



Applied HRO: Success in Execution

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Abstract

As analysts measure the results of first-generation HR outsourcing solutions they are finding mixed levels of success in qualitative and financial outcomes of HRO engagements. While some employers are able to successfully manage transformational outsourcing, the right formula for success is elusive to others. This whitepaper discusses learnings from two generations in HR outsourcing and why the success of a given HRO model relies on decisions made in planning and methods used in executing the service model while proactively and continually delivering new value to the business. Using the strategies and tactics in this applied approach, employers can achieve realistic and compelling business results through HRO.

Introduction

Broad-process HR outsourcing is rounding the corner to become a second-generation industry with 110 multi-process contracts totaling \$6B in value reaching termination between 2010 and 2012. Hundreds of employers have implemented HRO solutions taking advantage of the unique alignment of evolved HR technology, sophisticated communication solutions, and global sourcing. Now with a history to review, employers are applying experiences with a new level of understanding of successes and risks in operating shared services in an outsourced model.

Along with employers, analysts are focused on measuring the effectiveness of HRO models to determine how successful employers have been in achieving financial and qualitative goals through outsourcing. A common thread among such studies is a mixed result with some employers achieving better financial and quality returns than others. One study by a top sourcing advisory firm shows results are actually very binary. For example, employers either achieved compelling financial results (cost reductions of 41% to 50%) or minimal results (reductions of <10%). Studies also show **the most dramatic results are only being obtained through broad-process HR outsourcing**, versus internal shared services or selective point solution outsourcing. This result is consistent with the promise of dramatic improvement in cost, technology and process through outsourcing initiatives. However, the binary result in outcomes in some studies suggest that there is a right way and a wrong way in projecting, measuring and attaining business results in outsourcing initiatives.

So what can employers learn from an experienced industry which will help them maximize their outsourcing decisions? And, how can second-generation HRO employers improve on the transformation strategy they initiated years ago? Is there a model that works best? Do the successful employers use a particular technology that gives them the edge?

In fact, it is not a technology choice or an outsourced solution “in a box” that delivers the greatest opportunity for success.

Rather, it is the methods used in planning and execution, combined with the employer’s ability to proactively and continually deliver new value to the business which will determine the effectiveness of the transformation and the ultimate extent of success. **By applying specific approaches/methods in planning, designing, and executing the solution, employers can realize compelling results** and better position their HR operations to deliver on future needs as the business changes, regardless of platform.

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SUCCESS*

Defining and Measuring Success in HRO

The reasons to outsource HR services are consistent across employers. The pressures to control costs and improve services while expanding and changing with global business are universal. Employer strategies around HRO solutions include:

- Increasing the flexibility to meet business challenges
- Transforming the HR organization
- Improving performance of HR operations
- Simplifying operations and refocusing on core business activities
- Enhancing HR's ability to manage risk in its own operations
- Bringing innovative ideas into the HR delivery
- Significantly reducing and/or converting G&A costs and assets within the HR function

Regarding these strategies, there are perhaps two common considerations across both experienced and first-time HRO employers.

Build vs. Buy (Install vs. Outsource)

The first consideration is the extent of change which is required to obtain these strategic improvements. How much of the strategy can be accomplished with current levels of resources and spend? Can I accomplish my objectives internally with installed solutions and shared services? To be sure, employers can accomplish transformation strategies through installed solutions. However, prior to HRO's evolution, the concept of reaching optimal application of skills, technology, and process across the globe could be envisioned but not attained. The primary barrier was the financial and change commitments which would be required of a single employer in order to achieve these objectives across a large scale HR operation.

