



Human Resources

Outsourcing in Europe

A significant trend gaining momentum

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*Even as the strategic importance of the human resources function is increasing, today's HR department is under pressure to "do more with less". At the same time, the increasingly difficult role of acquiring, developing, retaining human capital, has made HR a strategic focal point.
(Gartner Group, Inc.)*

The Changing Face of Human Resources



In today's business climate, human resources departments are considered the key to success. At the same time, however, they are caught between new constraints and opportunities. Globalisation is encouraging companies to forge partnerships and restructure, while mergers and acquisitions are progressing apace in a bid to acquire critical mass and dominate markets through specialisation. The employment market, too, is going through a difficult period, and a significant effort must be made to attract and retain skilled people.

International alliances provoke cultural shock. HR departments have to cope with disparate workforces, which differ not only in the local language but also in terms of corporate culture and managerial methods. Creating common values is essential if communication is to be effective and knowledge shared. A major requirement of integration policies is that managers be mobile, while transnational systems of measurement are

also a must if competencies, remuneration, and welfare benefits are to be evaluated.

At the same time, innovations in information technology are producing some novel solutions – and problems. The Internet creates opportunities for employees and line managers alike to help optimise management processes. Employees are invited to record changes to their own personal details and submit holiday requests, even to complete timesheets. The validation process, which in the past was the domain of a central HR department, is now handled by local managers. The impact of these new practices on behaviour requires new focus. What's more, as Bernard Brunhes¹ points out, HR departments are undergoing a power shift, which is no longer measured by "their capacity to retain information, but by their ability to leverage information systems."²

Every day, HR professionals are called upon to become the strategic partners of upper-level management. They are effectively the real engines of change, spearheading this transformation in human resources essential to the

1. Bernard Brunhes Consultants Group - international experts in Human Resources Management and Social Policies.

2. Interview for ADP: "Internet au service des RH" magazine.

attainment of market objectives.

Does this mean, then, that HR departments have managed to concentrate all their energies on this aspect of their mission where their social added value is the strongest?

Far from it; in a parallel development, their administrative duties are becoming ever more complex.

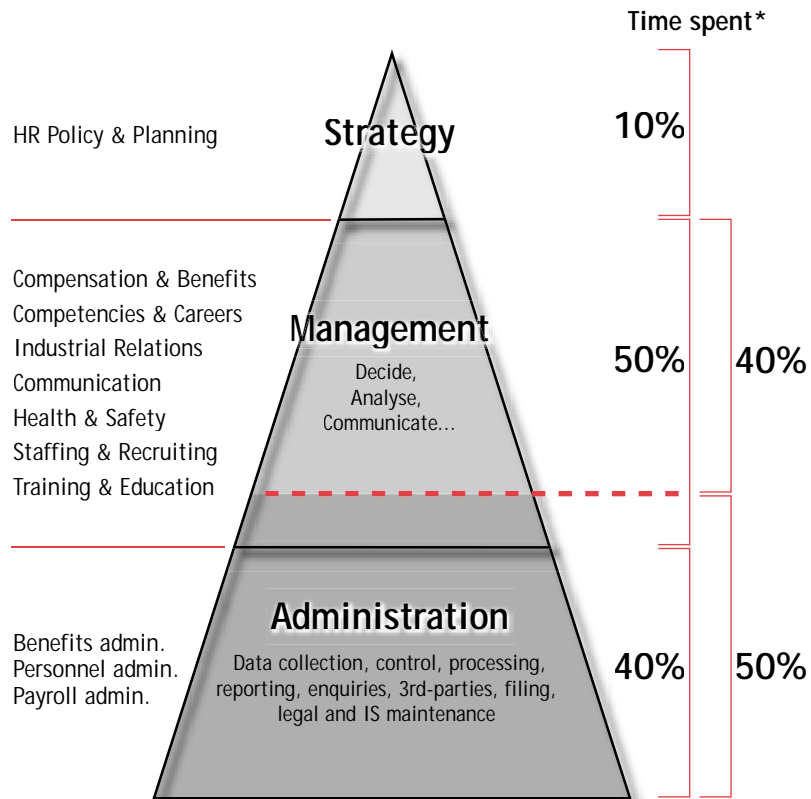
More and more, company regulations are becoming tailored to the individual. In a growing number of enterprises, the most complex procedures have become personalised: working hours, pay, social benefits, training etc. are being adapted to each employee and evolve with his or her career.

