

A man in a dark suit and blue tie is looking at a silver laptop. He is standing in front of a modern glass skyscraper. The image has a blue tint and a pattern of white circles on the left side. A blue horizontal bar is overlaid on the image, containing the title text.

HRO and the Credit Crunch

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Executive summary

- Just as businesses were beginning to realise the true benefits of outsourcing on a wider scale, the credit crunch hit. The resulting financial uncertainty has changed the landscape of the business world and the decisions made within it. A Ceridian survey of 250 Senior HR professionals addressed how human resources outsourcing (HRO) decision making has been shaped by the economic crisis. The results revealed significant findings concerning attitudes towards HRO.
 - Only 20% identify the HR director as a key decision maker in the move to outsource HR processes
 - 60% outsource a single process with 31% opting for a multi-outsourcing approach
 - Three key determinants of an outsource provider's quality are accuracy (71%), general level of service (68%) and reliability (68%)
 - 42% were concerned that further outsourcing would reduce their control over the HR function
 - 56% are satisfied with their outsource provider, believing they understand their needs and deliver what they want

HRO – the authority of HR under the microscope

- The credit crunch is challenging HR's authority over outsourcing decisions in its own department. Only one in three of our survey respondents identified the HR director or team as the primary decision maker and driver behind the move to outsource HR processes.
- To underpin its authority, HR needs the ability to financially articulate HRO value to their colleagues in a common language and provide the tools to show both value and returns for their function in comparison to their peers.

Battle lines clearly drawn between HRO pragmatists and sceptics

- The downturn is hardening attitudes to HRO among both pragmatists and sceptics. About a third of HR professionals will support further outsourcing, provided it clearly delivers better value for money.
- This is an approach that we would expect to become more prevalent, as cost pressures grow greater during 2009 and 2010. This part of the HR community is looking to identify value-enhancing activity and remove transactional activities such as HR administration that add less value.
- Many others in HR, however, are arguably allowing their hearts to rule their heads. In spite of the credit crunch, nearly one-third indicate that they are totally opposed to any further outsourcing. HRO sceptics base their opposition on concerns over a loss of control over the HR function, the impact on staff morale and the impact on jobs.
- Four in ten HR leaders can identify HRO "no-go" areas in their organisation and these are not solely in the area of strategy formulation but also include transactional processes.
- Over two-thirds of respondents had clear timescales for reviewing outsourcing arrangements. However, almost a third said they did not know whether to push forward or put back a review of HRO in their business as a result of the current climate.

Tighter and better-defined HRO

- In a credit crunch world, customers are re-trenching to a simple and pragmatic approach to building HRO services. Less emphasis is placed on outsourcing end-to-end HR processes. Instead, there is a clear focus on single, dual and triple process outsourcing.
- Even so, organisations are clearly not fully leveraging the economic benefits of HR outsourcing. Six out of ten only outsource a single process in spite of the prevalence of multiple HRO services, which offer "joined up" cost savings and efficiencies.
- Payroll and pensions dominate HR outsourcing activity. Over 40% of organisations currently outsource one of these processes. These two processes have also dominated activity within the last two years, suggesting that these markets are still attracting plenty of fresh interest.

Why HRO is bought and retained

- The downturn is bringing the capabilities of all organisations under the microscope. Buying in expertise not already in a business is the reason why almost 40% of the respondents turn to outsourcing in the first place. The next most important driver is, unsurprisingly in a recession, the cost of HRO, with over a third of respondents citing this as the most important buying criteria.
- The key to outsourcing providers retaining business with their clients lies far more with the quality of service provided – in terms of accuracy, reliability and level of service, rather than just cost.
- However, there is room for improvement as the credit crunch bites harder, not least because one in three feel that the providers don't understand their clients' business well enough. Many outsourced providers are doing a good job in terms of quality of service – nearly six in ten HR professionals are happy with their outsourced providers.

Introduction

Over the last few decades, the outsourcing market has gathered traction as businesses begin to appreciate the benefits of outsourcing what has become an increasingly broad range of activities.

What started with manufacturing has progressed through to the provision of IT services and business process outsourcing. More recently, the concept has further accelerated in other areas of corporate activity that companies were once reluctant to outsource, such as finance and accounting and human resources.

The human resources outsourcing (HRO) market encompasses a broad spectrum of HR processes, transactions and systems. Traditionally, the majority of companies focused on discrete aspects of HR, such as payroll and pensions. Gradually, as the market evolved, HR decision makers gained confidence and began to extend the reach of HRO touching traditional “no-go” areas of recruitment processes, absence and leave management.