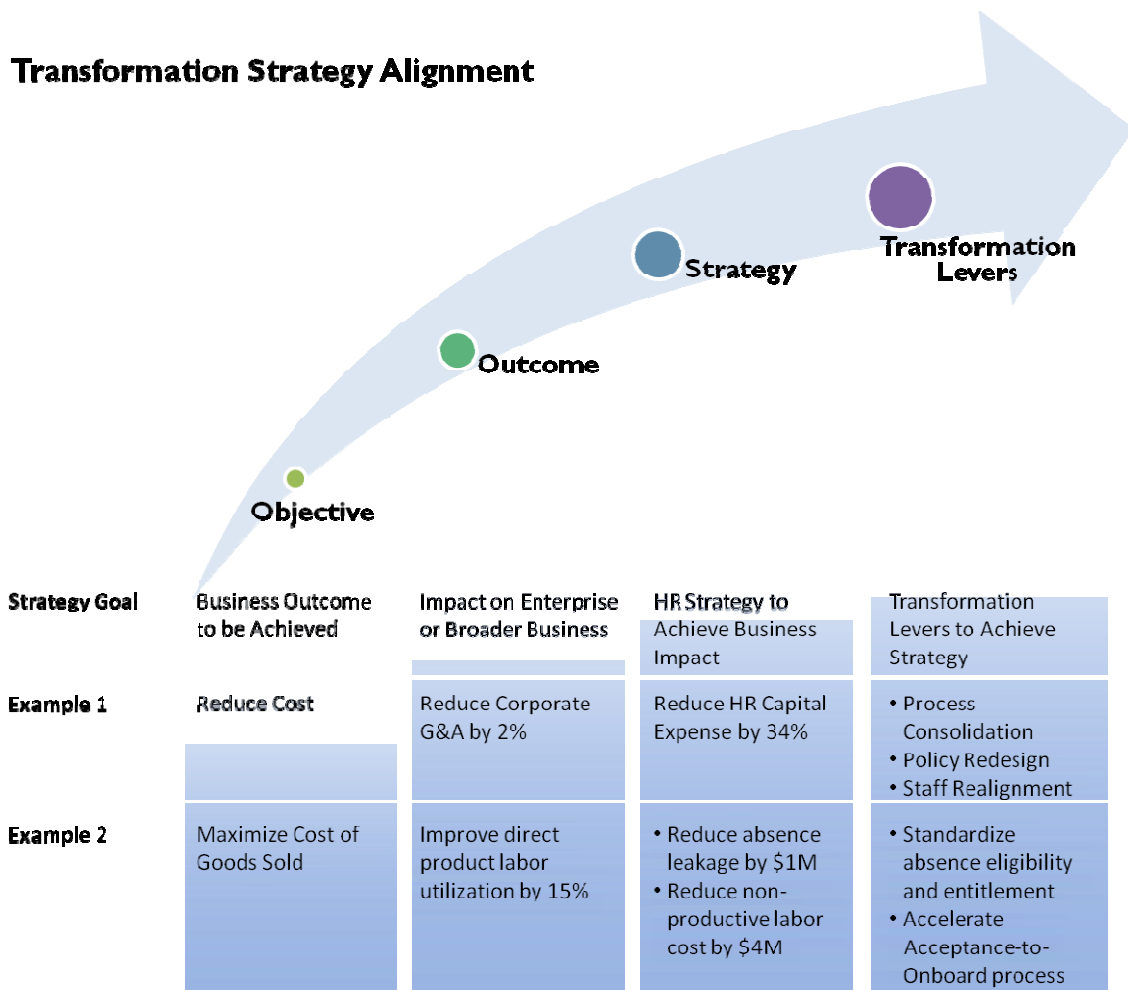
And so it may be possible to achieve the first six strategies with installed services, but the inherent dichotomy between investments required to implement a transformation of this size while significantly reducing cost makes achievement of the seventh objective out of reach for most employers without a broad-based outsourcing solution. Thus, research shows the most dramatic results are being achieved through outsourced models. What's more the outsourcing alternative offers the quickest path to results by providing more immediate financial returns and the advantage of speed of change through a proven method.

Objective Alignment and Prioritization

The second common consideration is one of alignment and prioritization. Many employers center large transformation initiatives around the goals of cost improvement, service improvement, and transformation. All of these strategies are important, but together they are quite broad. How do I prioritize and what specific transformational and innovative changes will I make that will positively impact my business?

It is critical in large scale transformation efforts to align and clarify objectives for HR staff and partners up front. A straight-forward method for clarifying objectives early in planning stages is to prioritize by aligning objectives, outcomes, strategies and transformation levers.

Transformation Strategy Alignment



Employers can better set expectations and avoid confusing or competing objectives by aligning with specific outcomes and transformation levers to achieve business objectives. Alignment of transformation initiatives with specific strategies and outcomes is also needed in order to establish a baseline for measuring results after implementation.