During every employee's lifecycle in the company, over twenty HR procedures are activated, either permanently or from time to time: job vacancies, recruitment, career development, training, internal communication, health and safety, and so on.

The regulatory context is in constant flux and requires

General rules are tailored to the individual

HR departments devote 50% of their own time to purely administrative operations




* Source: studies from HR Consulting firms 2000

permanent monitoring in each country where the company operates, causing many revisions to procedures.

It is no surprise, therefore, that HR departments devote 40% of their own time to purely administrative operations. Studies confirm this percentage³, which includes payroll and personnel management. And if you include the administrative tasks that are generated by HR management operations, the figure exceeds the 50% mark.

3. Cegos, PricewaterhouseCoopers, ADP.

From Subcontracting to Outsourcing

 Of course making use of external resources is hardly a new phenomenon; nearly 80% of companies entrust their training requirements to service providers. Recruitment agencies have enjoyed considerable growth. But the majority of these assignments are one-time affairs, such as hosting a training course or recruiting a manager. What's more, only the content is entrusted to the service provider – the function itself and the associated management tasks remain the responsibility of the subcontracting company. Although training departments subcontract the majority of courses, they still handle their core administrative duties.

It is therefore essential to understand the nature of the assignment: does it transfer to a partner the responsibility for an entire function or for simple tasks? Subcontracting is limited to a set of tasks, and the service provider is simply required to follow the instructions supplied by the contractor. In contrast, outsourcing involves the service provider in a range of

Does entrusting a partner with particular operations mean conferring responsibility?



operations and in the overall efficiency of a function. It can also entail the transfer of equipment and staff.

Outsourcing, ASP, BPO... how can you tell the difference?⁴

Widespread trend throughout the industrialised world, outsourcing is currently being deployed in various forms. Information technology is one of the most prolific areas, especially in the field of human resources. How do you negotiate the semantic labyrinth that surrounds this burgeoning development? How can you tell the difference between outsourcing and application management, between ASP and BSP, Managed Services and BPO? The time has come to define the various concepts and differentiate the service offerings.

The best criterion is added value. In human resources, the outsourcing model that is attracting the most attention is Managed Services – outsourcing personnel administration management. This involves transferring to the service provider all the administrative functions that

Managed Services



⁴. See glossary page 30.

are normally the responsibility of the internal department, including those of payroll management. The company continues to make managerial decisions (recruitment, remuneration, contract termination etc.) and delegates the administrative implementation of its policy to its partner. Being liable for the consequences of its errors (over-payments, late penalties, etc.), the service provider reduces the risks for its clients. Outsourcing allows competencies and best practices to be combined in order to increase the productivity of management tasks while leaving full control of information in the hands of the company.

This model can extend beyond payroll and its associated processes to include the administrative tasks associated with human resources management. This is especially the case with training plans, whose implementation involves numerous processes. We have seen on page 10 how, when these types of tasks are taken into account, the time needed to perform administrative functions exceeds the 50% mark.

The Internet will give a boost to such organisations by optimising their internal HR processes as well as those in operation between companies and service providers: a request for a holiday (or attendance on a training course) will be sent by the employee on the HR intranet, validated by his or her manager, checked by the HR department if special permission is required, and sent on to the external department for administrative purposes.

The increasing trend to outsource personnel administration management means that the more traditional form of outsourcing, which is limited to payroll and statutory reports, is gradually being supplanted. This practice has had a significant effect on the outsourcing culture in the field of human resources. Service providers must produce long-term results with regard to ensuring that payroll is consistent with ever-changing legislation. They pool resources and competencies: the payroll platforms enable processing procedures to be shared. Missions are complex, responsibility is delegated, and service provision is strictly on a long-term basis.



