

Survey report June 2009

HR outsourcing and the HR function Threat or opportunity?

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Summary of key findings

This 2009 survey on HR outsourcing provides data on the current state of HR outsourcing among CIPD members and their organisations. In this survey we explore the nature and extent of HR outsourcing, the level of involvement of HR professionals, the outcomes of HR outsourcing and their subsequent impact on the role and position of the HR function.

A total of 315 HR practitioners took part in the survey, 29% (91 organisations) of whom are outsourcing aspects of their HR activity.

HR outsourcing

- HR outsourcing (HRO) is used by 29% of the survey respondents.
- Most organisations are increasing their use of HRO. Over the last five years, 20% report significant increases in HRO activity, and 44% report a slight increase in HRO activity. Only 11% have reduced their reliance on HRO.
- HR professionals view their current operating environment as turbulent and highly pressured. They most commonly cite the pressure to enhance efficiency (91%), a pressure to enhance quality (85%) and an increasing need to innovate (82%).
- Only 44% of those organisations that outsource other business functions also outsource HR.
- HR outsourcing is used predominantly in private sector organisations, with 69% of those outsourcing HR working in this sector. HRO is pursued by 25% of public sector organisations in this sample.
- The private service industry dominates the use of HRO, with 50% currently undertaking HRO activities. Twenty-four per cent of HRO activity is in manufacturing, 22% in public services, and 4% in voluntary and charitable organisations.

- The top drivers for HRO include access to skills and knowledge (71%), quality (64%) and cost reduction (61%). Organisations stressing clear objectives and targets in these areas are also more likely to have achieved them.
- The top three wholly outsourced areas include legal activity (69%), payroll (66%) and pensions (64%). The areas partially outsourced the most include training (49%) and recruitment and selection (47%).
- HRO is not relieving pressure for the internal HR team, with 43% confirming HRO failure in this case.

HR professional skill and involvement levels

- HR professionals consider their partnership working skills, business awareness skills and change management skills to be either good or excellent in over 80% of cases. There is less consensus surrounding vendor management skills, with 28% considering their skills as developing or fair, and 13% declaring no skill at all.
- Most HR experts consider involvement in HRO to be either important or very important. However, the majority of HR professionals have limited decision-making involvement during HRO ventures. Where there is involvement, their main decisionmaking areas lean towards the realisation phase of the HRO lifecycle – monitoring, managing vendor relations and provision of end-user feedback.
- HR professionals are aware of the positive impact they can have on HRO ventures. They believe they can facilitate relational, long-term partnership working with their external providers, and their distinct contribution includes a focus on cultural fit during vendor selection, an increase in the focus on quality, and greater trust emphasis in vendor relations.

Organisational status of the HR function

- Most HR professionals consider the HR function to be taken seriously within the organisation, with 50% confirming that HR supports the organisation's overarching strategy.
- The HR professional's background is diverse. Fortyeight per cent of respondents have occupied a range of business positions prior to their role in HR, while only 39% confirm they have a 'pure' HR background.
- Seventy-one per cent of HR professionals indicate the function is represented at board level, with the majority stating good relationships with the organisation's chief executive. One-third of respondents consider this relationship to be excellent.
- Of those confirming excellent relations with the chief executive, 41% stem from a broad-based business background, whereas 27% have always been employed in the HR function.
- Only 19% consider HR to play an important administrative role, and a mere 13% of HR professionals consider the HR function to be at the forefront of shaping the organisation's strategic direction.

HR outsourcing success

- Over half of the respondents report that HRO has enabled them to adopt a more strategic role to a limited extent. A minority consider it to have enabled them to adopt a strategic role to a great extent. Yet 36% do not consider HRO as a strategic enabler for the HR function.
- HRO success is mixed. Most respondents report that HRO has been successful in some areas but not others, with a minority reporting no success at all (5%), and only 7% declaring HRO an all-round success story.

Introduction and the backdrop to outsourcing activity

We define outsourcing here as the purchasing of HR services from a third party supplier. This report aims to provide a snapshot of the extent and nature of HRO amongst organisations based in the UK, and to determine the overall level of involvement that HR professionals have during the HR outsourcing process. The survey attempts to assess the self-perceptions of HR professionals to understand whether there is a link between the HR function's reputation and the use of HR outsourcing.

While this report focuses on those organisations involved in HR outsourcing, it also provides some insight into the prevalence of outsourcing in other parts of the organisation. Not only is it important to understand why organisations are outsourcing HR, it is equally important to probe why organisations choose to maintain a totally in-house function, despite outsourcing other organisational activities.