Primary Objectives for HR Outsourcing

Using this method, reasons for HR outsourcing can be distilled into four common primary objectives, and success can be measured by the extent to which an employer attains these objectives. Employers outsource HR services in order to:

1. Significantly reduce the cost of HR operations
2. Enable a reduction in the amount of time HR spends on administrative process and an increase in the amount of time committed to business consultation and program strategy

3. Improve the accuracy, timeliness and consistency of HR service delivery for business outcomes
4. Utilize a rapid and proven model to achieve success

In other words, employers outsource HR services in order to achieve **cost, time, quality, and speed to change**. Other objectives (e.g., “transformation,” “world class delivery,” and “globalization”) must align with these objectives and the employer/provider solution must sharply focus on delivering and measuring success in attaining these goals. This alignment of solution and objective is basic in concept but imperative to success and often not done in practice. In practice with large investments at stake and pressures for speed and results, the employer’s ability to create this alignment during planning stages and maintain it in execution will determine the ultimate success of the engagement.

The next section discusses some typical challenges employers face in maintaining this solution/objective alignment in the course of planning and executing HRO engagements.

Pitfalls in HRO Solution-Objective Alignment

Decisions made in planning and executing an HRO model have a low-to-high impact on the long-term success of the solution. Following are factors that will either have a low impact on success or can reverse the returns for the employer.

Unnecessary Platform Investments

While the absence of integrated data management solutions will certainly impact the success of a given HRO model, it is also true that investing unnecessarily in a new platform will significantly dilute ROI for the employer. There are two common misunderstandings which need to be considered regarding the usefulness of new platform technology in an outsourced model.

- **The widely promoted claims that HR platforms will transform HR service delivery.** Another way to describe this myth is “Platform = Transformation.” This misconception involves more than can be discussed within the subject of this paper. But in short, the financial success of an HRO engagement hinges—in large part—on limiting technology investments to only those which demonstrate a clear business case for achieving the original four objectives (Cost, Time, Quality and Speed to Change). Decisions such as implementing separate or duplicate ERP instances for HR, implementing self service or other functionality that “comes with” software packages without regard to end result process impact, and purchasing standard platforms or data models later to be customized are examples of platform decisions adding significant cost to HR operations. Many of these decisions are now being reversed and ERP consolidation or SAAS solutions are being considered. These investments can reach 20% to 50% of the operating cost of the model.
- **Outsourcing solutions with standardized platforms will achieve the greatest returns for the employer.** While there is certainly room for standardization in most HR delivery models, available human capital solutions have effectively leveled the playing field in most areas of HR data management because they already incorporate greater levels of standardization than most employers will ever implement. This makes the promise of super-standardization a concept that is out of reach for most large-size employers...their HR needs are often too complex to fit into a super-standardized model. The myth of super-standardization has been proven over decades of benefits and payroll platforms as well. Outsourcing solutions using these platforms are typically less comprehensive than technology-agnostic models, as efforts to force the complex processes of larger employers into these solutions only address 40% to 70% of the process needs. Rather than investing in proprietary platforms, large employers can realistically produce ROI by leveraging best-in-breed

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HRMS/ERP/SAAS technology and driving to a global data model and process where it is effective.

Ineffective Transformation Initiatives

HR transformation is both an opportunity and a necessity. The opportunity to reduce cost and improve service through transformation is significant, and without transformation, HR delivery models expand uncontrolled gaining complexity and cost over time. In order to benefit from transformation, employers must navigate a number of pitfalls including cost of implementation, disruption to the organization, and delayed results creating additional costs. Plus, false starts are common producing rework and missed expectations. In practice, the success of transformation initiatives depends greatly on the timing, scope, and methods used to transform services. We discuss later the tactics employers can use to manage transformation initiatives effectively.

Unrealistic Customer Management Strategies

While it is most cost effective to run all customer interactions through low-touch channels, it is not realistic. Efforts to minimize human involvement often backfire and require increased involvement by HR generalists or HR services. Simply stated, successful HR service delivery requires both low and high-touch delivery through multiple channels. Without proper alignment of process, channel, and touch-level, customer interaction challenges will eventually limit ROI and return work processes to their original path or solution. The opportunity for employers in leveraging customer management strategies is not to run all or most services through one solution, rather to leverage the most efficient channels and solutions where they provide the greatest returns.

