

A

HR Departments Seek Eight Per Cent Cost Reduction in 2010

The overriding issue which continues to concern HR departments during 2010 is the ongoing need for HR service cost reduction.

Issues faced by HR departments in 2010 include providing support for organizational restructuring and retraining in the current economic environment while reducing HR costs. At the same time, HR departments are faced with the challenge of standardizing HR processes and providing improved HR information in an environment where there is little management support for internal investment in HR technology.

Exhibit II-1 shows the profile of key HR management issues faced by organizations during 2010.

Exhibit II-1

HR Management Issues Faced

Potential HR Management Issue	High Importance (%)
Corporate requirement for reductions in costs of HR administration	78
Difficulties in obtaining consistent single view of the employee	72
Need accurate and consolidated workforce information and reports	71
Need to retain key personnel in difficult times	63
Need to improve identification of high performers and succession management	57
Low consistency of HR processes across the organization	55
Need to reduce cost of staff healthcare and benefits	55

The principal HR issues identified when executives were prompted are the need for improved HR information giving both a single view of the employee and a consistent, consolidated view of HR data across the organization together with reduced costs in HR administration.

Thereafter employee performance management is a key issue with organizations needing to improve their identification and retention of key personnel during unsettled times.

This need for cost reduction with minimum investment is having a major impact on the manner in which organizations are approaching HR outsourcing. Overall the principal focus of HR outsourcing activity during 2010 will remain on cost reduction. Exhibit II-2 shows the profile of HR outsourcing needs and expectations that organizations will focus on over the next 12 to 18 months.

Exhibit II-2

HR Outsourcing Needs and Expectations

HR Outsourcing Emphasis	Proportion (%)
Cost – maintenance of your current services and systems, with only minor changes additions	60
Improvement – we are already to make moderate addition and changes to our systems, processes and capabilities	33
Transformation – it is time to invest in major upgrades or changes to our service delivery capabilities	7

Exhibit II-3 shows the profile of cost reduction sought by organizations from HR services during 2010.

Exhibit II-3

Level of Cost Reduction Sought from HR Services

Cost reduction sought	Proportion (%)
0-5%	31
5-10%	31
10-15%	18
15-20%	20

On average, organizations are seeking cost reductions of approximately 8% from their HR services during 2010. However, given this overall target, organizations will typically be seeking significantly higher cost reduction from those elements of their HR services that are outsourced. Consequently organizations will both continue to seek further cost reduction within existing HR outsourcing contracts, with the contract negotiations that began in 2009 likely to continue in 2010, and introduce further use of HR outsourcing with a focus on process standardization and cost reduction.

Exhibit II-4 shows by sector the extent to which organizations have a focus on cost rather than service improvement or transformation within HR outsourcing contracts.

Exhibit II-4

HR Outsourcing Cost Reduction Focus

Sector	Proportion (%)
CPG	83
Media	67
Utilities	66
Retail	62
Healthcare	60
Pharmaceuticals	58
Insurance	58
Telecoms	54
High-Tech	50
Banking	43

B

Organizations Seek Service Standardization from HR Outsourcing to Provide Improved Access to HR Information

Exhibit II-5 shows the perceived importance of each of a number of potential HR outsourcing benefits.

Exhibit II-5

Key HR Outsourcing Benefits Sought

Potential HR Outsourcing Benefit	High Importance (%)
Consolidation of service delivery	90
Integration of HR processes	89
Improved automation of HR processes	88
Improved access to HR information	87
Standardization of services across geographies	78

Standardization of HR processes combined with consolidation and automation of service delivery is highly important to organizations as they seek to achieve improved access to HR information across HR processes.

C

Aversion to In-House Technology Investment Leads to Increased Acceptance of SaaS-based HR Outsourcing Services

Exhibit II-6 shows how the attitudes of organizations' HR decision makers have changed with respect to use of SaaS-based services.