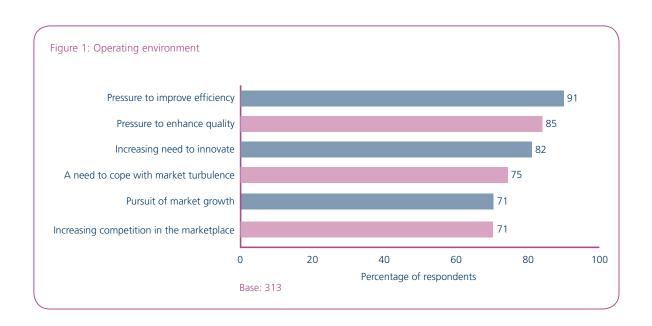
This survey was carried out by Alison Lewis of Leeds University Business School on behalf of the CIPD.

Operating environment

We wanted to understand the environment in which HR professionals are operating. They were asked to rate their operating environment against six key factors: strength of competition, pressure to enhance quality, a need to innovate, the pursuit of growth, the need for efficiency and level of environmental turbulence. As we can see in Figure 1, the current operating environment is considered highly pressured, with the top three pressures including the need to improve efficiency, pressure to enhance quality and an increasing need to innovate.

Understanding outsourcing activity by size and sector

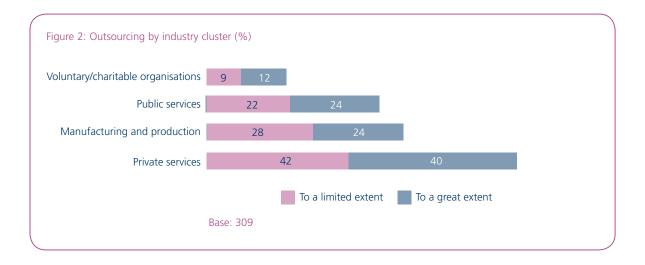
Within this operating environment, HR professionals confirm that 89% of their organisations are engaged in generic outsourcing (outsourcing in other areas of the business). However, only 29% of respondents are engaged in HR outsourcing. Using an aggregate figure to assess the overall nature of the operating environment, over 85% of outsource users consider

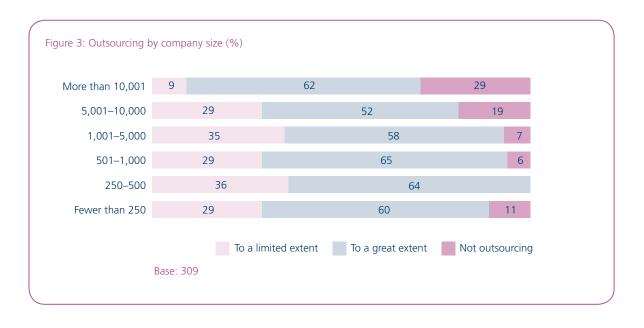


their operating pressures to be high or very high. Figure 2 illustrates the breakdown of generic outsourcing by industry cluster.

This survey shows a link between organisational size and outsourcing. Smaller firms outsource considerably more than larger organisations, with 29% of very large firms not outsourcing in the organisation, compared with only 11% of smaller firms employing fewer than

250 employees. Only 9% of large firms employing more than 10,000 employees outsource to a large extent, compared with 36% employing between 250 and 500 staff, and 35% of those employing between 1,001 and 5,000 staff. The majority of organisations, no matter what their size, engage in outsourcing to a limited extent. These figures range between 52% of those employing 5,001-10,000 employees, to 65% of those with between 501 and 1,000 staff (see Figure 3).





HR outsourcing and the HR function

The organisation's HR function

We surveyed the background and skills of the HR professional to understand whether these impact HR outsourcing in any way. The skills of HR professionals are changing to reflect diverse organisational needs and broadening remits. They may also be dependent upon the extent and nature of HR outsourcing within an organisation. Not only are new skills needed to cope with vendor management issues, but in releasing transactional HR activities, the HR function may focus on developing other skills that will allow it to undertake the more strategic aspects of the role. These skills derive from and perhaps dictate the involvement of HR professionals in the outsourcing lifecycle.

Evidence from this survey shows that the background of HR professionals is perhaps more diverse than may be expected. On the one hand, 48% of the sample have occupied various business positions in the past. This may indicate a need for broader business appreciation. However, 39% confirm they have always been employed in HR (see Figure 4).

Seventy-one per cent of the respondents indicate that the HR function is represented at board level. The majority of HR respondents feel that the chief executive officer (CEO) has a good working relationship with the function, with 33% considering it excellent.

However, 20% of HR professionals indicate that the organisation's CEO has limited or no involvement with the HR function. It is interesting to note that of those stating excellent CEO relations, 41% have a broadbased business background, and of those who have always been employed in the HR function, only 27% confirm an excellent relationship with the CEO. This indicates that background may impact the nature and quality of HR/CEO relations.

Table 1 illustrates the differing views on the nature and role of HR according to the position of the HR professional within the organisation.