However, in 2008, just as HR professionals began to embrace the new concept of HRO more widely, the greatest economic shift since the 1920's profoundly changed the business landscape; the credit crunch became a reality. The ensuing financial crisis and global economic slowdown has begun to underpin business leaders' decision-making and challenge the perceived norms held by many organisations.

We set out to assess the potential impact of the financial crisis on HRO decision making over the next two years. To do this, we surveyed 250 senior HR professionals working in the UK to assess the perception of the HRO market, in terms of what HR activities are being outsourced, and what might be outsourced in the near future.

We also looked at a range of decision-making factors, such as why HR professionals outsource; on what basis they make that decision; the barriers to outsourcing HR; and how the performance of outsourcing providers is assessed.

Finally, we looked at the potential impact of the credit crunch on HRO decision making. Might cost and time pressures increase the demand for HRO? If so, in which areas? Or, will businesses be too busy fire fighting to understand the potential benefits available from HRO?

Overall, the research revealed a number of significant findings concerning changing attitudes towards HRO, both from a functional and commercial relationship perspective. As we move into an uncertain trading period where, for many, survival has become the watchword for success, it is clear HR has an important role to play in navigating through these turbulent waters.

HRO in a credit crunch world

Value-driven strategy

Outsourcing is strategically important to HR professionals in the crunch...

Over three-quarters of those surveyed see outsourcing as an issue of interest for their business. The prospects of reducing costs during an economic downturn clearly provide a powerful impetus to move beyond the previous commitments to HRO.

It is also clear that this position will accelerate as we get further into the crunch, as HR professionals seek to leverage outsourcing to its best advantage to deliver clear fiscal returns in the short-term.

Although outsourcing is a strategic tool for many organisations, there is still a small minority of HR professionals (20%) who do not perceive outsourcing as an issue or priority for their organisation. This, after further analysis, is more of a timing issue for these organisations and relates to where they are in their organisational lifecycle.

However, irrespective of which segment organisations are in, it is clear that value and the ability to demonstrate hard and immediate benefits underpins the thinking of HR professionals. Outsourcing providers will have to work very hard to articulate and develop with their HR clients an even more convincing case for contracting out HR activities.

Activity broader but more focused

Pensions and payroll have dominated recent HR outsourcing activity...

HR professionals were asked which aspects of the organisation's human resource activities were currently outsourced. The results confirmed some well-established HRO trends.

Both pensions and payroll are relatively mature markets for human resource outsourcing. This has already been established by other industry commentators, where over 70% of HRO activity contains some elements of payroll functionality. This is reflected in the survey results, with 41% of organisations currently outsourcing payroll to a greater or lesser degree.

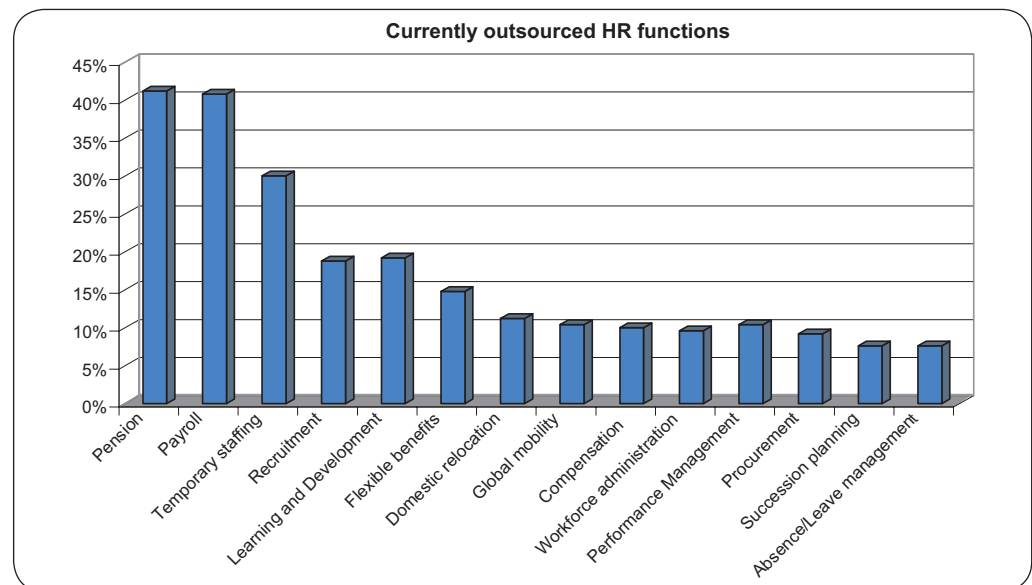
This indicates that payroll with pensions activity appear to be the main starting point for any outsourced activity. These utility services, although vital to the smooth running of an organisation, are often under-funded and non-core. In other words, they are ideal candidates to move to an HRO provider who can leverage their expertise and economies of scale to improve efficiency in the short term.