Segmentation of Offering and Added Value

	Dedicated environment	Shared environment	Added value
Function	<i>Business Process Outsourcing</i>	<i>Managed Services</i>	Commitment on results
Process	<i>Application Outsourcing</i>	<i>Processing Services</i>	
Applications	<i>Application Hosting</i>	<i>Application Service Providers (ASP)</i>	Commitment on means
IT resources	<i>IT Outsourcing</i>		

Note: This summary is intended as an aid to choosing the appropriate offering. In practice however, there are many combinations on the market. In addition, the terms can be misused (sometimes by service providers), which leads to confusion.

Since it is a shared service, this form of outsourcing is in direct contrast to business process outsourcing (BPO), in which a company places one of its services (i.e. accounting, purchasing, logistics) in the hands of a specialist partner. The staff are managed by the partner with each employee retaining the same job, mission, salary etc. as before. Although both delegation and optimisation are involved, there is no sharing.

In Europe, almost one in three businesses⁵ outsources its payroll functions along with a certain amount of personnel administration services. But it's the Managed Services that are most likely to succeed in Europe, since they are probably the most evolved form of outsourcing appropriate for European companies, bearing in mind each country's laws and views on labour relations.

From administrative processes to HR management itself

Moving a step up on the added value scale, why not outsource human resources management itself, or at least some of its processes? With managed HR services, it is the partner's responsibility to recruit and train employees,

Outsourcing human resources management



5. These figures are the result of a study conducted in 2000 by William Mercer and the Cranfield School of Management of 3,964 companies with over 200 employees in 15 European countries.

even to analyse positions, encourage career development, and so on.

The logic behind refocusing on core business has led some American organisations to go even further and outsource the employment contract itself. With the creation of the Professional Employer Organisation (PEO), the final step has been taken. The labour relations mentioned previously has been removed permanently, not temporarily as is the case in Europe with temporary and contract work.

The PEO may come across as something of a paradox in Europe, where the main objective of outsourcing is to free up time for HR departments so that they can concentrate on managing the core competencies. In addition, the PEO exists to enable the employees of small enterprises to get the same benefits as in large companies. Legal requirements remain an obstacle in Europe.

Commitment to means, commitment to results: where does outsourcing begin?

All these outsourcing models are characterised by the obligation to provide a result, i.e. the long-term adoption of a vital service of an enterprise.

Based on this criterion, does the outsourcing of purely technical services, such as the operation of software programs and databases offered by Application Service Providers (ASPs), come into the picture? Although the rental aspect of this model – you pay for what you use – marks it as a service, the service provider is nevertheless only committed to providing a resource, albeit with guarantees of availability and response times.

*Application
Service Providers
(ASPs)*




The above remarks apply similarly to the non-shared service that is application hosting: taken at face value, the only obligation of the service provider in this form of outsourcing is to ensure that the application functions properly.

*Application
hosting*



Double-Digit Growth

 Outsourcing is expanding rapidly in all its different forms, across all enterprise functions, and in all countries – and this growth is accelerating. Major consulting firms are reporting a double-digit growth.

Within the field of human resources, the majority of companies now outsource one or more functions



Within the field of human resources, most companies now outsource one or more functions, such as payroll, recruitment, or training. A recent study by the American Management Association revealed that 94% of American companies fall within this category. The Gartner Group has announced the US HR outsourcing market is expected to grow at an annual 25% rate; sales tripled over the last five years.

In Europe, according to a study by William Mercer and Cranfield⁶, nearly half of all companies are reporting an increase in the use of service providers over the last three years. What's more, these firms are now outsourcing more and more of the services that have traditionally been managed internally, such as benefits

6. Study by William Mercer and Cranfield School of Management (ibidem).

administration, personnel administration, or even the outsourcing of the entire function.