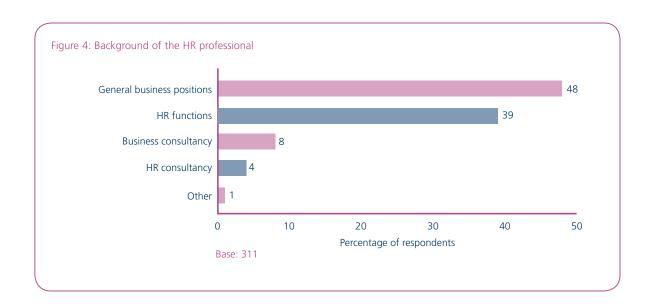


Table 1: The relationship between HR position and perceptions of the HR function (%)

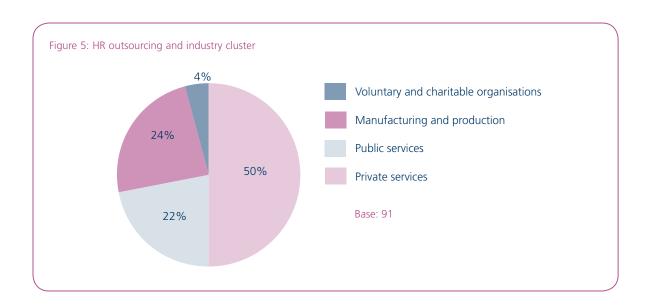
Position	HR has good/ excellent CEO relations	HR is taken seriously in my organisation	HR plays an important administrative role	HR is growing in importance in my organisation	HR supports the organisation's business strategy	HR is at the forefront of shaping the organisation's strategic direction
Head of HR	89	95	18	32	50	18
Business partner	78	90	11	26	45	16
HR manager	77	92	23	39	52	8
Manager shared services	86	86	14	14	72	-
HR expert Base: 312	72	89	20	33	47	9

HR outsourcing and its impact on the HR function

We define HR outsourcing as the purchasing of HR services from a third party supplier. This survey reveals that 29% of organisations (91 organisations) outsource aspects of their HR provision. While, as mentioned above, 89% of organisations are engaged in outsourcing, only 44% of those who outsource other business functions also outsource HR.

The data from this sample indicates that HR outsourcing is more predominant amongst private sector organisations, with 69% currently pursuing this strategy. HRO is undertaken by 25% of public sector organisations in this sample.

Figure 5 below further breaks down the data from this sample. Private services dominate HR outsourcing activity, with 50% of organisations listed within this category engaged in HRO. Manufacturing firms are the second most popular users of HRO - 24% of firms outsource HR in these industries. HRO is used in 22% of public services organisations and in only 4% of voluntary and charitable organisations. It cannot be predicted that outsourcing in the organisation leads to a greater likelihood of HR outsourcing.

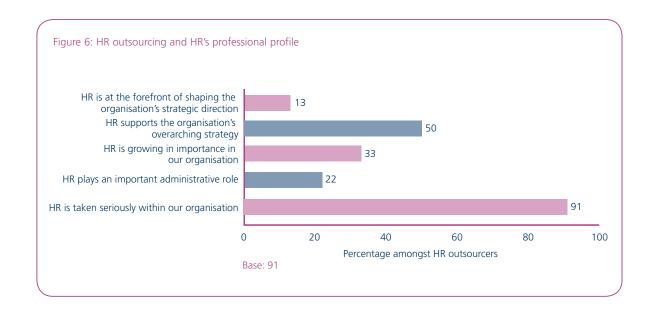


The majority of HR professionals in this survey consider the HR function to be taken seriously in the organisation. When asked whether HR plays an important administrative role in the organisation, only 18% amongst non-HR outsourcers view the HR function in this way. This figure only marginally increases to 22% amongst HR outsourcers. When asked whether HR supports the organisation's overarching strategy, only 50% of respondents consider this to be the case.

It is interesting to note that the majority of HR professionals, regardless of outsourcing activity, do not consider the function to play an important administrative role. When considered alongside the

majority who similarly consider the HR function to not be at the forefront of shaping the organisation's strategic direction, it is hard to envisage where HR responsibilities currently lie. Overall, 67% of those outsourcing HR, do not consider the function to be growing in importance within the organisation (see Figure 6).

While these figures may indicate that HR professionals do not consider their function to be held in high regard, of those who outsource HR, 91% still consider the function to be taken seriously within the organisation, and 74% still consider their relationship with the CEO to be good or excellent (in comparison with 82% who do not outsource HR).



What is being outsourced and why? Drivers for HR outsourcing activity

HR outsourcing and business environment

Respondents report that the main drivers for their HR outsourcing activities are:

- access to skills and knowledge (71%)
- quality (64%)
- cost reduction (61%).

