizations of all sizes and in all industries. Along with a more consultative approach, many Gen 3 buyer executives are asking their providers to step in to provide these kinds of analyses. Ideally, they would like their providers to lead on these analyses and to specify solutions based on the available data.

HR Outsourcing Generations – Characteristics and Activities

Generation	Common Characteristics	Common Activities
Generation 1	<ul style="list-style-type: none"> • Don't know what they don't know – may not understand exactly the services needed • May be focused more on coordination, consistency, and compliance than cost savings necessarily. • Limited change management • Burden of proof of effectiveness is on the provider; buyer side program lead less likely to serve as internal “champion” for provider 	<ul style="list-style-type: none"> • Transactional activities • Data collection • Start internal change management
Generation 2	<ul style="list-style-type: none"> • Change generally accepted • Continuous improvement in service and cost, even as those targets become more challenging • Support beyond cost savings and coordination • Internal buyer contact often become champion for the provider 	<ul style="list-style-type: none"> • Seek ongoing improvement • Drive strategic relationship • Identify internal champion • Change providers
Generation 3 and Future	<ul style="list-style-type: none"> • Highly experienced; making decisions based on expertise in outsourcing specific processes • More consultative and analytical • Strategic mix of insourced and outsourced processes 	<ul style="list-style-type: none"> • (Re)building internal capability • Build consultative, strategic skills

Another Noteworthy Finding

In the course of our research, we identified several other characteristics of evolving HR outsourcing programs that are interesting.

Outsourcing progression: No direct path from one service to the next

As we noted at the start, one of the questions we wanted to answer through the research was how outsourcing progresses through an organization – if there is a path from one outsourced function or process to another. And we found that the answer is not really. Generally, **there is no real path from one outsourcing service to another**. Respondents indicated that each decision about HR service delivery strategy is taken individually – the decision as to whether or not to outsource a specific process is generally unrelated to prior decisions to outsource.

This is not to say buyers don't learn lessons from prior outsourcing experiences; however, those lessons generally tend to be sourcing-related, and not governance-related. Respondents indicate that these lessons are **front-loaded**, generally benefiting the earlier parts of the outsourcing process, including vendor identification and selection, contracting and negotiating. However, ultimately, the decisions to outsource are independent, and for the most part, as we noted earlier, those who choose to outsource still have to go through the developmental progression.

Buyers anticipate continuing to work with multiple providers

- Our research also found that there is a propensity for organizations to engage multiple providers, even for the same process, for a variety of reasons. **No provider exists that has the skill and reach required.**

Larger organizations with multiple offices around the globe often say that they don't believe there is one single provider that they feel comfortable handling their entire program from both a job family breadth and a geographic perspective. Some feel more comfortable with, for example, one provider for high volume and high turnover positions and another provider for highly technical positions. Or, they believe their organization simply has too many locations in too many geographical regions to be well served by a single provider, even a provider partnering with another local provider.

- **Cultural specialization.** A related but slightly different issue is cultural specialization. Particularly for geographically far-flung organizations with locations in less developed regions, some buyers have found that there is no single company that has the experience to meet varying cultural needs. "If you look at the supply capability, you couldn't only select one with [my company's] footprint – they'd self select out saying 'we just can't do Mozambique and the Congo and South Africa.'"



- **Value in many, single processes.** For many buyers, the decision to work with more than one provider even for the same process is strategic: they see significant value in gaining multiple insights.
 - *Best practice cross-pollination.* “All of them [providers] do some things quite well, and so we try to bring those things back into the other models and vice versa. So that cross-benchmarking and knowledge sharing is really useful.”
 - *Provider comparison/competition.*
- **Value in many, multiple processes.** Similar to the above point, related to the “value in many” point, respondents also indicate a preference working with more than one provider across processes, even when the same provider offers both services.
 - *Independent management.* Some buyers find it easier to manage each outsourcing program as an independent entity when they engage with different providers.
 - *Program diversity.* Others saw risk in putting essentially all of their talent acquisition in the hands of one provider. If anything were to happen to the provider or the relationship, it could be devastating to the buyer organization.
 - *Siloed programs inside the provider organization.* Some buyers sense that providers are sufficiently siloed within their own organizations such that a relationship with one service area isn’t necessarily indicative of the likely success of another.