The survey also confirmed that while organisations are moving beyond the outsourcing of traditionally outsourced processes (such as pensions and payroll), they are still cautious about outsourcing many HR activities including flexible benefits (15%), performance management (10%), compensation (10%), and procurement (9%).

This appears to be part of the evolution of outsourcing, whereby the closer the activity is aligned to non-rules based transactional activity, the less trust a client has in a third party to manage it. However, as these processes become more rules-based, driven by systems and technology, there may be a greater propensity to consider them as candidates for outsourcing.

From another perspective, the closer these areas are linked to utility pay and reward functions the quicker one would expect them to potentially fall into the “higher potential” areas for using a third party.

Some activities however, were deemed so strategically important to the HR function that they were the least outsourced of all the HR activities - succession planning and absence/leave management, both at 8%.



... but under-pressure HR is now looking elsewhere

These figures show that many organisations appreciate the advantages of outsourcing at least some HR processes. Indeed, some organisations have moved beyond the initial phase of outsourcing to adopt a broader perspective and are outsourcing activities such as succession planning and workforce administration, for example.

Whilst it is clear there is a core of HR processes that are deemed as outsourceable, the spectrum or range of services considered is broadening. From the research, it is clear that this will continue and accelerate over the next two years.

This presents a considerable opportunity for both the companies considering outsourcing, and the outsourcing providers, particularly against the backdrop of doing business in a recession.

Outsourcing in small, defined, manageable steps

In spite of potential cost savings, six in ten outsource only one process...

Organisations that outsource HR are not fully leveraging the economic benefits and economies of scale of so doing. We asked the HR professionals whether their approach was to outsource a single HR process, a number of distinct processes, or a bundle of associated processes.

In spite of the prevalence of HRO services which offer “joined up” cost savings and efficiencies across many processes, a majority (60%) favoured the single process approach, with just under a third (31%) adopting a multi-outsourcing approach. A small proportion, just 9%, outsourced using the bundle of associated processes strategy.

This demonstrates the dichotomy between the needs of customers and suppliers. For many providers, the bundling of services to offer solution breadth has become a necessity for them to differentiate from their competitors. For customers, single processes are easier to control and demonstrate clear economic returns.

Therefore the research demonstrates that where there is a natural service adjacency and the customer can clearly see the link between the services, the propensity for uptake increases.

Those providers that can extend from their core offer and clearly integrate adjacent services will win for their customers. When asked about which HR processes fit together naturally, pension and payroll was the most common response, although answers covered a very wide range of processes, lending support for the concept of HR administration outsourcing which bundles together a collection of activities.

There were also a small number of respondents that took a more integrated view of HR. However they were the exception rather than the norm. In these cases, a typical response was: "We tend to view our HR operation as an integrated whole - whether a particular function is in-house or outsourced." The blurring of the boundaries between supplier and customer seems to be applicable to those organisations with a strong measurement culture. Where cited, these organisations could articulate to other business stakeholders demonstrable measurement of HR outcomes. The demonstration of HR outcomes rather than inputs show a clear shift from cost control to value-added HR.

The Ceridian perspective:

Payroll, Benefit & Reward

"There are a number of organisations that already outsource their payroll services to a 3rd party. However, few, if any, fully integrate their benefits management systems or HR administrative processes. This often means the creation of internal "work arounds" creating dis-economies of scale, single points of failure and inconsistent reporting.

The creation of this cottage industry of administration and work-arounds is approximately the third or fourth biggest activity in the quantum of HR work. As economic conditions tighten, more pressure will be placed on the HR department and its ability to demonstrate tangible strategic value in areas such as employee retention and engagement.

The shift from focusing on manually derived administrative outputs to value creation will not only be a challenge for HR but also other support functions of a business.

David O'Connor, Marketing and Commercial Services Director.

Sceptics matched by pragmatists

One-third of HR doesn't want more outsourcing, despite the crunch ...

The credit crunch notwithstanding, there is still significant resistance to HRO compared to other functional departments. Nearly one-third of HR professionals surveyed (28%) indicated that they are totally opposed to any or further outsourcing in their organisations.

Of those HR professionals more open to outsourcing, a proportion still believes that there are a number of “no-go” areas for HR. For example, 42% of HR professionals identified at least one particular HR function that should never be outsourced. Surprisingly, these “protected” areas were not always in the domain of strategy development or execution but in more transactional areas of HR.

The biggest area of concern was employee relations, with over half (57%) of those expressing reservations, nominating this activity as one that must always remain in-house. The challenge for providers must therefore be to develop services that ensure that the value-enhancing parts of employee relations remain within the organisation and the transactional support is systemised, making it as efficient as possible.

