

# Human Capital Strategic Sourcing



***Human Capital Group***

***Maximizing Your Investment in Human Capital***

**A workbook for the preliminary  
assessment of issues, scope, costs  
and benefits of sourcing human  
resource processes**

Outsourcing is an effective strategy used throughout the world by companies of all sizes and in all industries. Outsourcing turns a cost center into a customer-focused service operation with you as the customer. It is an innovative solution that brings world-class skills, flexibility and best practices to each function to achieve strategic focus and quantum performance and to enhance competitive advantage.

Virtually all business functions can be outsourced effectively, including human resources. Many companies have successfully outsourced some or all of their human resource processes to help achieve their corporate objectives. For companies that are considering outsourcing for the first time, however, embracing this innovation may require stepping “out of the box” because close precedents may be difficult to find.

As a result, many executives have requested our assistance in helping them determine whether or not outsourcing human resource processes makes sense for their organization. In response to these requests, we have created this workbook to serve as a preliminary assessment for outsourcing human resource processes. It contains a variety of meaningful questions and analyses developed from several years of experience to help you assess the issues, scope, costs, benefits and process of human resources.

This preliminary assessment, though not definitive, is designed to quickly give you information that will help you to decide whether an outsourced human resource function can contribute significantly to achieving your corporate objectives. Ultimately, this workbook can help you and your management team reach a decision about whether to proceed with a more detailed assessment. We believe you will find it useful.

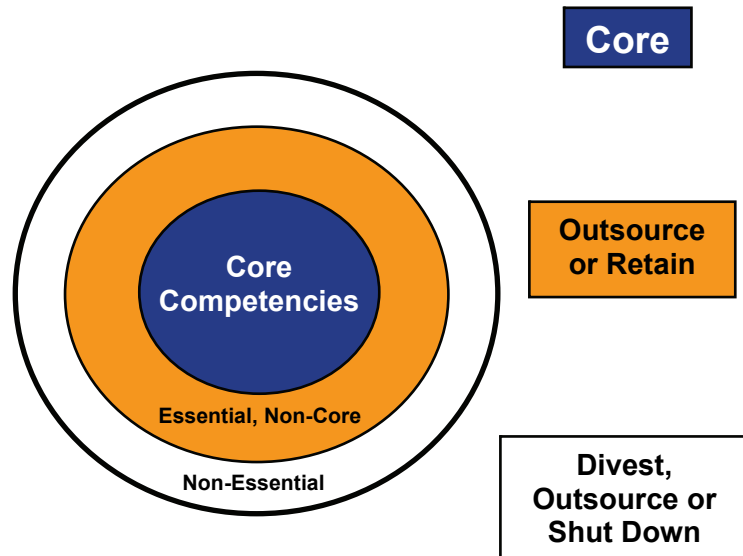
If you should decide that outsourcing might be of benefit to your organization, we recommend you also read our booklet entitled “Human Capital Strategic Outsourcing - A Framework for Success”.

Larry Heckathorn

# Is Human Resources your company's core competency?

To begin the outsourcing assessment process, identify your core competencies, those vital few business processes at which your organization excels and which are the source of your competitive advantage. In other words, what do your customers pay you for? A shoe manufacturer's core competencies, for example, may be the product design and marketing. A hospital's core competencies may be patient care and a specific medical specialty or procedure, while a credit union's may be customer service.

All other business processes are non-core, and companies must determine whether they are essential to the business. Those that are not essential should be divested or shut down. Processes that are essential but non-core are candidates for outsourcing.



**What are your company's core competencies?**  
List them here.

---



---

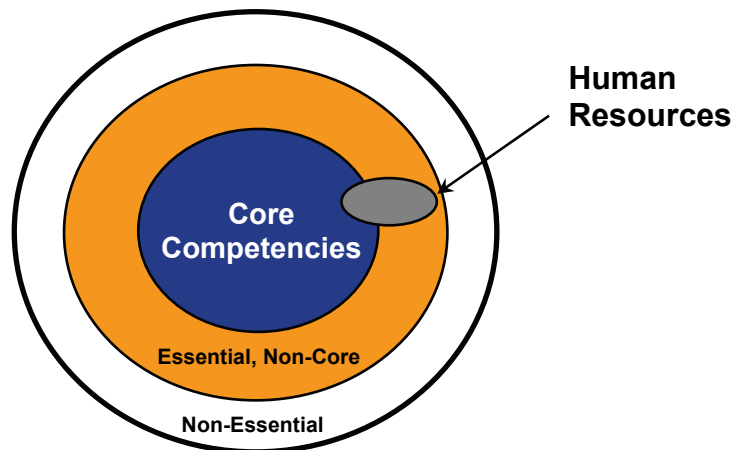


---



---

Most companies want to invest time and resources in their core competencies, because these are the processes that provide competitive advantage -- and generate revenue. In most companies, human resources is not a core competency and is not a high investment priority for management attention, resources or funds. Rather, it is an essential but non-core function. As such, it is a good candidate for outsourcing consideration.



