

## **Best Practice HR: outsourcing – What to watch out for**

By Sinéad Creane

There are many different ways and means to manage the employment relationship within your business; establish a professional HR department which will oversee the many aspects of managing people, outsource various aspects of the function to third party suppliers, buy in consultancy services for specific HR initiatives or a blend of all three.

Recent surveys have found that a significant number of companies have outsourced some HR services; most notably recruitment and payroll. Many of those who have not yet engaged in outsourcing are considering it as a way of tapping into external expertise and reducing costs. Furthermore business owners recognise the value of concentrating on core activities to maintain their competitive edge and thus engaging external experts to manage important but non core functions.

In this short article we explore what is meant by HR outsourcing, the benefits to companies, the challenges in implementing an outsource arrangement and some practical steps to overcome these challenges so you can experience the full benefits for your business.

### **What is HR outsourcing?**

Outsourcing is the delegation of one or more business processes to an external provider, who then manages and administers the selected processes based on defined service level agreements. In relation to HR outsourcing, the processes that could be included in an outsourcing arrangement will vary from business to business, however the most common components are payroll, training and recruitment.

It is very unusual for businesses to outsource their entire HR function; indeed retaining control of HR strategy and processes such as rewards management and discipline and grievance handling is seen as important. However it is common for an outsource provider to advise their clients on the best practice in these areas.

Another recent trend, facilitated by significant advancements in the areas of HR technology, is the enabling of employees and managers to undertake a number of HR-related activities themselves via a portal or intranet. For example, employees can update their own personal details when their circumstances change, and managers can review absence records for all their staff. Although this

is not 'outsourcing' in the traditional sense, it does involve engaging with an external supplier who will provide automated HR processes to the business.

### **The benefits of HR outsourcing?**

The most commonly cited benefits of HR outsourcing are:

1. Reduced cost; largely achieved through the saving of managerial time in areas such as payroll processing and routine HR administration
2. Increased efficiency; some HR outsource providers act as a 'one stop shop' for their clients enabling easy access to systems and expertise. Also service level agreements with providers guarantee response times
3. Access to improved HR IT systems; many providers, such as Clarigen offer web-enabled self service HR solutions
4. Improved people management information (feedback on key HR metrics)
5. Access to HR expertise which may not available internally; this may be due to not having a HR function within the business or because the HR function does not have the time or expertise to provide sufficient levels of service
6. Reduced risk through higher levels of compliance; most HR providers will ensure company policies are reviewed regularly and that issues are dealt with in a legally compliant manner
7. Freeing HR resources to operate more strategically; outsourcing of time consuming administrative tasks such as payroll and data management enables a busy HR function to focus on more core activities.

### **What are the challenges of HR outsourcing?**

Although many companies recognise the benefits of freeing up staff time and saving costs, there are some challenges which may be off putting. These range from fear of losing control, fear of the loss of the personal touch and doubts about the quality and commitment of external staff.

Where outsourcing is not successful; it is often because companies encounter one of the following pitfalls:

- A perception that HR outsourcing absolves the company of good people management practices. A HR outsourcing provider partners with a company to manage certain

- processes and advise on HR issues; responsibility for good people management remains with the company
- A failure to develop a good relationship with the HR outsourcer; it is critical that the provider has a clear understanding of the company's current and future business strategy and potential changing business profile. A good outsourcer will work to understand these from the very outset.
  - A failure to develop a business focused HR strategy; without a clear HR strategy and philosophy, it is difficult to align the outsourced processes to what the business requires.

### **How to go about outsourcing HR processes and activities**

Here are seven steps which you should followed when embarking on a HR outsource arrangement. These steps apply regardless of the number of processes you wish to outsource

#### **1 Recognise the need**

The first step is to realise that the way HR is being organised in your business may need to change. For example you may feel that as a HR Manager you are spending too much time on routine administrative functions or as a business owner you may feel that the business could benefit from access to external skills and cost reduction.

#### **2 Do your homework**

The decision to outsource any service requires considerable time and effort, but companies often base their decision on purely financial grounds without fully weighing up the pros and cons. Companies should also consider improved levels of service to line managers, increasing legislative compliance, improving HR systems and streamlined data processes and procedures. Experience suggests that companies shouldn't progress with outsourcing until they are convinced of the extra value it can bring.

#### **3 Choose a service provider**

The elements to be outsourced will vary significantly from company to company. Your choice of provider will depend on factors such as the level of service required, provider qualifications and experience, technology available and the culture and values of both organisations. It is critical that the provider understands your business and is committed to your company's HR philosophy. They should also understand your specific needs; a smaller company's priority may be to keep pace with developments in employment legislation, so access to a team of readily available and highly qualified HR practitioners is essential. A larger company, on the other hand, may want to

focus on outsourcing services that bring greater efficiencies from the use of new technologies.

#### **4 Service-level agreements**

When embarking on an outsourcing arrangement with any service provider, a formal contract and service-level agreement must be in place. The contract will outline the terms and conditions of operation, and the agreement will identify how the relationship will work through responsibilities, timescales and measurement criteria.

#### **5 Communication**

Communication is essential at a number of different levels:

- Open and ongoing communication to your **staff** about the whole process is important; for example if you outsource payroll, it is critical that staff understand why, what it means for them and who they can raise payroll questions with
- Discussions with your managers so they are clear on how their role as people managers may change
- Effective engagement with the **outsourcer** so they understand not just your business but your HR practices. Most outsourcing provider will conduct an audit of your HR; looking at all the HR procedures and judging their effectiveness in meeting business objectives. It is important to note that auditing HR is also a chance to raise the profile of your HR function within your business.

#### **6 Commencing the outsourcing arrangement**

Implementing the tactical aspects of HR outsourcing arrangement will often involve the following steps:

- establishing a working partnership team;
- defining communication channels
- agreeing transitional arrangements;
- amending documents relating to company policies and procedures as appropriate, ensuring that all of them are up to date, meet legislative and best-practice requirements and reflect the new working arrangements

#### **7 Ongoing Review of the Service**

Regular reviews should be planned into the contract. These will ensure that the outsourced HR services are fully aligned with your business goals, and they will also serve as checks that the service provided is meeting the expectations of all parties.

**Summary**

For large companies outsourcing is one potential route to achieving greater levels of transactional efficiency at the same time as raising the level of other HR activity to focus on 'strategic', 'value adding' service. For smaller businesses outsourcing is a viable option for gaining access to HR expertise, improving levels of legislative compliance, saving managerial time on administrative matters and reducing costs. Regardless of the size of your business, outsourcing elements of your HR function is an option well worth considering.

**For further information on this article or any HR matter,  
Contact Clarigen: +353 (0) 1 470 7100, email: [info@clarigen.com](mailto:info@clarigen.com)**