“Unstrategy”. For some respondents, the use of multiple providers is simply an accident of development. For a variety of reasons – a particularly decentralized culture, or growth through merger and acquisition, to cite two examples – the outsourcing program simply develops with multiple providers, resulting in the converse of the prior points: that is, the buyer organization sees no particular benefit in working with only one provider.

While this belief that no one provider has the capabilities to fulfill their entire scope of service may or may not be borne out by the evidence in the procurement process, the belief that it CANNOT BE DONE is so deeply ingrained that many buyers may not listen to any argument by a provider suggesting that they can provide a holistic service.

There is one caveat to note about the propensity to use multiple providers: regardless of whether the use of multiple providers is strategic or accidental, **buyers who use multiple providers do want to limit the number they work with** – while the propensity is to engage with more than one, the preference is to work with as few as is reasonable.



Outsourcing does not solve the disparate approaches to total workforce planning and management

Our research indicates that there is a mixed experience in terms of total workforce planning, that is planning and managing all talent, regardless of its relationship to the employer (i.e., permanent, contingent, SOW, independent consultant, etc.). We found no common theme among types of organizations by size, industry or experience, but we found the approach to talent management fell broadly into three categories. We also found that while many companies suggest they want to do develop a holistic approach and many providers offer both permanent and contingent workforce services, buyers have yet to take advantage of that opportunity. Most companies have no single coherent approach whether heavily engaged in outsourcing or managing much of this part of HR internally.

- **Non-strategically separate talent pools** This is the most common form of talent management today among our respondent group. In this case, these organizations manage permanent and contingent talent separately generally because that was how they naturally developed and/or there are internal turf wars that have driven this approach, and there isn't a force or champion internally who can or will drive change. Furthermore, it's clear from our discussions with respondents that many still use contract talent for expediency's sake, rather than truly strategically. We found that often hiring managers prefer the use of contractors because there are still fewer rules around, and less focus on, contractors. Hiring managers can "get away with" getting more resources through contracting than they can by adding to headcount.

In these organizations, responsibility for management of contract talent is as likely as not to fall outside HR, generally either in procurement or even within the business units themselves. However, even when responsibility for its management is housed within HR, in these nonstrategic organizations there is as of now no real effort to view all talent holistically.

- **Strategically separate talent pools** There are some number of organizations that, at least at this time, actively and purposefully do not manage the workforce holistically or through a single point of management (such as HR). These organizations simply believe there are benefits to managing their nonpermanent staff as a separate "force" versus managing them holistically. These organizations have distinct and specific needs for these contract workers, they don't expect that this headcount will become permanent, and they believe a completely separate management structure is appropriate.
- **Holistic talent management** These organizations are planning and managing their workforces strategically as one (or actively moving in that direction), regardless of the nature of the talent's relationship with the organization (permanent, contingent, SOW, independent consultant, etc.). This approach, at least among our respondent set, is currently least common, although it appears to be growing as organizations recognize the impact of the growing non-permanent staff on their operations.

Wider implementation of truly effective total workforce management is hampered by a couple of issues. First, unclear definitions of total workforce management create difficulty in developing standard tools and techniques to increase and improve its use. Second, several technologies – VMS, ATS, CRM – need to work in concert to provide full visibility into the entire talent picture. At this point, at least, few believe those technologies are sufficiently integrated and easy to use to support total talent management needs.

In those organizations that are managing talent holistically, responsibility for the management of relationships with outside providers (such as RPOs and MSPs) is generally consolidated in HR, even if service contract negotiations are handled by other areas, such as procurement.

Finally, many providers and buyers point out that no single system currently is best in class for both permanent recruitment (ATS) or contract vendor management (VMS) and this contributes to the logistical hurdles of managing these efforts on a single platform.