# What are your outsourcing objectives?

The outsourcing solution you ultimately agree upon with your provider -- including the transition plan, pricing model and performance measures will be driven largely by your objectives. Ensuring the clarity of those objectives is critical if the outsourcing arrangement is to succeed.

Outsourcing can bring significant benefits directly to the outsourced function and to the rest of the organization indirectly. The influx of new ideas and reengineered interface points with other departments, as well as improved quality of service and cost control, are just some of the tangible benefits.

How important are the following objectives to you in outsourcing human resources?			
	<u>Most</u> <u>Important</u>	<u>Important</u>	<u>Less</u> <u>Important</u>
<b>Performance</b>			
Improve accuracy of information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve timeliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Continuous improvement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to best practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Management Effectiveness</b>			
Increase management focus on core processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve the quality of management information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase flexibility and responsiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>People / Skills</b>			
Access to specialists	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Attract and retain good people	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fill peak requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce excessive turnover	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Costs</b>			
Increase investment in core competencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce current operating costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Control long-term costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Long-term cost control will likely be an outcome when outsourcing human resources. However, we caution companies not to use cost reduction as the sole outsourcing objective because short-term cost objectives limit the benefits that outsourcing can bring to your organization. For example, imposing cost limitations without regard for the optimal outsourcing solution can result in unacceptable service levels.

Look beyond cost reduction to identify other important and far-reaching objectives. Some of the most meaningful benefits of outsourcing are intangible but still can create great value. Such benefits include increased strategic focus, flexibility and responsiveness within the outsourced function.

# How much of your Human Resources function should be outsourced?

In order to deliver the most value to the company, executives need human resource processes that enable them to spend less time generating information and more time using it.

As a result, providing decision support to operating management and to the rest of the organization is a key goal of forward-thinking HR-VPs. With the ongoing expansion of the HR-VP's role and

responsibilities, improving the effectiveness of financial processes takes on unprecedented importance.

Outsourcing human resource functions and processes is a strategy to enable senior executives to add the most value to the organization -- and to spend more time using information. But how much should be outsourced? And how do you decide where to start?

**The pyramid below represents common processes in a human resource function. Draw a horizontal line across the pyramid to indicate which of these processes could be outsourced. (Above the line are processes you would retain in-house; below the line are processes that could be outsourced.)**

**Decision Support**  
e.g., using HR information, skills assessments, setting strategic direction, performance management, management of costs

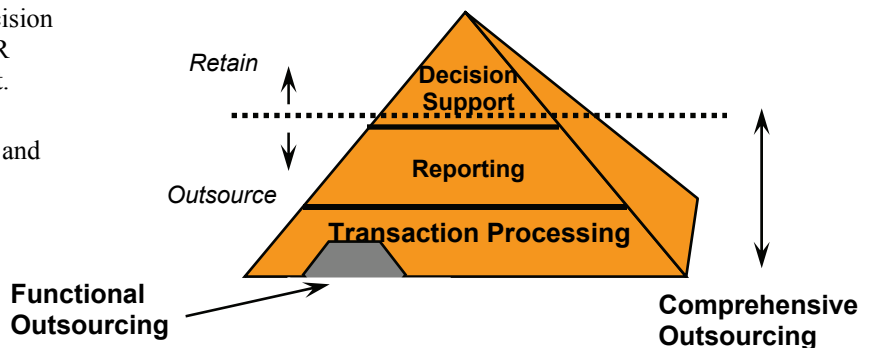
**Reporting**  
e.g., generating government reports, management reports, policy changes, establishing administrative procedures

**Transaction Processing**  
e.g., annual enrollment, benefits administration, account information, claims processing

We recommend that companies take a comprehensive view of outsourcing human resources rather than focus only on discrete processes. By drawing the line “higher up” in the organizational processes, more significant benefits can be achieved, such as the following:

- Senior HR executives providing decision support can concentrate on using HR information rather than generating it.
- Overhead structures can be reduced and leveraged effectively.