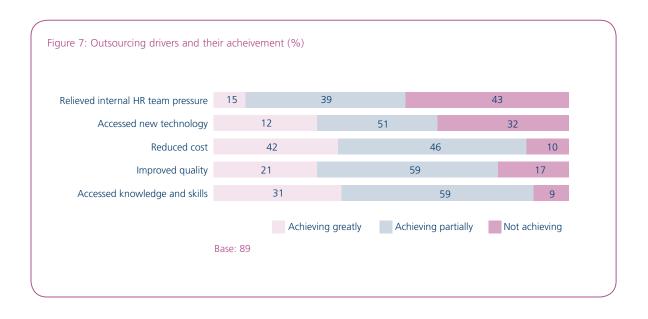
This survey illustrates that HR professionals' perceptions of the organisation's operating environment are consistent with HRO drivers, although cost reduction ranked in first place and innovation in third place. Indeed, 45% of the sample considers the relief of HR staff pressure as a key HRO driver. Equally, 48% of those who engage in HRO consider access to new technology as an important/very important driver.

Achievement of these drivers is varied. However, there is a positive correlation between generic outsourcing drivers (innovation, efficiency and quality) and achievement. Firms that set clear goals within these drivers during their outsourcing ventures are more likely to achieve them.

Figure 7 illustrates that most organisations are partially achieving their HRO aims. The high percentage not achieving access to new technology may be considered a vendor selection issue, or a potential inability to understand and specify organisation technology requirements. Evidence suggests that rather than relieving internal HR staff pressure, HRO is having more limited impact, with 43% confirming that pressure has not been relieved through outsourcing activities. This similar issue has been explored in other reports. The CIPD (2007) explored the issues surrounding shared services. Business partners remained engaged in 'non-relevant' activities, could not move away from transactional work and had issues in defining a new role for themselves. There may be similar issues for HR professionals engaged in HRO.

HR outsourcing activities

The most outsourced HR activity is the legal aspect of the role. Surprisingly, HR strategy and policy is being outsourced by 24% of HRO respondents. Thirty-six per cent of the sample have outsourced an existing

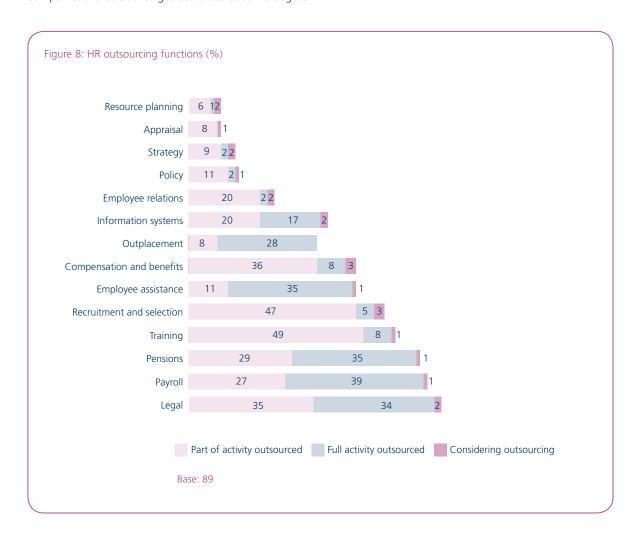


shared service centre, while 64% of those engaging in HRO have made use of a new service centre run by an external provider.

Outplacement is not being considered as an option for those already engaged in HRO activity. All other areas are under consideration, with the most popular being compensation and benefits, and recruitment and selection (see Figure 8).

We were interested to find out whether there is a link between HR outsourcing and company size in the top five most outsourced areas of HR. There is no significant variation between firm size and the types of HR activities being outsourced. Irrespective of size, all companies are outsourcing these areas to some degree. Most organisations are employing HRO on a piecemeal basis, yet four of these organisations outsource all aspects of the HR function to varying degrees, with one organisation considering outsourcing core elements of all HR activities.

The majority of those engaging in HRO are increasing their use of it. Over the last five years, 44% of respondents indicate they have increased their use of HRO slightly, with 20% increasing it to significant levels. Eleven per cent have reduced their reliance on HRO, while 25% report static levels of HR outsourcing within their organisation.