Technology and Outsourcing Evolution

There's no doubt that technology has been, and will continue to be, a key driver of the future of effective talent management, particularly as definitions of types of talent expand. Given that expectation, we asked our respondents what they thought about the state of the technology as it currently exists today, and we found that, on the whole, **talent leaders are satisfied with today's technology**. While most everyone with whom we spoke had some complaints about specific technologies, most agreed that these weren't fatal flaws, nor were there large unfulfilled technology needs.

What we did hear from some respondents is that they **struggle to make the most of the value current technologies** provide, both within HR and more broadly throughout the organization. Further, many are challenged to drive HR technology value deeper within their own organizations: "I think the technologies in these areas are pretty well thought through, and they respond in multiple ways. The challenge I have is explaining to others outside of this space is what it does, you know, what an ATS does. These systems are a mix between managing candidates, CMS activities, process management, workflow management and reporting. It does 7 or 8 different things, and explaining that to someone who doesn't really know it is tough."

Accessing technology: The jury is still out

We found two directly opposing, and generally strongly held, viewpoints when it comes to accessing technology: (a) through one's contracting provider or (b) independent of the service provider, contracting directly with the technology provider. Those in the the access-through-provider camp believe that the provider has the wherewithal – the time, the expertise and the resources – to fully understand and make the most of the technology. This group also believes that providers have resources that likely don't exist inside the buyer organization. "They maximize my use of technology – I really rely on them for that. I'm going to them as experts to help ensure I have and make the best use of technology."

On the other side from companies that independently contract technology is the argument that the relationship becomes too interdependent, creating havoc if the buy-side organization ultimately decides to move to another provider. Furthermore, given the propensity to work with multiple providers, contracting for technology through one or more is unwieldy.

While there are differing viewpoints on how organizations access technology, and the final decision is organization-specific, those with experience advise making technology decisions at the very start of information-gathering phase. They feel that the technology decision will drive provider selection and decision making. "Make your technology decision first. Either decide you truly have the knowledge and skills to make those decisions, stay current with the market, build a talent pool, pick an ATS provider and all those kinds of things, because if you don't, in your selection process, that's going to change your vendor pool."

And finally, regardless of whether they want to access technology through their provider or independent of their provider, all organizational leaders want provider and/or insource-outsourced agnostic, portable technologies that

- Are flexible enough to work effectively with existing systems, and
- Can move with them if they add or change service providers and/or bring processes back in house.

Near future technology need: New forms of access

We heard three common near future technology needs.

- **SaaS models.** The increasing availability of cloud-based systems, coupled with the need for flexibility and a desire to stay up to date at a reasonable cost, are driving increasing demand for, and use of, SaaS models among HR leaders.
- **Consolidated systems.** A proliferation of technologies and the need to employ a variety of technologies in order to effectively manage increasingly complex workforces are pushing organizational leaders to seek out more consolidated systems that integrate a variety of technology needs.
- **Mobile applications.** As organizations become increasingly global reaching into parts of the world where mobile technology is more common than traditional desktop or laptop computers, HR leaders are seeking out mobile applications. Organizations' increasing reliance on business unit and line managers to take on work previously handled by HR staff further heightens the need for mobile applications.

External Forces Impacting Outsourcing Evolution

As outsourcing has evolved quickly over the past decade, we expect change to continue just as rapidly into the future. With that thought in mind, we asked respondents about external forces that could impact their near future outsourcing plans. The most frequently raised issues are outlined below.

- **Economic uncertainty.** The most commonly noted challenge across respondents, probably to no one's surprise, is ongoing global economic uncertainty. The most notable impact of this uncertainty, of course, is continuing – and potentially increased – need for flexibility and exaggerated focus on cost control.
- **Globalization.** Increased globalization of many organizations is driving talent supply capability concerns in markets around the world, and causing rapidly changing definitions of emerging markets and emerging talent. These issues create heightened concern about organizations' abilities to ensure they can source talent in global markets.
- **Impacts of Affordable Care Act on US-based organizations.** Although not as common a concern as the preceding points, and clearly of concern only to US-based respondents, a few indicated that the impending implementation of the main features of the Affordable Care Act might impact outsourcing:
 - *Greater risk exposure.* Some were concerned about their own risk if their providers were nonconforming.
 - *Increased cost.* Some expressed concern that their costs would rise as their providers might pass along health care cost increases.