- More processes can be subjected to efficiencies through reengineering and other strategies such as shared services.
- The multiple interfaces between human resources and other departments can avoid duplication and confusion.



# Should Human Resource systems be outsourced, too?

Once the human resource processes are selected for outsourcing, look next at the supporting computer systems. The optimal solution usually involves matching the processes outsourced with the systems necessary to enable the processes. And, most providers prefer that “the carpenter bring his own tools”. In other words, many solutions require that the outsourcing provider use their own computer systems to support the outsourced processes.

However, practical considerations suggest that the provider may not always be the most effective and efficient source for the systems. In fact, other

approaches may yield optimal results, depending on the following factors:

- Degree of integration with other company systems
- Complexity of interfaces
- Age of existing company systems
- Past investment
- Future needs
- Current performance of systems
- Extent of control required
- Degree of customization required

**There are several effective alternatives for the provision of human resource information systems, and these include many variables. What is your perspective on each of the systems issues listed below?**

Ownership of systems	<input type="checkbox"/>	Company-owned.....or.....provider owned	<input type="checkbox"/>
Location of systems	<input type="checkbox"/>	Company site.....or.....provider site	<input type="checkbox"/>
Operation of systems	<input type="checkbox"/>	Company-operated... ..or.....provider-operated	<input type="checkbox"/>
Development of systems	<input type="checkbox"/>	Company.....or.....provider	<input type="checkbox"/>
Users	<input type="checkbox"/>	Company only.....or.....multiple companies	<input type="checkbox"/>
Customization	<input type="checkbox"/>	Standard, off the shelf.....or.....unique for our company	<input type="checkbox"/>

During your detailed assessment (following this preliminary phase), we recommend careful consideration of the factors above to arrive at the optimal solution. Be aware that the solution may vary for different processes within human resources.

The desired result is for systems to be effectively integrated with essential processes -- both those processes outsourced and those retained in other parts of the organization.

An ideal outsourcing solution will also provide for the enablers (e.g., other technology tools) necessary for optimal performance throughout the human resource function. Ensuring effective interface with the systems of other departments and business units can contribute greatly to the success of the outsourcing initiative.

# How will outsourcing impact your people?

We began this preliminary assessment by analyzing which processes within human resources should be retained and which could be outsourced. This approach helps set the scope of the outsourced function within the corporate strategy. This decision drives systems considerations, which will need to be reviewed. The next step in the preliminary assessment is to determine and prepare for the impact of outsourcing on your people.

Your human resource staff currently perform some processes that will eventually be retained and some that will be outsourced. In addition, the current level of skills, performance and numbers of people may not correspond to future

requirements; but this doesn't mean employees are automatically out of work. Often, a proportion of human resource employees may transition to the outsourcing provider or take on more valued responsibilities.

While strategy drives the outsourcing scope, the human resources dimension of outsourcing can have the greatest impact on its outcome. However, many companies underestimate the human aspect of outsourcing and find themselves unprepared to handle the potentially significant cultural and personal changes that inevitably occur. Such lack of preparation can jeopardize the productivity -- and the overall success -- of the outsourced function.

<b>Have you sufficiently addressed key human resource issues?</b>	<b>Yes</b>	<b>No</b>
Have you decided to announce now that you are considering outsourcing human resource processes (rather than wait until you have made a final decision)?	<input type="checkbox"/>	<input type="checkbox"/>
Have you decided on severance assignments?	<input type="checkbox"/>	<input type="checkbox"/>
Have you established policies for severance, job placement assistance and so forth (perhaps as a result of previous reorganizations)?	<input type="checkbox"/>	<input type="checkbox"/>
Have you involved a representative from your human resource team to help you in your outsourcing analysis?	<input type="checkbox"/>	<input type="checkbox"/>
Have you defined the human resource criteria -- such as past service credit, salary and benefit eligibility -- that you expect the provider to include in hiring considerations?	<input type="checkbox"/>	<input type="checkbox"/>

From Human Capital Group's extensive experience in managing outsourcing engagements, we recommend adhering to the following key principles to effectively manage the human resources issues related to the outsourcing decision:

- Communicate regularly
- Get your human resources department involved early in the process
- Commit to a short transition period

As a standard part of the outsourcing process, the provider determines skills and numbers needed to complete the assignments. Your existing employees will become a part of the job candidate pool, which

also includes the provider's personnel and outside candidates. In many cases, some of your employees are hired by the provider.