Overambitious Outsourced Scope

Much experimentation has been done by employers and service providers to expand the scope of outsourced HR activity with the goal of further increasing ROI of outsourced models. The notion of “core vs. non-core” is sometimes more useful as a post-mortem analysis of what happened than it is a predictive tool for evaluating outsourcable scope. There are a number of reasons a given activity or role will not “outsource” well. Primarily they include:

- The skill cannot be easily hired or trained in other geographies
- The activity requires on-site presence in order to conduct successfully
- The activity requires minimal labor involvement to conduct and thus does not deliver ROI in an outsourcing model or through scaled automation
- The activity requires detailed organizational knowledge to conduct successfully

Employers can use the first three to draw clear lines of division in scoping outsourced activities. The fourth requires the additional consideration of time. These activities have proven to be successful in an outsourcing model where enough time has been allowed to develop the organizational knowledge required to conduct them successfully. Examples include **some forms of compensation analysis, recruiting/sourcing activities, and many activities performed by HR**

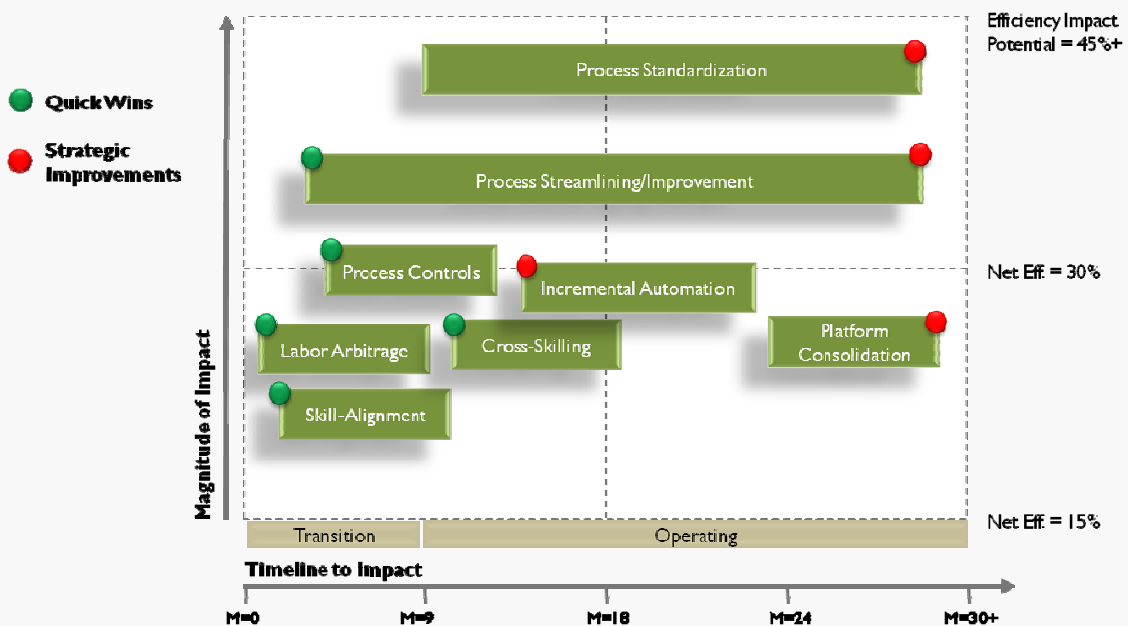
generalists. Employers can be more aggressive in scoping outsourced activities if they include in transition plans the ramp-up time required to properly transfer organizational knowledge.

Anticipating Impact of Transformation Initiatives

A useful frame for anticipating the impact of transformation on productivity is to consider the dimensions of impact and effort...that is, how much productivity impact can be produced by a given transformation element, and how much effort (time) will be required to implement the change. By breaking down prioritization using these two dimensions, employers can effectively target transformation initiatives by type and better anticipate the results.

In our experience, transformation opportunities exist both during transition and in operations. During transition, many small- and large-effort changes can be implemented. However, many high-impact transformation opportunities can be implemented in the operating state where multiple levers can be pulled to achieve productivity improvements. This approach allows employers to limit risky big bang changes and focus on ongoing transformation which will evolve with business needs. In order to execute ongoing transformation strategies, employers must include transformation (beyond continuous improvement) in provider relationships and contracts.