A further 39% opted for performance management, and 32% for HR strategy. What is imperative for providers is the need to be clear where the hand-offs between customer and supplier occur in these “no-go” areas and how they interact. This may become a key driver for HR in the short to medium term as the department reconciles what truly is value enhancing for the organisation.

... but one-third are noticeably more pragmatic

There remains close to one-third of human resource professionals who support outsourcing, provided it clearly delivers better value for money than providing the same services in-house. This is an approach that we would expect to become more prevalent, as cost pressures grow greater during 2009 and 2010.

The credit crunch: it's nothing personal

Six in ten are happy with their outsourcing provider ...

HR professionals were also asked about the general level of satisfaction regarding their existing outsourcing arrangements and relationships with their outsourcing providers.

Of those who commented on the relationship with their outsourcing provider, the majority (56%) appeared to be satisfied, saying that the outsourcing provider understood their needs and delivered what they wanted.

... even though one in three don't understand their clients' business well enough

There is no room for complacency however, as some 32% of HR professionals commenting on the relationship believed that their outsourcing provider lacked a clear understanding of their needs, while still managing to meet standards required by the outsourcing organisation. This may be an outcome of those organisations selecting generalist outsourcing providers rather than specialists with a clear reputation around one or more of the key outsourced areas.

A further 10% of HR professionals believed that the outsourcing provider not only lacked an understanding of their business, but failed to deliver outsourcing services to the standard required.

Before you outsource – Quick tips

At a time when every organisation must be doubly sure that they are using resources effectively, there are a number of questions HR professionals should ask when making a decision whether or not to outsource.

What are the drivers?

Clients need to understand their drivers for outsourcing, because they tend to get caught up with how the process actually works, instead of trusting the outsourcing provider's expertise to deliver the end result effectively.

- Is the current system legislatively compliant and fit for service?
- What are the risks and costs of disaster recovery?
- Are existing processes efficient, or are they over-staffed?
- Would short-term investment in new systems have a short-term ROI?
- Would reduction of staff alone benefit the organisation, even without net cost savings?
- Outsourcing will automatically lead to a review of and improvement of processes – would the business benefit from this?
- Could the business use and benefit from standard shared centre processes?
- What are the savings; is it cheaper to run in-house or outsource?
- Can the service provider give a superior service level?

The outsourcing process:

- Do we know which processes we are outsourcing?
- What results do we want/what does success look like?
- How can we manage this relationship and the changes it brings – specifically process and cultural changes?

- Do we have the skills in-house to effectively manage this relationship?

Often the newest member of the team is handed responsibility for the relationship with an outsource partner, without having the necessary skills or knowledge of the process that has been outsourced to manage it effectively.

- Does the provider have the ability to look at a longer term strategy?

Can they provide a single source other than payroll, for example, to grow with the business needs by adding additional services such as flexible benefits, expenses management, and talent acquisition?

Finally:

- Can we trust the outsourcing services provider?

It is important to check credentials and the provider's ability to deliver – cheapest is not necessarily the best, long-term.

- Are we really committed to outsourcing?

It is not just a question of handing everything over and forgetting about it; organisations need to invest in the partnership for it to be really successful.

Decision-making in the post-crunch world

It is only by understanding the reasons why outsourcing decisions are made, who makes those decisions and on what criteria, that outsourcing providers can hope to improve the services that they provide.

Who will be making the decisions?

The credit crunch is challenging HR's authority...

It is important to identify the key decision maker, as building good relationships around the outsourcing process are an essential part of ensuring an efficient, effective and high-quality outsourcing service.

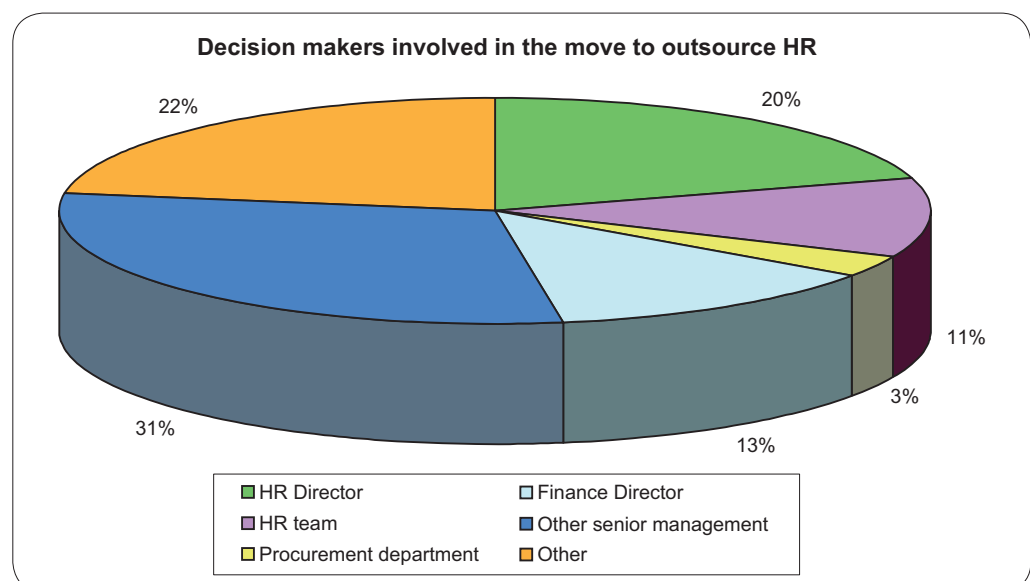
You might expect that the principle decision makers with respect to whether to outsource HR functions or not, which functions to outsource, and whether to bring any of those functions back in-house, would be the HR directors.

