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Outsourcing

## Beyond Cost Reduction

Getting Real Business Value from HR BPO  
through Strategic Talent Management

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Outsourcing is a proven tool that can help companies improve service and better manage their operating costs and cash flow. So it's no surprise, given the severity of the current economic situation, that most companies are considering increasing their use of outsourcing to cut costs in all areas – from IT to Finance to HR. But we know from experience that a cost-cutting strategy, by itself, will assuredly not be enough – companies will need to do more and do it thoughtfully. They will need to look strategically at the sources of value in their organizations, and to preserve and invest in those assets if they're to emerge from this period in a strong competitive position. And there's the rub, for it's increasingly clear that the single most important source of value in an organization – its workforce – is also its single biggest cost. Companies and their HR departments must take special care that short term actions do not create long term harm.

Getting better utilization from people – increasing workforce productivity and performance, in other words – will be a key strategy for most organizations in the current economic climate. With capital markets severely tightened and increasingly volatile, organizations that have relied

chiefly on acquisitions to drive growth in recent years will face considerable challenges in the near to medium term. The advantage will flow instead to organizations that know how to do more with what they have – organizations that are agile and innovative – organizations with the capability to leverage their people and manage their end-to-end operations in a flexible and disciplined way, in the context of overall business strategy.

HR Business Process Outsourcing (BPO) is emerging as a strategy that can play a critical, high-value role in this environment – not just by reducing direct HR operating costs, but more importantly, by enabling higher workforce performance and increased productivity across the total organization. We know, for example, that the direct cost of the HR function is generally only around 1.5-2 percent of an organization's total operating expense. So even a 25 percent reduction in that budget line is a relatively small number in overall organizational performance. We also know, however, that 40-60 percent or more of an organization's total operating costs are people-related – salaries, benefits, pensions, training, travel and living, facilities, technology, etc. A 5 percent improvement in workforce productivity can deliver an exponentially

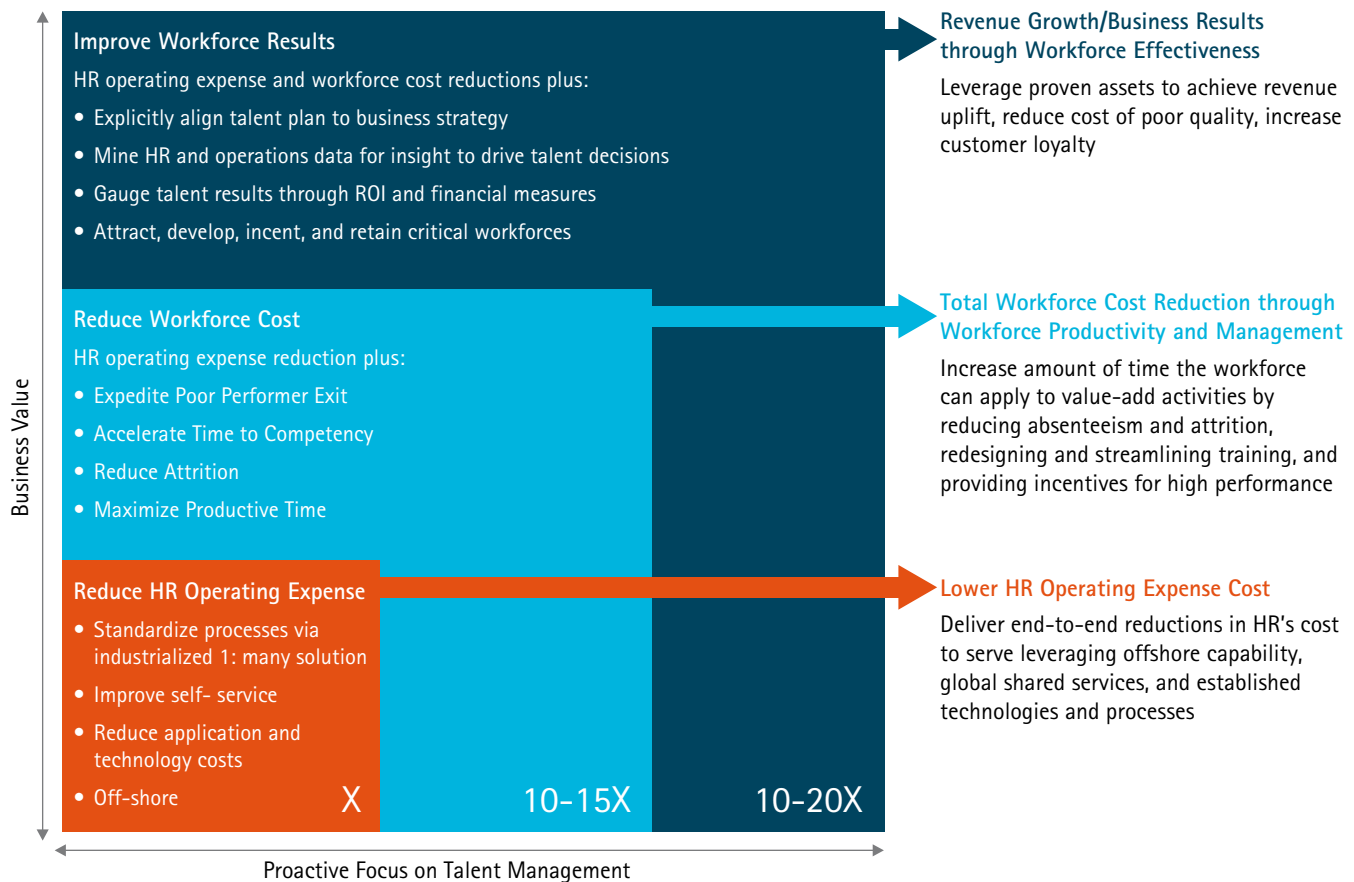
greater return on investment than simple HR operating expense reduction. Focusing on workforce productivity can also accelerate ROI from the outsourcing investment, bringing the payback point forward dramatically – from five years to two years, or even less in some cases.