Efficiency Impact and Time to Implement for a Given Set of Processes or Scope



Anticipating the Impact of Transformation on Productivity Results

Imperatives for Success in HR Outsourcing

We have discussed common pitfalls which negatively affect the results of a given HR outsourcing solution. Now, what are the factors in planning and implementation which can drive success for employers in meeting their HRO solution goals?

Pace of Implementation: Unnecessary time and expenditures during transition can reduce total engagement ROI by 50% or more. Employers and providers who focus on rapid and focused implementation and transition of services are more successful in ensuring:

- The flight risk of existing subject matter and process experts is minimized
- Lower cost: Employers can significantly improve their business case by avoiding both the increased transition costs as well as the cost of staffing existing operations during the transition period
- Organizational rigor and focus around a major initiative like outsourcing is maintained

In addition to avoiding these risks, a rapid transition enables a higher degree of knowledge retention among new operations staff. This is critical to achieve operations stability after services are live.

Comprehensive Service Model Alignment: A careful determination of specific components of the service model will have a significant bearing on the long-term success of an outsourcing engagement, including:

- Application of shared services design including centralization as well as effective operations design (e.g., physical layout, workflow, channel segregation, tiered interaction model, etc.)
- Right-skilling operations and transition resources for successful financial, quality, and talent retention in the solution
- Aligned service location/geography. Locations should be selected carefully between onshore, near-shore and offshore based on process, skill, financial, and customer requirements. Employers will want to select a provider with the ability to flex geographic solutions based on employer needs and manage the work across multiple geographies
- Optimized seat cost: Solutions offering the greatest ROI incorporate overlapping shift and seat components in order to reduce staffing costs. Impacts on the cost of a seat can range 10%–40%
- Comprehensive technology solutioning: Successful HRO solutions leverage not only HR applications and point solutions, but the total technology solution. Proper selection and application of system access modality, network bandwidth, voice connection and workflow are as important to achieving cost, time, quality, and speed to change as the HR applications. Appropriate use of these technology levers can reduce cost of operations by up to 20–25%. Employers can capitalize on enabling technologies which the outsourcing

provider brings and apply scaled solutions which otherwise would be unavailable to the employer or too expensive to build.

- Quality measurement: Identification and application of appropriate performance levels and metrics will determine the employer's and provider's view of success. Quality measurement should include:
 - Objective measurement: Often times, service levels in an internal model are measured subjectively by the person performing the work. Employers should expect objective measurement of service level performance where possible in an outsourced model
 - Quality measurement that drives business impact: The ultimate quality solution should be based on clear alignment of metrics with the business results they are intended to impact. Metrics that do not clearly drive business results should be eliminated as they are a distraction in the operating model

Transparency in Solution, Operations Management, and Financials: Transparency is a critical factor in solution definition, transition, and in ongoing governance. Solutions which limit the employer's involvement in SLA and issue management are bound for challenges throughout the engagement. This is because as a practical matter, it is simply not feasible to accurately align expectations of HR leadership, of HR customers, and of service providers with actual results without transparency. Transparency is also critical to creating a constructive working relationship between employer and provider. Employers should expect to know, and provide guidance to, all aspects of the model including skill sets, staffing, improvement priorities, financials, training, governance, etc.

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Results-Focused Decision-making: As with any large engagement, HR outsourcing solutions are complex with many moving parts. Quite simply, it is easy for employers and solution providers to become sidetracked by focusing on solution elements or transition features that will either not contribute to, or will negatively impact, results down the road. By asking and acting on these key questions, employers can avoid building undesirable commitments into their new HRO solutions.

- Are my solution objectives realistic? Objectives should be definable and deliverable. Employers can add clarity to objectives by aligning each objective with cost, time, quality, and speed to change. In addition to clear alignment, take care to target success factors which are well-defined and can be impacted the most (e.g., financials, service deliverables, and quality measurement). Avoid targeting nebulous or lofty objectives if the goal or business case cannot be defined.
- Is my scope likely to deliver on my objectives? Keep in mind that over-ambitious or unnecessary scope that is incongruent with objectives will erode employer ROI. Employers should define the scope of outsourced services through quantitative