It is critical that your provider understand the human resources issues associated with outsourcing. They should have dedicated human resources professionals to help map out a transition plan, including communication of the outsourcing decision, interviewing and hiring timeline, and details of benefits transfer. Human Capital Group has built a world-class outsourcing practice in part because of our experience in helping to manage outsourcing transitions and the changes affecting employees.

# What will the outsourcing cost?

Perhaps the most challenging step in the preliminary assessment comes next: What will it cost? Before we can answer that with confidence, we must consider some critical issues: What is “it” and what is “cost?”

“It” includes the processes that are within the scope of the human resources outsourcing to the point where they interface with other processes. “It” also depends on what performance levels and deliverables are required.

The “cost” is, of course, the agreed-upon price for the services to be provided. But negotiation begins with the provider’s proposed price. However, it is unrealistic to expect a provider to propose a price unless they also know what “it” is. To help arrive at the most appropriate price, you will need to provide a detailed set of specifications in your request for proposal or consider allowing the

potential provider to perform its own investigation.

Cost also includes the impact on those processes and activities not included in the human resources outsourcing scope. For example, comprehensive outsourcing of human resources will allow you to significantly reduce, alter and/or refocus the infrastructure outside of the outsourcing scope. Costs of the transition -- such as severance, legal, overlapping operating costs and the diagnostic and transition team(s) -- should also be considered.

The provider’s pricing models include a variety of components with benefits specific to each outsourcing solution. These pricing components include fixed cost, cost-plus, unit pricing, time-based, management fee, penalties, and these can stand alone or be combined to meet your needs.

**To help you determine the most appropriate cost model for your situation, assess the following factors:**

The activities to be outsourced are	<input type="checkbox"/> well defined.....or .....	<input type="checkbox"/> not well defined
Interfaces with outsourced processes are	<input type="checkbox"/> precisely identified.....or...	<input type="checkbox"/> only generally identified
Outsourced and surrounding processes are	<input type="checkbox"/> stable.....or .....	<input type="checkbox"/> unstable
Current, minimum and target performance levels are	<input type="checkbox"/> precisely known.....or.....	<input type="checkbox"/> not known
Our company is experiencing	<input type="checkbox"/> little or no change.....or.....	<input type="checkbox"/> rapid change
Our baselines for volumes, performance levels and cost of the current function have been measured	<input type="checkbox"/> precisely.....or.....	<input type="checkbox"/> not at all

A fixed-price model is appropriate when the outsourced processes are well defined in a stable environment. In other cases, variable pricing models should be used. Human Capital Group has experience with a variety of pricing models and has found that the most appropriate model is often a combination of the following components.

- Fixed price -- price specified for services to be provided. Used for well-defined activities with predictable volumes.
- Resourced or cost based -- price specified for resources provided. Used when

services required are dynamic or not well-defined.

- Transaction-based -- price specified for each transaction. Used when transactions are well-defined and reliable historic metrics exist.
- Incentives -- used in conjunction with other components to appropriately motivate and direct the provider.
- Management fee -- a fixed amount, generally used with variable components.
- Set-up and /or project costs -- used for one time investments or separately defined projects.



# What is a fair price? How does it compare to your current costs?

A fair price for both you and the provider means that you don't overpay for required performance. To that end, there are several ways to ensure receipt of a fair price: compare the proposed costs to your current costs and projected costs; obtain multiple providers' bids; consider a cost-based pricing approach; consider incentives to motivate desired performance at a fair price.

A comparison of a provider's proposed price to a company's current cost is the method most

often used to determine whether the price is fair. This comparison is also crucial to helping answer the question: "Am I getting more or less service for higher or lower cost?"

Careful analysis and management judgment are necessary to accurately assess the current costs of processes being considered for outsourcing, and to compare those costs to the provider's price for services proposed. The following exercise helps with this analysis.