In 1999, 60% of French companies were already outsourcers, the figure rising to 65% the following year⁷. The average number of enterprise functions outsourced increased from 2 to 2.3 between 1990 and 2000. A final fact: 97% of companies that outsource are happy to do so, and anticipate increasing the number of functions outsourced⁸.

New context, new incentives

Traditionally, the motivation behind outsourcing has been the need to control costs (the service provider's bill reveals the true cost of a function), reduce risks (making data secure and information confidential), access expertise that only specialised companies can provide, and obtain flexibility, which is essential if companies are to maintain an effective HR information system that will cope with changing staff levels, organisation, management methods and technology.

Cost control, reduction of risks, access to expertise, flexibility



7. Arthur Andersen (Baromètre Outsourcing 2000), Taylor Nelson Sofres.

8. Arthur Andersen (ibidem).

These developments have led decision-makers to outsource functions and restructure the corporation around core competencies. Management is becoming ever more complex, if only because the laws of several different countries have to be applied simultaneously within one corporation. On the job market, certain competencies are hard to come by: recruitment drives have to focus on strategic expertise and not on specialist functions such as payroll and personnel administration.

New technologies, the need to harmonise managerial methods



Technology is opening up new opportunities to improve information flow and internal communication, but this can put an enormous strain on the financial resources of a single company. One by-product of globalisation is that it is harmonising managerial methods: an international service provider standardises the best practices of an organisation, creating a harmonisation policy in the process.

Once more, the question of costs arises. Already recognised for its ability to control costs, outsourcing is now even reducing them. Whatever the success of ERPs, the fact remains that internal solutions contain hidden

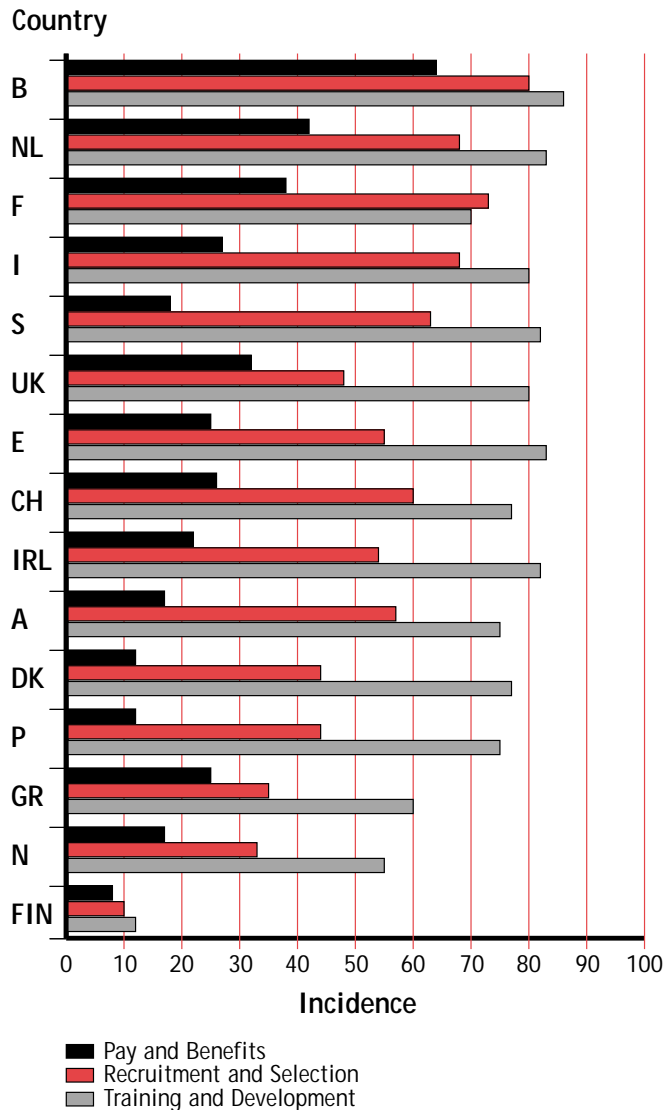
costs: the ERP's Total Cost of Ownership (TCO) is in question.