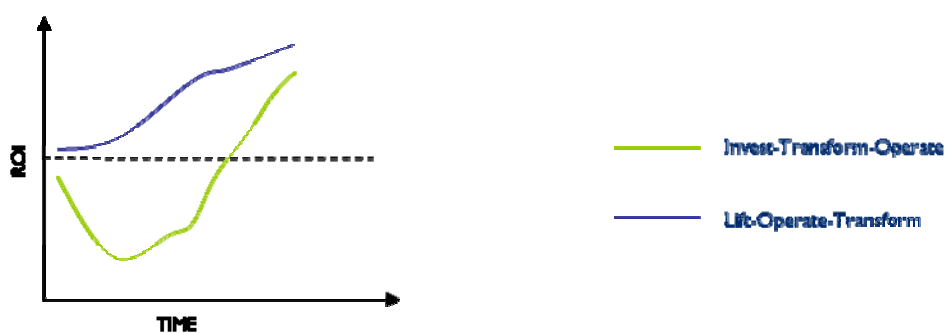
assessment. Structured assessments such as sourcing and offshorability analyses are necessary to avoid negative impacts of scope on transition, cost, and ultimate results.

- Have I considered all sourcing models? Too often, the short list of providers is determined before the ultimate model of sourcing is defined. We see this play out in single-sourced engagements where the provider's platform or solution is limited by a particular geography, staffing model or vendor set. Sourcing models can vary in terms of:
 - Single vs. multiple provider
 - Proprietary platform vs. enterprise technology
 - Single vs. multi geography
 - In-situ vs. vendor-located staffing

These are important levers for employers in that they significantly impact cost, time, quality and speed to change. Identifying the desired sourcing model prior to selecting the ultimate mix of providers will position employers for realizing the greatest returns and impact on objectives.

Does my transition plan create unnecessary risk? Employer and provider decisions made in transition planning will affect success throughout the remainder of the engagement and beyond. Transition strategies which can reduce employer risk and improve likelihood of success include:

- **Maximizing business impact and ROI through post implementation transformation.** Most big bang transformations are high in cost and long to implement. Once implemented, employers and providers often focus on continuous improvement in order to maximize returns on their large investments. In many cases, however, it is a case of too-little-too-late. Notwithstanding those employers who cannot transition any part of the current state, most employers can perform small transformations up front and transition, leaving the significant business and HR transformation impact for the post-implementation phase. This approach is discussed more in "Understanding the Impact of Transformation on Success."



Maximized ROI Impact of Transformation Over Time

- **Applying gradual ramp-up of volumes post go-live.** Ramping-up operations by activity volumes or types of activities is an effective risk-management technique during transformation. We recommend going live with a portion of the full-scale volumes and escalating to full operational volumes over a short time. Using this approach any instability in services can be resolved prior to adding to the service load.
- **Transitioning while infusing employer practices and knowledge.** Future state solutions that do not incorporate the best of employer and provider practices do not deliver on the context, culture and expectations of the employer and HR customers. Transition plans should include specific activities and deliverables that capture and incorporate employer practices which work, while applying provider practice experience for a best-mix future state solution.
- **Is my transformation investment justified?** Quantitative assessment of process, quality, and cost outcomes is useful in accurately projecting transformation outcomes and determining their ultimate cost-benefit. A successful approach to transformation planning combines quantitative assessment with a prioritization step to ensure that transformation initiatives are targeted and likely to result in their intended outcomes. It should be noted that this approach is different from the “all-in” transformation model which many employers and providers have implemented in recent years.

Generating Sustained Value

Employers’ opportunities to improve ROI and value extend beyond the implementation period. For some employers, post-live date value creation will be required to recoup extensive implementation costs. For those employers who were more savvy in their planning and execution, now is the opportunity to maximize value for the organization.