### Integrated talent management services

This new approach to HR outsourcing goes beyond simple cost reduction. It's an approach that is strategic, integrated, and capable of driving business results. It integrates all the key talent management services – recruitment, performance and progression, learning, and compensation – to support the talent life cycle strategy:

- defining talent needs
- discovering and attracting talent and hiring the best qualified
- developing that talent through learning and collaboration
- deploying it through the management processes that put the right people on the right tasks to maximize business impact.

## HR BPO Is Evolving to Deliver High-Performance Talent Management



Properly designed and delivered, an outsourcing arrangement focused on the talent life cycle delivers value in several new and important ways in a high-performance talent management context. Here are some examples.

### Accelerating value through competency frameworks

Working with an expert outsourcer, a company can define and develop industry- and workforce-specific competency frameworks for the organization, and train managers how to apply these services in practice. Most obviously, competency frameworks can be used as the basis for evaluating performance, but they can also provide a foundation for developing interview guides and assessment tools for recruiting, career development plans, and a learning curriculum so the company and the provider can immediately apply the service in practice. Competency frameworks are foundational tools that can accelerate the entire "define, discover, develop, and deploy" model at the heart of high-performance talent management

### Aligning candidates with business needs through assessment and screening services

HR outsourcing can also add additional value during the recruiting and hiring phase by helping to ensure a better fit between the potential recruit and the company's business goals. By using analytical models to identify the common characteristics of the most successful employees in a given role or function, the outsourcing provider can more accurately – and predictively – identify candidates most likely to perform at a high level. Whether a candidate comes to the attention of a company through face-to-face screening or through the web, sophisticated assessment principles can be used by the outsourcing provider to determine cultural fit, validate skills and capabilities based on competency models, and better determine the long-term potential of candidates.

### Maximizing the business impact of learning and development

Learning outsourcing has advanced impressively along the maturity curve in recent years by strategically aligning investments in training to a firm's business objectives. A majority of executive respondents in a recent Accenture survey were already outsourcing some portion of content development, learning delivery, technology and facilities, and a recent report by Everest Research Institute highlights the growing trend to outsource judgment-intensive functions like content development

and delivery as well as curriculum design in Learning outsourcing engagements. ("HRO Market Update: September 2008") The impact of learning outsourcing is improving for at least a couple of reasons. First, learning is being integrated with other key components of the talent management life cycle, including career development, appraisals, and incentives. Second, companies are using learning outsourcing more explicitly in support of major business goals and change programs.

### Why outsource?

Can these processes and activities be performed without engaging an outsourcing provider? Of course – all organizations will likely have some of the skills required in certain positions or locations. But the chances are much less that these processes can or will be done at scale, or that they will be pursued with the required rigor and discipline – it is the commercial imperative underlying outsourcing that drives results. An outsourcing provider, moreover, is uniquely positioned to improve the business value delivered by a company throughout the talent life cycle. With a global view across all the relevant dimensions, a provider can be a catalyst to bring together disparate initiatives, and a facilitator to ensure alignment and focus, thus improving total ROI. This not only eliminates redundancies but also helps the client "multiply" talent without adding additional headcount – maximizing the synergies and leveraging specialist skills across the entire organization.

The outsourcing provider's experience across multiple clients and investment in tools, moreover, can help HR departments advance a talent management agenda in specific, measurable ways while lowering the overall cost of administration for transactional services. One of the more exciting developments on the horizon in the area of reporting and analytics is the whole area we call "predictive" capabilities. Instead of looking only at lagging indicators that describe past performance, companies can develop the capability to see what's ahead. New technologies and algorithms offer the possibility of analyzing mass data sets and then modelling a causal effect between how individuals are acquired, developed, managed and motivated, and how they perform more optimally. With better analytics, companies can also harness innovations as they occur, delivering them back into the overall talent management system to drive better performance – a virtuous cycle of continuous improvement. And with the right metrics in place, organizations can monitor how effectively their talent – and their HR organization – is delivering business value through the HR outsourcing engagement.

### Where to start?

Experienced HR outsourcing buyers in mature engagements are already starting to make use of these capabilities, and leading HR outsourcing providers are rapidly gaining experience working with multiple clients. Multi-service providers like Accenture, moreover, with deep HR consulting and technology expertise, and extensive global experience and delivery capabilities, are best positioned to understand the issues and provide differentiated services at scale. For buyers just starting out or wishing to take an incremental approach, the most logical starting points would include Recruitment and Learning services, expanding out from these to integrate Performance and Progression, and ultimately Compensation to build an integrated talent management service capability.

But because talent management services are critically dependent on access to reliable, high quality data, and on the ability of the provider to integrate services across the talent management life cycle, organizations must have a clear and purposeful sourcing strategy to guide their decisions. A best-of-breed strategy that results in multiple providers delivering different services on different technology platforms, will create long term challenges for an organization that is serious about managing its talent. Lack of consistent data sets, lack of integration, and multiple process models operating in parallel will inevitably breed complexity and create difficult governance and management challenges. Companies taking a serious approach will prefer a long term partner who can help them build and evolve.

While economic conditions may rise and fall and management trends may come and go, an organization's human capital is critical to its ability to outperform competitors and deliver shareholder value over the long term. Skilled and motivated employees provide a competitive edge that is long-lasting and difficult to imitate – a strength never more valuable (or at risk) than in times of economic stress. HR BPO has evolved beyond cost reduction, and now represents a critical tool to help organizations improve workforce productivity and deliver meaningful business results in a challenging economic environment.

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