However, in a recession, where businesses come under increased cost pressures, the ability to drive value through outsourcing may be lost, shifting decision-making authority from a functional HR expert to a potentially more objective finance function.

We asked the HR professionals which decision makers within their organisation were responsible for driving decisions to outsource HR processes. Perhaps surprisingly, only 20% of the respondents identified the HR director as the person driving the move to outsource.

In examining this further and including the functional HR management team, the figure only rose to just under a third. Although over 40% of other senior management, including the finance director, were identified as driving outsourcing, it is clear in some organisations that HR are not masters of their own strategy.

The challenge for the HR team in this environment is twofold as support function costs understandably come into question from other senior management. Firstly, HR needs the ability to financially articulate value to their colleagues in a common language and secondly provide the tools to show both value and returns for their function in comparison to their peers.



Why organisations buy Outsourcing

Sourcing capability and price will be the key reasons for HRO...

Companies outsource for a variety of reasons and our survey attempted to establish the key drivers for HRO. We asked HR professionals what were their main reasons for outsourcing activities.

According to almost 40% of the respondents, the main impetus for HRO is to source a capability that the organisation does not possess in-house.

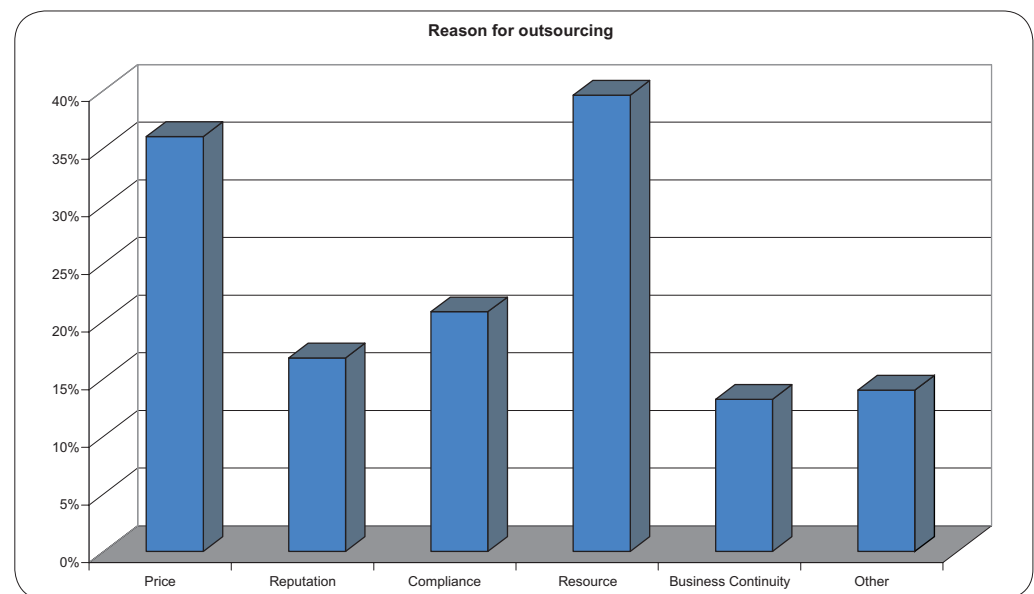
The downturn brings the issue of capability into sharp relief. Over the next couple of years, the ability to access external expertise, and free up the internal HR function to focus on activities that relate directly to increased efficiency, productivity and effectiveness of the workforce, may mean the difference between the survival or failure of the business.

The next most significant driver for outsourcing is price, with a little over a third of respondents (36%) citing this as a main reason. Both compliance (21%) and reputation (17%) were the next most important reasons for outsourcing. Least significant according to respondents was business continuity (13%).