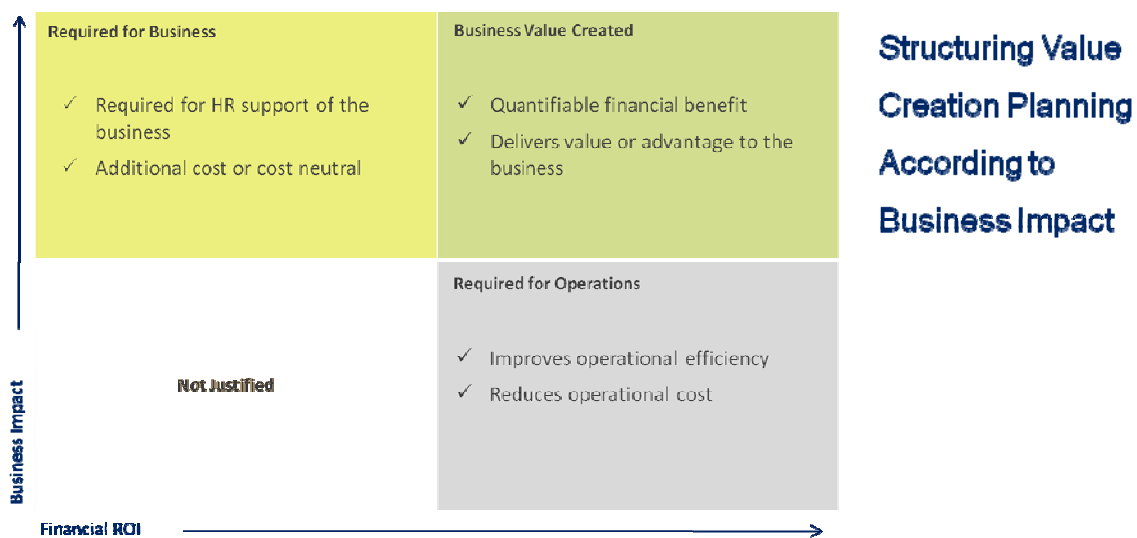
An important concept in value creation planning is the relationship between lower cost and increased value. Rather than each being a trade-off of the other, improved efficiency creates investment time and capital for other innovation...specifically process standardization, improved service, quality, and timeliness, and flexibility to support organizational changes. In this way, continual improvement in efficiency and reduction in cost are needed to drive sustainable value. The link between lower cost and increased value means employers should endeavor to continue to increase efficiency and add new business value after contracts are signed and services are implemented.

Targeted Business Value Creation

Innovation within an outsourcing model comes in different forms. Some improvements will benefit the HR function and not noticeably benefit the business. So it is important in managing stakeholder expectations within the employer organization to quantify and report true business value creation. This is also required to continue to prove to the organization that the decision to outsource was a good one.

Value creation can be grouped into three categories based on their level of organizational impact: Initiatives which are required for operations, those required for the business, and those which deliver measurable value to the business. Common practice for employers and providers is to focus intensely on the lower right quadrant ensuring that SLAs are met, efficiency is improved and noise levels are kept in check. Conversely, the ultimate success of outsourcing engagements is determined by how well the solution delivers in the upper left quadrant (Required for Business). This is because after an outsourcing solution is implemented, business needs inevitably change and the solution must adjust to deliver on new needs and expectations. A better practice is to focus on all three categories in a systematic way by:

1. Generating efficiency improvements (lower right quadrant) by continuous measurement of defects and process inefficiencies and continuous identification and prioritization of operational improvement initiatives. Initiatives required for operations should be self funding and contribute to the year-over-year efficiency improvements of the outsourcing engagement. These improvements also create capital and resources to drive the upper quadrant initiatives.
2. Proactively identifying and prioritizing business value opportunities (upper right) with stakeholders. Opportunities should be identified on an ongoing basis and tracked quarterly at the governance level of the engagement.
3. Managing additional business needs (upper left) both reactively as business needs change, and proactively by identifying ways to deliver more value without necessarily reducing budget or cost.
4. Processes, projects, or initiatives which cannot escape the lower left quadrant should be re-evaluated for business impact or discontinued. Many times projects with inaccurately assessed risk, and priorities which are based on history and not current business context are categorized in this quadrant.



Final Thoughts for Employers

The Applied HRO strategies and tactics outlined in this paper are part of an HR outsourcing approach that allows employers to take advantage of standardization in broadly available solutions, while tailoring a service delivery model and a governance model that is fit-to-purpose. Using this combination of planning and solution components, employers should expect an HR services solution which is designed to meet the organization's business needs when implemented and continues to transform with business changes throughout the engagement. While not supportive of the notions of super-standardization, this approach combines proven results and managed risk for mid-to-large size employers. By applying these levers and avoiding common missteps in this complex process, employers can plan for realistic and compelling results in their HR outsourcing initiatives.

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