In this context, new information and communication technologies are generating innovative offers. There is much talk of ASPs, along with all the other types of services, especially the outsourcing of personnel administration management. The latter's added value will increase tenfold thanks to the Internet. All this is taking place in unprecedented conditions for performance.

External factors and cultural resistance

Outsourcing is expanding throughout Europe, and the speed of its growth highlights its unique economic and cultural features. These include external factors like the influence of multinationals and the proliferation of service providers, but also the maturity of HR departments, the dominance of strategy over administrative tasks, and above all the willingness to embrace the concept of "having something done", as opposed to the impractical method of "doing it all".

Use of external providers by country*



* Source: William Mercer & Cranfield School of Management (Ibidem).

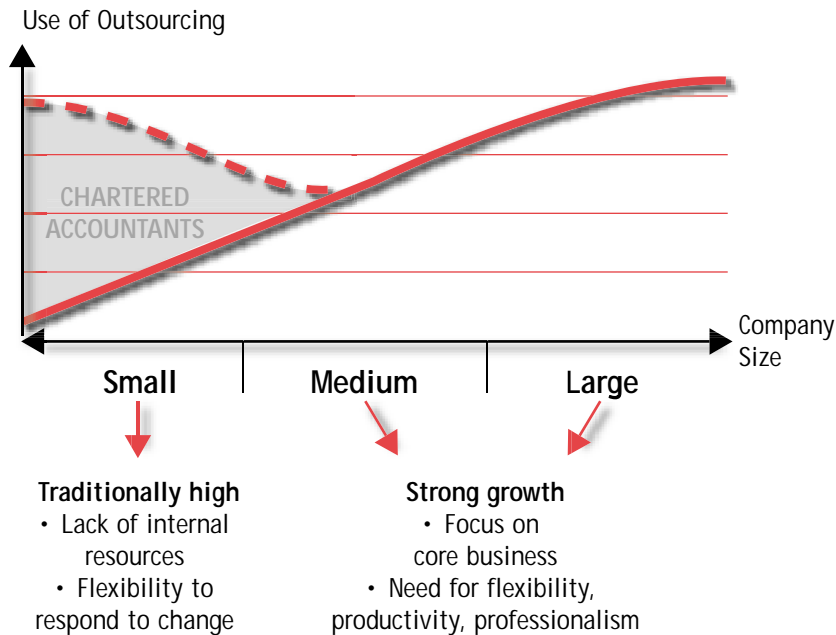
Belgium, the Netherlands, the UK and France head the chart for outsourcing in the areas of recruitment, training, payroll, and personnel administration management. Soon, however, all European businesses will have the same motivation for using outsourcing; it is reasonable to assume that these businesses too will embrace “having something done”.

The William Mercer and Cranfield School of Management study highlighted a correlation between the rate of outsourcing and the companies’ country of origin. 37% of subsidiaries operating in foreign countries outsource their payroll activities, as against 28% of domestic companies. The same disparity can be found in training, recruitment, and outplacement. However, the dominant role of American corporations in the subsidiaries concerned must be taken into account; 43% of them outsource their payroll activities⁹. To American investors, outsourcing often appears to be a proven method of managing human resources in the minefield that is European legislation. Bank of America, BP Amoco, Colgate Palmolive, General Electric, Unisys and WorldCom have all chosen this course of action.

Subsidiaries of foreign companies outsource more than local companies

9. Should the outsourcing rate be correlated to the criterion “subsidiary of foreign company” or simply “subsidiary of American company”?

The use of Outsourcing varies by size, but it's no longer only for small companies.