HR and other stakeholder involvement in HR outsourcing

The skills required for HRO engagement

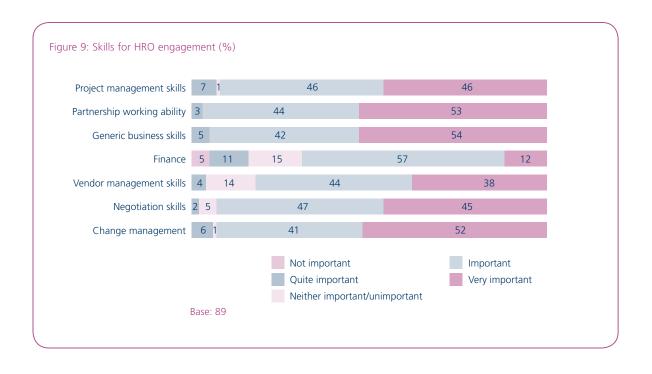
An HR outsourcing project can be broken down into various lifecycle stages. These include:

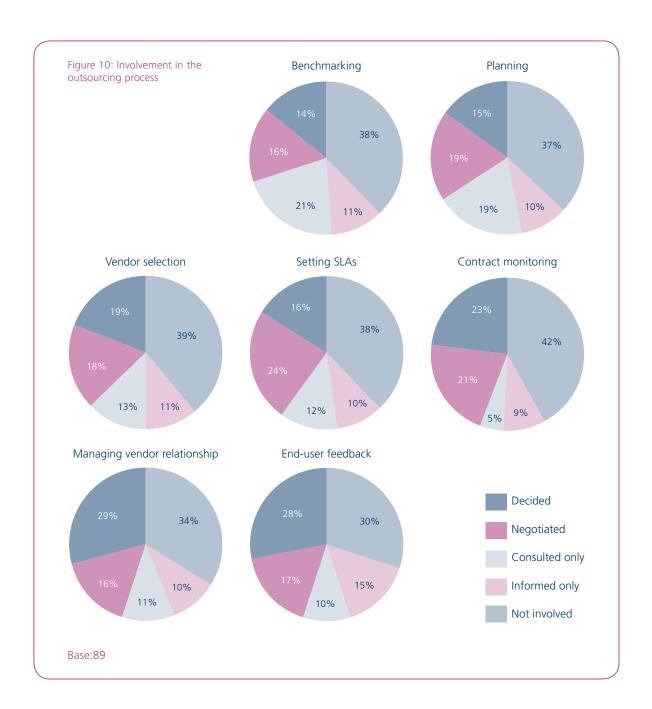
- benchmarking
- planning
- vendor selection
- setting service-level agreements (SLAs)
- contract monitoring
- management of vendor relations
- provision of end-user feedback.

Each of these stages will require a different set of skills from the HR professional involved. We wanted to assess the involvement levels of HR professionals throughout each of these lifecycle stages. To do this, we needed to discover the skill areas HR professionals deem as important to the HR outsourcing lifecycle and the proficiency of the HR professional in these skills.

Figure 9 illustrates those skill areas that HR professionals consider to be important to the HR outsourcing lifecycle.

We then compared the relevance of these skills to the skills that HR professionals consider themselves as having. HR professionals involved in HR outsourcing consider themselves as having a good or excellent level of proficiency in those areas they deem important. Partnership working is ranked in first place in terms of importance and proficiency (joint first with business awareness); however, it cannot be divorced from vendor management skills. Vendor management is positioned in fifth place in terms of importance; it also contains a higher number of those either developing expertise or having none at all. Most skill development is centred on finance and negotiation skills, with 39% and 29% respectively of HR outsourcers either considering their skills as fair or developing. Thirteen





per cent lack vendor management skills, 6% profess no financial skill at all, 2% have no project management skills and 1% lack change management skills.

Involvement in the outsourcing process

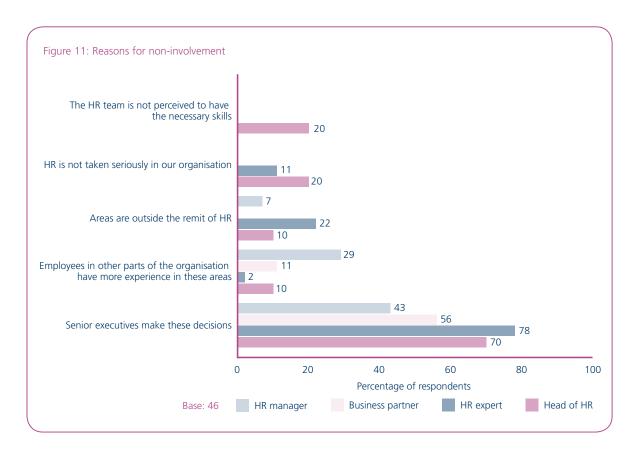
We were interested to find out whether these selfreported skills proficiencies had an impact on the HRO involvement levels of the HR professional. While HR practitioners have good skills in the areas they deem important to the HR outsourcing lifecycle, their involvement in the outsourcing process itself is somewhat limited. Sixty-nine per cent of the HR

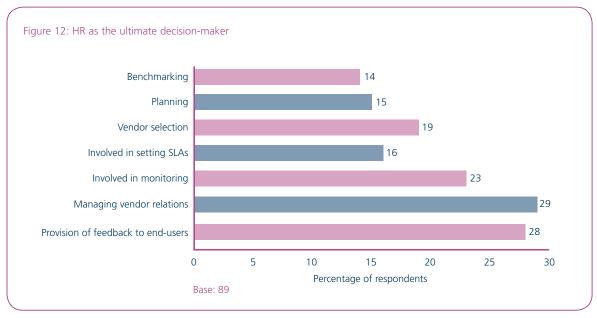
professionals represented in this study believe that the involvement of HR in the HR outsourcing process is very important, with 27% considering it to be important. However, actual involvement fails to reflect the importance of involvement in HRO.