Exhibit II-6

Changing Attitudes towards SaaS-Based HR Service Delivery

Option	Increased Likelihood of Consideration (%)
Use of Software as a Services (SaaS) applications for new outsourced services	72
Moving from your current HR infrastructure to a provider's platform	67

The economic environment has led organizations increasingly to favor use of SaaS-based vendor hosted applications to underpin outsourced HR services, with the adoption of new HR technology becoming an important enabler of improved HR process cost-effectiveness.

However, the services provided using hosted HR applications are typically either hybrid in nature or single service. For example the HR BPO services enabled by supplier-hosted SAP HCM services are typically restricted to payroll services and employee care at present, with other HR services supported by the platform such as learning and recruitment administration typically still being carried out by the in-house HR department. In addition, there is an increase in the use of supplier hosted applications in support of single services such as learning services and recruitment process outsourcing. For example provision of hosted learning management systems is becoming increasingly important within the learning BPO market.

Exhibit II-7 shows the extent to which organizations favor the introduction of new HR technologies.

Exhibit II-7

Outsourcing Deal Criteria: Technology Approach

Criteria	Proportion (%)
Maximize use of newer more efficient and lower cost technologies and approaches	69
Maximize use of our current HR technology infrastructure	31

Indeed, HR is typically the process area where there is greatest organizational acceptance of use of vendor technology, driven by the traditional low priority given to HR in terms of HR investment. Correspondingly, organizations increasingly favor use of services based on vendor technology rather than interfacing with client technology, as is still the norm in areas such as finance & accounting and customer service.

HR outsourcing has been out of favor with many organizations for a number of years but is once again becoming acceptable both in terms of a narrower approach to multi-process HR outsourcing based on payroll services and employee administration and in terms of single specialists services such as payroll, benefits, learning and RPO. Overall, forty-five percent of organizations intend to purchase or will seriously evaluate the use of additional HR outsourcing services by end 2010.

Exhibit II-8 shows the profile of HR services that organizations will purchase or seriously evaluate outsourcing during 2010.

Exhibit II-8

HR Services Likely To Be Outsourced: 2010

HR Service	Proportion (%)
Core HR Technology	14
Learning	14
Payroll	12
Talent Management	11
Benefits Administration	9
Workforce Administration	5
Recruiting	4
Compensation Administration	3

The HR services where organizations are principally seeking underpinning by vendor hosted systems are primarily recruiting and payroll services.

Exhibit II-9 shows by HR process the proportion of organizations that would expect the supplier to provide a hosted HR platform versus interfacing with in-house HR systems.

Exhibit II-9

Vendor Hosted vs. In-House HR Systems

Process	Vendor Hosted (%)	In-house System (%)
Recruiting	67	13
Payroll	51	12
Benefits Administration	47	28
Integrated talent management	42	13
Learning	39	19
Talent Management	37	13
Workforce Administration	22	18
Compensation Administration	17	23
HR analytics and business intelligence	12	13

D

Increased Acceptance of Offshore Delivery for Employee Contact Centers

Exhibit II-10 shows how the attitudes of organizations' HR decision makers have changed with respect to use of nearshore and offshore delivery.

Exhibit II-10

Changing Attitudes towards Nearshore & Offshore Delivery

Option	Increased Likelihood of Consideration (%)
Nearshoring, or offshoring employee contact centers, voice services	67
Offshoring back office work, non-voice services	60

The increasing need for service standardization and service cost reduction has significantly increased the level of acceptance of use of nearshore and offshore delivery, with increasingly high levels of acceptance for use of nearshore and offshore services in support of both employee care services and back-office, non-voice services.

Indeed it is evident that suppliers are increasingly building offshore HR service delivery in locations such as the Philippines. While BPO delivery activity in the Philippines remains dominated by customer management services, IBM has also built a mature HR outsourcing delivery capability there and other suppliers including NorthgateArinso are rapidly following suit.