A further correlation is that of size: small companies outsource to the same extent as large ones. Small enterprises outsource because they lack the necessary resources and are looking for the flexibility that will foster growth. As a rule, they outsource a large number of services to preferred partners, such as in France to chartered accountants. Important roles are also played by the *secrétariat social* in Belgium and the *consulenti di lavoro* in Italy, who are service providers specialising in personnel administration management, the financial management of social security contributions, and labour relations: a unique form of function outsourcing.

Small and large enterprises outsource more than medium-sized enterprises



Large corporations focus on their core competencies and outsource specialist areas, preferring flexible solutions.

It is the medium-sized enterprises that are behind the curve; they are large enough to have their own internal resources and yet too small to contemplate re-deploying redundant staff¹⁰.

10. Arthur Andersen (*ibidem*).

Conclusion

Outsourcing is fast becoming a standard practice among HR departments across Europe and is enjoying an even greater success now that the services offered and required have been clearly defined. The clarification of the service offerings, to which this brochure attempts to contribute, is a sign that the market has matured. HR departments are increasingly focused on service providers' level of commitment and on their true added value. The first choice criterion for service providers is their focus on outsourcing so that they can manage mission-specific procedures relating to transactions, control, responsive support and proactive advice. The second is that they specialise in a particular enterprise function, which is essential if they are to provide expertise and take advantage of economies of scale. Outsourcing fulfills its objective of relieving HR departments of their administrative burden, leaving them free to devote their resources to strategic missions that are becoming more vital than ever.

Glossary

Application Hosting

The hosting of dedicated applications on a service provider's computers. May be used in connection with a maintenance contract for the applications (Application Outsourcing).

Application Management

The maintenance by a service provider of an IT application specific to an enterprise. The provider's only commitment is to ensure that the tool functions properly. Application management is part of application outsourcing.

Application Outsourcing

The management, operation, and maintenance of an application in a dedicated environment. The service provider is responsible for the effectiveness of the processes in question. The service provider's mission includes application management.

ASP - Application Service Provider

Provider of packaged on-line applications. The service is paid for on a transaction or flat rate basis; it includes rental, maintenance, and operation of the software.

BPO - Business Process Outsourcing

Outsourcing one of a company's services. As a rule, the service provider uses the outsourcing company's personnel and is responsible for the proper functioning of the service. Although the resources remain dedicated, the processes are optimised.

BSP - Business Service Provider

Provider of services (BPO for example), working towards a pre-defined result and enabling clients to take advantage of a shared environment.

ERP - Enterprise Resource Planning

An integrated application software suite that balances manufacturing, distribution and financial business functions.

IT Outsourcing

The management and operation by a service provider of an organisation's IT resources (hardware and networks), dedicated or shared. The resources may be physically located at the service provider's site.

Managed Services

Delegation to a specialist partner of a function that is essential to the company but is outside its core business. For example, by outsourcing personnel administration management, companies retain their managerial decision-making capacity (recruitment, expansion, redundancies), but their service provider assumes responsibility for all administrative procedures and obligations.

Managed Services may be extended to include the outsourcing of administrative tasks connected to HR management activities (i.e. training).

Outsourcing

Outsourcing consists of entrusting a partner with a complex, long-term mission that is defined in terms of

results. The service provider decides on the methods to be employed to secure the desired result.

For example outsourcing payroll services necessitates a commitment to punctuality, accuracy, legal compliance, and so on.

PEO - Professional Employer Organisation

Outsourcing of an organisation's entire HR operations, including employment contracts, recruitment, training, and remuneration. The PEO ensures that the HR services are consistent with the organisation's business. (USA).

Processing Services

Shared management of a process or processes by a service provider who is responsible for its/their automation and efficiency. The service is billed per transaction or unit of activity.

With regard to payroll, the service provider must guarantee punctuality and that the reports are consistent with the data supplied.

Sub-contracting

Delegation to a service provider of a one-time operation or operations as defined in a set of specifications. The service provider's responsibility is limited to ensuring that the specifications are adhered to.

TCO - Total Cost of Ownership

Comprehensive analysis of a solution cost including asset, management (network, systems, storage), support, development and communication.