We asked survey participants to consider the most significant HR outsourcing project they had been involved in. Figure 10 illustrates that in over a third of cases, HR has no involvement in the individual aspects of the outsourcing lifecycle. While the highest areas of decision-making are in the latter stages of the

outsourcing process (managing vendor relationships (29%), providing end-user feedback (28%) and contract monitoring (23%), these same areas have substantially high levels of non-involvement: with 34% not involved in managing vendor relationships, 30% not involved in providing end-user feedback and 42% not involved in contract monitoring. The reasons for non-involvement are illustrated in Figure 11.

We assessed involvement in two ways. The first, as detailed above, was to break down the HR outsourcing lifecycle into individual activities. We then measured HR involvement against these activities. Figure 12 illustrates that HR makes the final decision in fewer than 30% of cases, and again their involvement is restricted mainly to the latter operationalisation stages of the outsourcing venture.



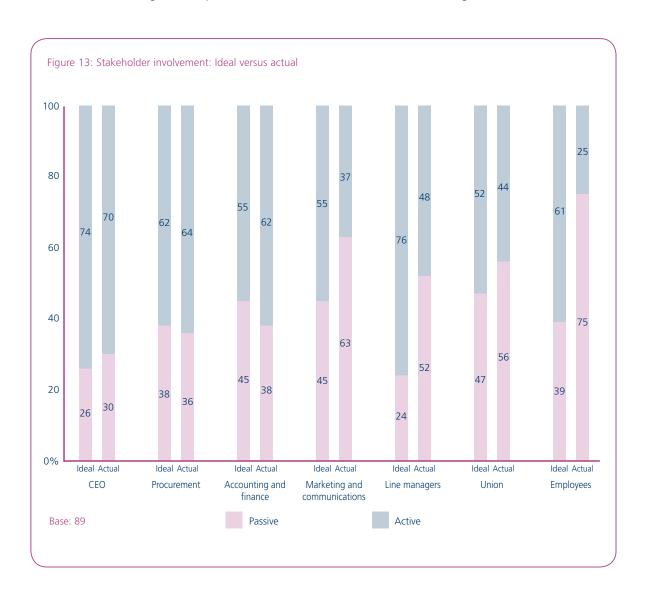


The second way we assessed HR professional involvement was to include one other question: 'Consider the most significant HR oursourcing project you have been involved in. To the best of your knowledge, what was the overall level of involvement of the following stakeholders?' One of the stakeholders in this section was the HR function. When HRO is considered as a whole activity and not broken down into various parts, 41% of HR professionals feel they have 'decided' during the outsourcing venture.

Benefits of HR involvement in HRO

While these results show a lack of involvement in the HRO process, HR professionals do have firm ideas of their own potential contribution to vendor relationships. Those outsourcing HR and those not outsourcing HR converged in their opinion that HR involvement leads to a greater emphasis on cultural fit between the vendor and the organisation. Seventy-five per cent of those not outsourcing HR and 80% of those engaged in HR either agree or agree strongly with this proposition. Eighty-one per cent of those not engaged in HRO believe that involving the HR function will provide a greater focus on quality venture outputs, in comparison with 87% of those who currently outsource HR. When presented with the statement, 'HR involvement leads to greater trust between the organisation and the vendor', 69% of those not outsourcing HR, and 75% of those outsourcing HR, either agree or strongly agree. Similarly, 80% of those not outsourcing HR, and 82% of outsourcers, either strongly agree or agree that HR involvement would lead to a more tailored outsourcing solution.

Contrary to these more relational aspects of contracting, 50% of those not engaged in HRO and 37% of those outsourcing HR feel that HR intervention



would lead to more stringent monitoring systems that penalise vendor non-conformance. Only 12% and 16% respectively disagree with this statement.

Fifty-six per cent of those not outsourcing HR believe that HR involvement leads to increased focus on cost reduction and only 51% of those outsourcing believe this to be the case. When asked to consider a focus on shortterm commitment only, 22% of those not outsourcing HR and 19% of those outsourcing HR believe that HR involvement would lead to short-termism.