“Over the next two years we expect to see a greater focus on the link between HR functions and payroll. There are still a lot of companies running two separate databases and re-keying information.

By integrating these two functions you can reduce error, improve efficiency and potentially reduce or redeploy resource.”

Peter Howley
Head of Commercial Services
Ceridian.



Repeat business

... but the quality of service will drive retention

The survey looked at a range of factors that affect perceptions about the quality of the service delivered by the outsourcing provider. These were rated on a five point scale, with five being very important and one being not very important.

Three factors were rated as very important by about 70 percent of the survey respondents. These were accuracy (71%), general level of service (68%), and reliability (68%). These three areas, for most providers, could be deemed “ticket to play” requirements for any successful outsourcing organisation. However, if a provider gets these wrong, this will have reputational risk implications for both the HR department and the organisation as a whole.

Less important were integration with the business (51%), price (50%), and speed of implementation (49%). Least important, according to the HR professionals, was the accreditation or track record of the provider with only 44% rating it as very important and 26% scoring it at level 3 or less. Again, this may be due to the fact that the reputation of an incumbent provider is a given as the organisation has already outsourced to them.

Overall, HR professionals appear to value service-related issues such as accuracy and reliability, over general considerations of price, when evaluating quality of the outsourcing provider. However, when it came to the main reasons for outsourcing in the first place, expertise and price are the key determinants.

This raises some interesting points. From the HR outsourcers' perspective, they appear to want to keep those suppliers delivering very high rates of accuracy, reliability and general levels of service. No doubt, HR professionals are going to come under cost pressures at a time when economies around the world are suffering from recession.

The research findings raise the concern that, if there is pressure to choose the lowest cost option, with no regard to accreditation or track record of the outsourcing provider, then HR professionals and other decision makers may end up compromising on the very areas that they cite as particularly important.

It might, therefore, pay to give more consideration to the track record of potential outsourcing providers when making purchasing decisions.

The outsourcing relationship - Quick tips

Contracts and service level agreements may set out the specific obligation under an HRO agreement. But what really determines whether an outsourcing service will prove beneficial for both outsourcing service provider and client organisation over the long term is the relationship between the two parties.

It is this relationship that ensures the effective running of the outsourcing agreement. It is also this relationship that makes sure that general levels of service, business integration and other key determinants of customer satisfaction are delivered.

So what are the key factors in making an HR outsourcing relationship successful?

- A clear understanding and demarcation of who is responsible for what, is essential. This should detail the specifics of the service offering, right down to the 'who does what', with no grey areas.
- Adopt a true partnership approach, as opposed to a supplier approach. Work together to build end-to-end streamlined processes, and to drive improvements.
- Set contract targets that are challenging, but realistic and achievable. Customers should expect a service level above what is achievable in-house but both parties must have something they can buy in to.
- If doubtful, outsource in stages while building confidence.
- The relationship must be underpinned by trust, openness, and respect for each other's role in the relationship.

“We believe that the appetite for HR outsourcing in the mid-market arena will increase. This is partly driven by an organisation's need to demonstrate immediate and measurable returns in the short-term whilst leveraging the outsourcer's access to scale efficiencies and best practice be it an on-shore, off-shore service, or a blend of the two”

David O'Connor,
Marketing and Commercial
Services Director,
Ceridian.

Outsourcing targets – so what is next?

The HR professionals in the survey were asked of the activities that they did not already outsource, which might be outsourced in the next two years.

More mature markets will still be attractive...

Both pensions and payroll are a comparatively mature market for outsourcing, although it is clear from the findings of the survey that there is still some room for growth, given that over 50% of the respondents had not yet outsourced either of these functions.

Of the HR professionals that were not yet contracting out pensions or payroll, around a quarter expressed an interest in doing so in the next two years, with 24% saying they would consider outsourcing pensions, and 24% payroll.

Interest in outsourcing HR administration will grow...

Interestingly, our findings also supported the idea that there is increased interest in outsourcing a broad range of human resource activities. For example, of those who were not already outsourcing that particular activity, 20% said that they would consider outsourcing learning and development in the next two years, and there were similarly high responses for recruitment (19%), temporary staffing (18%) flexible benefits (15%) and procurement (12%).

In fact, it was only in the cases of performance management and succession planning, that less than 8% of HR professionals who did not already outsource activity said they were considering doing so in the next two years.

Whether or not the continued increased interest in outsourcing is just part of the ongoing trend towards outsourcing more HR activity, or whether the impetus to outsource has been added to by the current economic downturn is not certain.

However, it is clear that the results at least, suggest that significant numbers of HR professionals are still actively considering outsourcing the more traditional activities of payroll and pensions, while increasing numbers of HR professionals are considering outsourcing a broad range of activities.