Implications for Buyers of Outsourced Services

We drew the following implications and advice from our review of our discussion notes as well as direct advice provided by our generous respondents.

- **Anticipate evolution.** Go into the experience anticipating that your needs will change and evolve and know that change doesn't mean project failure – it means changing needs. “A flexible mindset is essential to making this whole external delivery model work.”

On a related note, even experienced outsourcers moving into new areas will experience evolution. While they will carry forward lessons from past experience, they will follow many of the same steps in their new program.

- **Lean into the evolution.** Understanding that all outsourcing organizations work through development cycles in order helps buy-side executives to break expectations into current and potential future need and evaluate performance based on that agreement.
- **Aim for flexibility in contracting.** Given the prior two points, ensuring as much flexibility as possible in the contract is essential both to maintaining sanity and to maximizing the value of the relationship: “There's been a recognition that there needs to be ongoing improvement; that flexibility is vital. And not going back to the contract document, but moving the needle over time.”
- **One provider, two provider, three provider, four.** Weigh benefits and drawbacks of single-provider or multiple-provider relationships. While we found a propensity to work with multiple providers, there are also drawbacks to that approach that need to be considered based on each organization's needs.
- **Don't ignore market-wide experience.** Some respondents advised buyers that market experience may be more telling than internal organizational experience in different geographic regions. As one respondent noted, “the experience of others in the market may actually have more impact on the evolution of outsourcing” than anything internally.

- **Think carefully about internal technical capability and need.** As with the decision concerning a multiple- versus single-provider strategy, there are pros and cons to accessing HR technology through a provider relationship versus independently. The right answer varies by organization and depends upon internal capability, resources, and direction. It is essential, however, to clearly and fully understand what you can/can't and will/won't do vis a vis technology before you consider your provider, as that will dramatically impact the process and the provider pool from which you select.
- **Maintain flexibility in technology.** Regardless of how you access technology, avoid the mistakes of others by ensuring that the chosen technology will integrate with existing HR technologies and be flexible and portable.
- **Early preparation 1: fix your problems, don't hand them over.** Fix problems before you transfer the program to an outsourced provider or, at least, recognize they are broken and apprise your provider. Broken processes are extremely difficult to fix unless addressed by all parties working together, and they only burden a developing outsourcing program.
- **Early preparation 2: own the requirement.** Understand what it is that you want from an organizational perspective before you start the process. Buyer organizations that are not clear on what they want to achieve through an outsourced program going into it often come out with less than satisfactory results at the end.
- **Identify an internal program champion.** The most successful buyer-provider relationships are those where the buy-side organization has an internal champion who helps the provider navigate politics and personalities.

About the Research Partners

Guidant Group

With more than a decade of workforce consultation, design and management experience, Guidant Group is an industry leader in delivering contingent workforce (MSP, Payrolling, Independent Contractor, Statement of Work) and Recruitment Process Outsourcing (RPO) solutions. We have extensive experience working with the world's leading global organizations to deliver the talent they need to grow their businesses. We pride ourselves on the high levels of personal service that we deliver to each and every customer and on our open and transparent approach which underpins everything we do. Our priority is to simplify complex recruitment processes, saving clients' time and money and enabling them to focus on running their business.

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The HRO Today Institute

The HRO Today Institute is a global community of CHROs and HR Operations executives dedicated to moving beyond the "why" and focusing on how to effectively manage human resource operations. The Institute is a closed community of executives from mid- and large-cap companies who engage in peer driven focus groups and research to answer key challenges in their current and future workforces. These challenges include a focus on workforce demographics, effective data sharing and technology in a global workforce, and where/how to find and engage external resources to support key programs.

The Institute's mission is to Empower Global Operational Excellence from the executive suite through the employee desktop.