Involvement of other key stakeholders

We wanted to understand the involvement levels of other organisational stakeholders. To do this we asked HR professionals to consider the ideal level of

involvement that other stakeholders should have. We then asked them to recall their last main HR outsourcing venture and to indicate the degree to which a range of stakeholders were involved. This included the CEO, accounting and finance, procurement, employees, line managers, trade unions, and marketing and communications. Figure 13 provides a breakdown of the actual and ideal levels of other stakeholder involvement. This illustrates that HR professionals would expect employees and line managers to play a greater role than they actually do. Accounting and finance play a slightly bigger role than expected, as does the procurement department. The overall picture, however, is that stakeholder involvement reflects HR professional expectations.

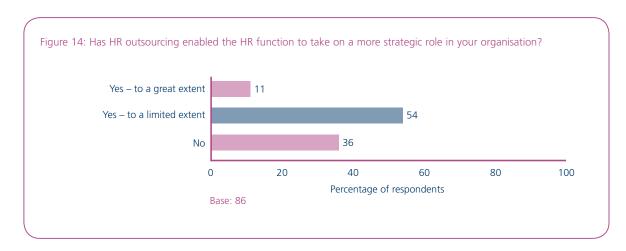
Outcomes from HR outsourcing or reasons for not pursuing

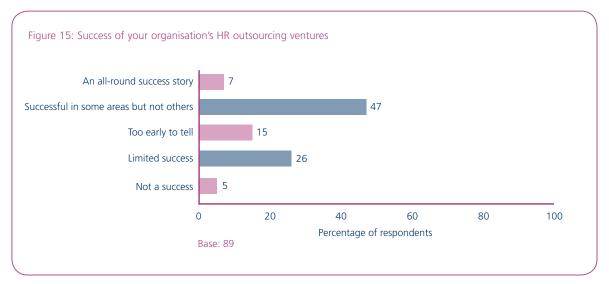
Outsourcing success

HR outsourcing is yielding mixed results. In terms of its ability to ensure that HR professionals are adopting a more strategic role, 54% confirm that it is enabling them to do so to a limited extent only. Only 11% state that outsourcing has enabled strategic involvement to a great extent. Sadly, 36% do not consider HRO as a key strategic enabler for the HR function (see Figure 14). This mixed result is evidenced in the overall opinions of the success of outsourcing (see Figure 15).

The majority of HRO respondents consider their HR outsourcing ventures to be successful in some areas but not in others (47%). Only 7% consider their HR outsourcing to be an all-round success, and only 5% consider it to be completely unsuccessful. For some (15%) it is still too early to tell, and for 26% HRO has had limited success (see Figure 15).

The overall perception of whether HRO has been successful or not does not stem from the success of achieving organisational objectives. Fifteen per cent of



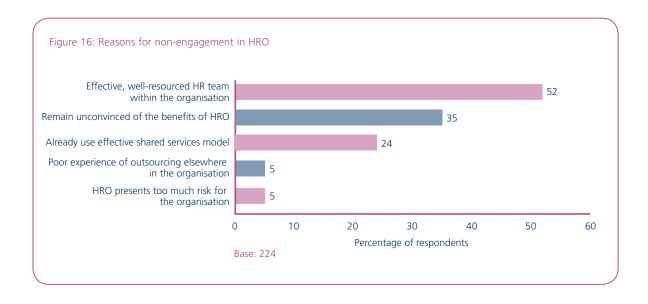


those who state that HRO has met overall objectives to a great extent still report the venture as unsuccessful. While 13% of those who declare they have not achieved organisational objectives go on to declare the overall HRO venture as an outright success. Thirty-nine per cent of those stating that they have achieved their HRO objectives to a great extent still declare that it has been successful in some areas, but not others.

The reasons for non-engagement in HR outsourcing

Seventy-one per cent of the overall sample does not outsource HR. Eighty-six per cent of those organisations who outsource elsewhere in the organisation to a great extent, and 67% of those who outsource to a limited extent within the organisation, do not outsource HR.

There are multiple reasons why firms choose not to engage in HR outsourcing. The most popular, selected by 52% of those not outsourcing HR, is the existence of an effective, well-resourced HR team within the organisation. Thirty-five per cent remain unconvinced of the benefits of HRO, and 24% report an already effective use of a shared services model. In terms of poor outsourcing experiences elsewhere in the organisation (remembering that the vast majority of these organisations do use outsourcing elsewhere), 5% consider these poor experiences as a plausible reason not to outsource HR. Five per cent confirm that HRO presents too much risk for the organisation (see Figure 16).



Conclusions and implications

This report investigated the nature and extent of HR outsourcing in organisations within the UK. Evidence was drawn from 315 organisations. While outsourcing in organisations is widespread, HR outsourcing remains somewhat limited, with only 91 organisations in this sample outsourcing aspects of their HR function. Outsourcing elsewhere in the organisation is not linked to the uptake of HR outsourcing.

The most popularly outsourced HR areas are those considered more transactional in nature. Yet there is also evidence of more strategic-level outsourcing within the HR function. Those engaged in HRO have increased their use of it in the last five years.