The sceptics will still be sceptical – here's why

The loss of control and impact on staff morale behind reticence...

Decisions to outsource in the future will not be made without some reservations. The HR professionals surveyed indicated that they had a number of concerns about further outsourcing of the HR function.

In particular, they were concerned that more outsourcing would reduce their control over the HR function, with some 42% indicating that this would be a challenge.

The impact on staff morale was an issue for 26%, while 19% worried about the ability to measure a clear financial return for the outsourcing services. Of less concern was the impact on career paths of junior HR staff (6%) or the reduced size and impression of HR (6%).

Viewed alongside the fact that only some 20% of HR professionals consider the HR director as a key decision maker in HRO decisions within the organisation, then fear of further erosion of control over the HR function, and loss of power within the organisation makes much sense. However, as discussed earlier, the most important area for clarity is the hand-offs between component parts of HR processes and the ability to clearly measure success and traction. This changes the onus from pure control to orchestration of the HR function irrespective of who manages key components of HR, the outsourcer or in-house.

Barriers to outsourcing

Those HR professionals that believed some aspects of HR should never be outsourced were asked to say why. Their replies revealed a number of common themes.

The most common was loss of control:

"I just feel that it is important to keep hold of certain aspects of HR in order to retain a firm hold of the company's control of the employees."

"We do everything in-house so we are in control and are fully aware of all aspects of our business at all times."

Another theme was that a need for organisation-specific knowledge precluded the use of an external outsourcing provider:

"The organisation benefits from dedicated in-house support from HR staff who have a thorough knowledge of the organisation (culture, climate, issues, formal and informal networks, etc) and, as an integral part of the organisation, have a vested interest in, and commitment to, the effective running of the organisation."

"Because they [outsourcing providers] don't have as clear an understanding of the company as the people inside the company."

Fear of losing their job was another concern:

"Also, constantly outsourcing will reduce the need for an HR department and we could, effectively put ourselves out of a job."

"Because I and many others may lose their jobs and the level of care will be reduced."

Some HR professionals, however, did place added value first:

"If there is a more cost effective approach, then why would a company not do that?"

"You have to have an open mind when it comes to business. If something will add value to the business then it should be considered."

HRO under review

HR is clearly divided on the way forward...

To assess the impact of the credit crunch on HRO activities, we also asked HR professionals how the economic downturn would affect any review of existing outsourcing arrangements. Would an organisation be more likely to put back making decisions about outsourcing arrangements, or might they seek to bring these forward?

Significantly, the results indicated just over two-thirds of respondents have clear timescales for reviewing outsourcing activity. However, there is apparent polarisation in views, as almost a third of respondents indicated that they would bring forward their decision to outsource some of their HR function, with a similar number opting to push back a review.

Interestingly, 32% said that they did not know the course of action to be taken or by what kind of timescale, which adds further weight to the suggestion that decisions on HRO are being made elsewhere in the business.

The Ceridian perspective:

The impact of the credit crunch

"The credit crunch will make HR decision makers consider outsourcing options, even though they may never have considered HRO before, or previously decided against it. This will largely be driven by having to reduce cost and headcount, but also to increase flexibility.

"Return on investment will become even more important, with a focus on in-year returns. The scope of projects may narrow, with an emphasis on doing the basics well and adding value by improving processes.

"Payroll is a key area, as it is a non-core, rules-based activity and a proven area for outsourcing success with providers who have a clear track record. In a downturn, HR outsourcing enables people to concentrate on their core business

"With this 'service on demand' approach to outsourcing you get infinitely more flexibility and access to immediate scale should an organisation need it. This enables companies to speedily react to ever-changing market conditions without interruption to their 'business as usual' activity. The net result is that your cost base is always proportionate to top line business performance."

David O'Connor, Marketing and Commercial Services Director.

Conclusion

The credit crunch is beginning to impact businesses just at a time when human resource outsourcing was beginning to move from end-to-end single processes such as pensions and payroll to more integrated HR functions.

The research findings reveal that, initially at least, the financial crisis has created a climate of uncertainty for some segments in the HR community but for others has accelerated their thinking and call to action. Therefore, the key conclusions of the research indicate no massive shift in thinking but greater emphasis on speedy decision making and measurable returns for HRO.

Focus on core areas

Encouragingly, a significant proportion of HR professionals are considering outsourcing further HR processes over the next two years. Indeed this is accelerating for some non core areas, most notably pensions and payroll, but also activities such as temporary staffing, recruitment, and learning and development.