**Indicate which of the following you would include in your cost comparison:**

	<u>Include</u>	<u>Exclude</u>		<u>Include</u>	<u>Exclude</u>
<b>Operating</b>					
Payroll	<input type="checkbox"/>	<input type="checkbox"/>	Systems acquisition and or /development	<input type="checkbox"/>	<input type="checkbox"/>
Employee benefits	<input type="checkbox"/>	<input type="checkbox"/>			
Direct supervision	<input type="checkbox"/>	<input type="checkbox"/>	<b>Overhead</b>		
Hiring	<input type="checkbox"/>	<input type="checkbox"/>	Management costs	<input type="checkbox"/>	<input type="checkbox"/>
Training	<input type="checkbox"/>	<input type="checkbox"/>	Human Resources support	<input type="checkbox"/>	<input type="checkbox"/>
Temporary services	<input type="checkbox"/>	<input type="checkbox"/>	Advertising	<input type="checkbox"/>	<input type="checkbox"/>
Systems operations costs	<input type="checkbox"/>	<input type="checkbox"/>	Legal support	<input type="checkbox"/>	<input type="checkbox"/>
Hardware and software operations/maintenance	<input type="checkbox"/>	<input type="checkbox"/>	Facilities costs	<input type="checkbox"/>	<input type="checkbox"/>
Consultants' fees	<input type="checkbox"/>	<input type="checkbox"/>	Middle mgmt. Costs	<input type="checkbox"/>	<input type="checkbox"/>
			Profit	<input type="checkbox"/>	<input type="checkbox"/>
<b>Investment</b>			<b>Transition Costs</b>		
Periodic or on-going continuous improvement and reengineering efforts	<input type="checkbox"/>	<input type="checkbox"/>	Human Resources Support	<input type="checkbox"/>	<input type="checkbox"/>
Research and development	<input type="checkbox"/>	<input type="checkbox"/>	Other support	<input type="checkbox"/>	<input type="checkbox"/>
			Severance	<input type="checkbox"/>	<input type="checkbox"/>

Companies have taken different positions on what to include in cost comparisons based on what they believe will be displaced as a result of outsourcing. We recommend taking a "fully costed" approach (which usually includes all of the above cost elements and estimated future investments) in order to make an "apples to apples" comparison.

We also recommend that companies be aggressive in plans to reduce overhead costs associated with the functions being considered for outsourcing. In any event, because of the subjective nature of the analysis, the number of variables involved and the difficulty of quantifying intangible benefits and costs, it is essential that senior management be integrally involved to make the final judgment.

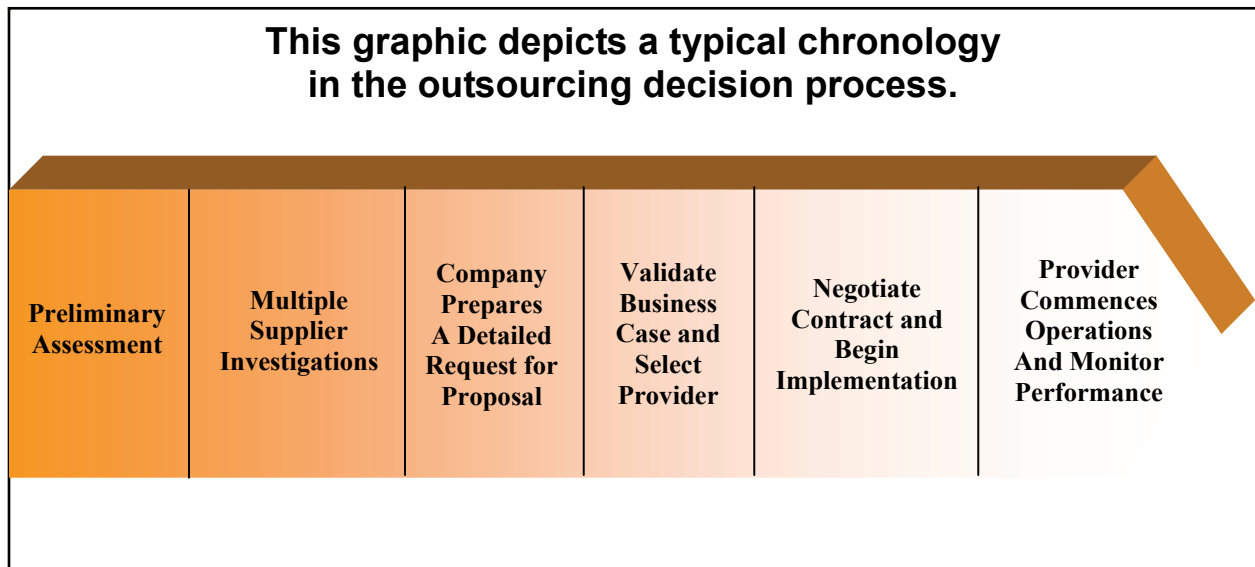
## Next Steps: How to obtain a definitive proposal

You've now reached the conclusion of your preliminary assessment and should have a good idea about outsourcing scope, process, people/systems issues and cost. If you believe outsourcing makes sense for your organization, the next step is to obtain a definitive proposal.