HR professionals consider themselves as having most of the skills necessary to participate and deal effectively with outsourcing. However, these skills do not currently reflect their overall level of involvement and decisionmaking in HR outsourcing ventures.

Most HR outsourcing activities yield mixed results, although setting specific drivers assists target achievement; it does not govern the opinion of whether HRO has been successful overall or not. It is apparent that HR outsourcing is failing to alleviate internal HR staff pressure, despite the greater emphasis on outsourcing transactional processes. HR's belief that it does not play an important administrative role provides some cause for concern, especially as the extent to which HR outsourcing increases the strategic involvement of the HR function is mixed. While the majority indicate that HR outsourcing has augmented their strategic role to a limited extent, many HR professionals have not seen a substantial increase in their strategic remits.

HR experts believe they bring a unique contribution to an HR outsourcing venture: a focus on cultural aspects during vendor selection, a venture based on trust and

relationship-building, a greater focus on quality and tailored HR outputs, managed within the broader organisational remit of reducing overall costs. The main objective for the HR function should be to communicate these benefits to the broader organisational community and increase further involvement in HRO ventures.

Overarching findings in this study indicate that HR outsourcing represents a very strong opportunity for the HR function that is still yet to be recognised by the majority of HR outsourcers. However, those not engaged in HRO predominantly cite a well-resourced and effective HR team as their prime reason for not outsourcing. The assumption that HR outsourcers consist of teams that are not well-resourced and not effective is contentious. However, if combined with the sheer lack of involvement throughout the individual stages of the HRO lifecycle, HRO poses a serious threat to those HR functions currently engaged in outsourcing. A narrowing of the HR remit throughout HRO prevents these professionals from deploying the skills they believe they have and from effectively developing new skills that are pertinent to the organisation as a whole.

The exclusion of HR professionals from HRO may not only serve to weaken the reputation and credibility of the HR function, but it also potentially precludes the ability of the organisation to maximise their relationships with external providers. HR professionals are, after all, clear as to what they can and should bring to an outsourcing venture. The challenge that remains is to create awareness of these competencies amongst other business stakeholders.

Background to the survey

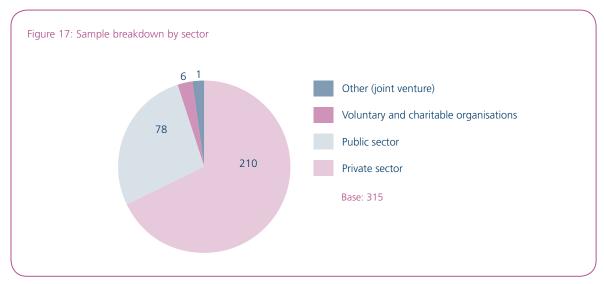
The questions used in this survey draw upon the current practitioner and academic literature in the area. They are also informed by the opinions and experiences of a range of HR practitioners, derived through a survey pilot phase. The survey was emailed to CIPD members, reducing paper use and assisting speedy delivery.

The author of this report is Alison Lewis of Leeds University Business School, who carried out the survey on behalf of the CIPD.

The sample

The data represents valid responses from individuals in 315 individual UK-wide organisations. A breakdown by sector is shown in Figure 17.

Most of our responses were drawn from the private sector, with 210 organisations represented in the sample. Fewer responses (78) were drawn from the public sector and only 6 organisations classified themselves as voluntary/charitable organisations.









Industry clusters are divided between four key areas: private services, manufacturing and production, public services and voluntary/charitable services. The majority of respondents occupied roles in the private services (41%), followed by manufacturing and production (26%). Public services make up 23% and voluntary/ charitable services constitute 10% of responses (see Figure 18). Figure 19 indicates the number of employees in survey respondents' organisations. The profile of respondents to the survey within their organisations is shown in Figure 20.

Further sources of information

The Changing HR Function This 2007 survey report exploring the changing nature of the HR function is available at www.cipd.co.uk/surveys

The Changing HR Function: Transforming HR? Providing information on how HR functions are meeting the challenges of changing structures, roles, skills and relationships, this report is available to purchase at www.cipd.co.uk/bookstore

Outsourcing Human Resources: A framework for decisions Based on research with Oxford Brookes Centre for Applied HR Research, this member-only tool is available from the CIPD website at

www.cipd.co.uk/tools

It is designed to help you consider questions such as:

- What is outsourcing?
- How might outsourcing help us improve HR provision?
- · What alternatives are there?

We explore leading-edge HR development issues through our research. Our aim is to share knowledge, increase learning and understanding, and help our members make informed decisions about improving practice in their organisations.

We produce many resources on HR issues including guides, books, practical tools, surveys and research reports. We also organise a number of conferences, events and training courses. Please visit www.cipd.co.uk to find out more.