Create flexible fit-for-purpose organisations for uncertain times

There is a strong argument for suggesting that this is a time when organisations should be seeking to build upon existing HRO arrangements or beginning to outsource HR activities if they are not doing so already. This is partly due to the immediate cost benefits obtainable when cost pressures are increasing. It is also because HRO helps to create organisational flexibility and agility, allowing the HR team to focus on more strategic HR issues, such as workforce productivity, efficiency and effectiveness.

HR fear loss of insight and control

However, it is also clear that HR professionals perceive a number of barriers to HRO. These range from a lack of confidence in the strategic value of HRO, through to issues about loss of control and fear of job losses. A significant proportion of HR professionals, while satisfied about the outsourcing services they receive, still believe that the outsourcing provider does not understand their business sufficiently.

A clear benchmark needs to be drawn

The research findings suggest that outsourcing providers, as a rule, need to make a better case for HRO. However, the organisations need to be clear about what their key drivers are and what their end game may be. Perceived value is a simple calculation of costs vs. returns over a given period.

The true costs of a service must be balanced against the value one places on access to flexibility, scale and reliability throughout uncertain trading conditions. What at first hand looks like a low price for the business may indeed be a high cost to the business in the longer term both in terms of employee dissatisfaction and company reputational risk.

Reputation of supplier

Equally, accreditation and the track record of the provider are not considered an important determinant of the quality of outsourcing provider, yet the outsourcing provider's track record, good or bad, is possibly one of the most significant indications of capability.

The truth is, as we enter one of the toughest trading periods in living memory, the majority of HR decision makers are thinking with their hearts and not their heads, worried that outsourcing will have an effect on employee morale, result in a loss of control over the HR function, as well as a loss of staff. Yet, the reality is that jobs may well go regardless. And if they do, it has to be better to control that process in the most productive, least painful way.

Ultimately, the way forward has to be through the relationship between outsourcer and outsourcing provider. Adopting a partnership approach and a constructive dialogue, companies can use HRO to help navigate their way through the economic downturn, emerging a stronger, more productive and more competitive organisation when those elusive green shoots of recovery finally begin to appear.

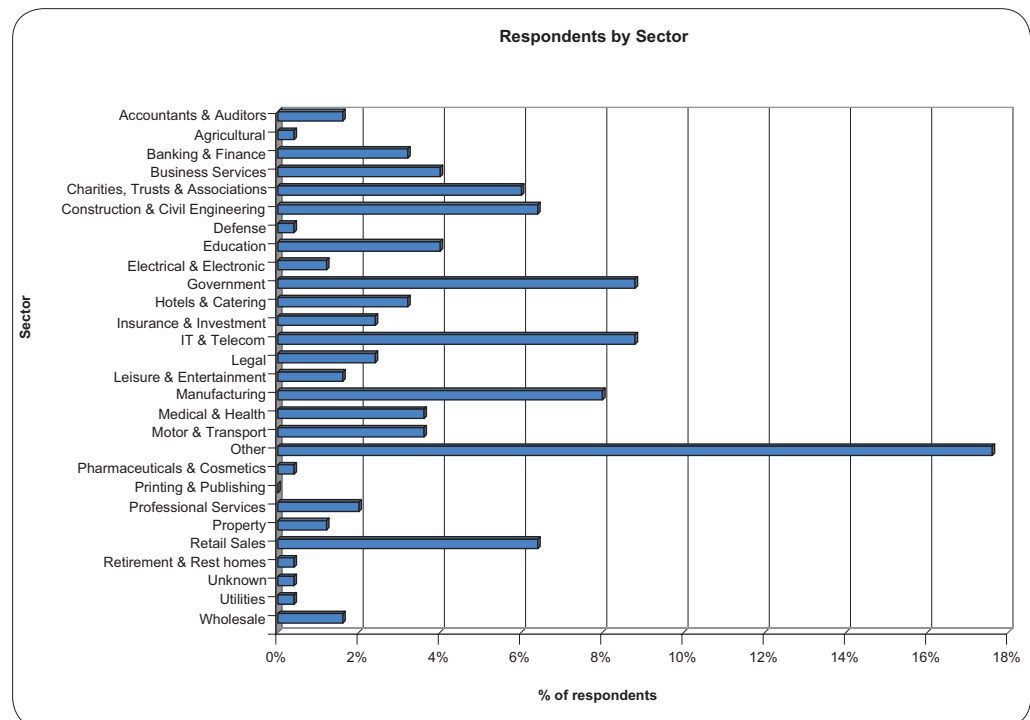
Research methodology

The views of HR Professionals were gathered through an online survey conducted in December 2008 and January 2009 by independent research agency, Lightspeed. HR decision makers were identified through their primary business activity and held positions in middle management or above.

A total of 250 UK HR professionals were surveyed from a cross section of industries.

The sample breakdown is illustrated below.

Gender Split	
Male	103
Female	147



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