There are several ways to go about this, as the step may include variables such as exchanging information with potential providers, developing an outsourcing plan,

obtaining proposals, selecting a supplier, determining cost and transferring operations to the supplier.

Most companies select one of the alternative approaches presented below. Each has advantages and disadvantages depending on a number of factors, including: urgency, internal resistance, degree of specificity in the outsourcing plan, competing proposals, cost, partnering and internal acceptance.



Selecting the provider as early in the process as possible is usually the best approach because a long period of decision-making can result in a significant decline of employee productivity and morale. Furthermore, the sooner the outsourcing solution is implemented, the sooner the benefits of the outsourcing solution can be achieved.

In addition to the benefits noted above, we recommend selecting a provider early in the process to allow both you and the provider the opportunity to assess one another in a working environment that provides a firm foundation for the ongoing outsourcing relationship.

In the absence of a long request-for-proposal and due-diligence process, a preferred provider can be selected based on credentials, commitment to the outsourcing business and relevant experience. This is not always possible when the functions being outsourced are very complex.

Human Capital Group can work with you in a cooperative, open manner to help diagnose your situation, prepare an effective outsourcing plan, assess provider capabilities, assist with contract negotiations and assist with operations implementation. Remember, you always retain the option to discontinue the process or select an alternative provider.

People are the most valuable asset in the new economy. Our goal is to assist your company in maximizing its return -- while minimizing the associated risks. We employ ground-breaking human capital cost/benefit solutions including our proprietary Human Capital Appraisal methodology.

At Human Capital Group, we realize the value of people. We know people are your organization's greatest asset, and we can work with you to discover and optimize the true value of all your people.

#### **How?**

Through our alliance of consulting organizations we operate in integrated teams with each individual having deep competence in his or her own disciplines developed through years of consulting and industry experience. We deliver the right skills to you virtually anywhere. Our multidisciplinary teams can be comprised of actuaries, accountants, benefit experts, compensation practitioners, human capital consultants, tax specialists, technology consultants, and lawyers experienced in these areas.

Through Human Capital Group's alliance partners, we design and implement reward strategies that are innovative, financially sound, practical, and which are sensitive to tax, accounting and related regulations.

We assist you in achieving your enterprise goals by determining and enhancing the value of your human capital programs and policies, and by developing a consistent alignment with your organization's strategy, culture and values.

We can get you connected to the right organization to create and implement effective, culturally compatible and tax efficient international compensation strategies, as well as design and administer international expansion and mobility programs, with emphasis on issues facing expatriates and their families.

Our alliance partners design, execute, monitor and communicate a broad range of pension, savings plan and employee benefit programs.

Our alliance partners also provide a wide range of

actuarial and risk management services. We assist in the design and implementation of organizational structures and the processes and systems aligned with your strategy.

#### **Our people will help you get the best out of your people**

A consulting organization should provide the best thinking in its areas of competence. At Human Capital Group, we use the right technologies and processes to get the best out of our people -- imparting knowledge and experience among individuals. That means we always are conversant with leading-edge employment practices around the world. It allows us to capture best practices both geographically and among industries, and encourages innovation.

We employ database technologies to share ideas, best practices and project-specific experience. Our communication networks cut through geographic boundaries and time zones to facilitate fast, one-to-one interaction between our partners.

You benefit from access to the best thinking, the most responsive human capital consultancy available today, and an alliance of professionals that will produce value for you at every turn. Getting the best out of our people helps ensure that you will bring out the best in your people.

#### **The new formula for success**

At Human Capital Group, we focus our service offerings into six key human capital areas:

- [Strategy and Structure Development](#)
- [Performance Measurement](#)
- [Operations Lean Transformation](#)
- [Service Delivery and Design](#)
- [Vendor Analysis and Selection](#)
- [Vendor Management](#)

We pride ourselves in having the right people, in the right place, at the right time to service our clients. We have the people, tools, resources and technology to handle your most demanding needs.



***Human Capital Group***

***Maximizing Your Investment in Human Capital***



**For More Information Contact**

**Larry Heckathorn**

Cell Phone: (412) 999-4911

E-Mail: [larry@humancapitalgroupllc.com](mailto:larry@humancapitalgroupllc.com)