

## Outsourcing — The benefits and the risks

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### Abstract

Outsourcing is promoted as one of the most powerful trends in human resources management. The rationale for outsourcing HR functions includes financial savings, an increased ability to focus on strategic issues, access to technology and specialized expertise, and an ability to demand measurable and improved service levels. However, there are some indications that these benefits are not being realized. Furthermore, there may be a serious impact on employee morale and a risk of transferring expertise and insider knowledge to vendors. Managing the outsourcing arrangement is critical.

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*Keywords:* Outsourcing; Benefits; Risks

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BP (British Petroleum) outsourced HR to Exult for several reasons. The first was to reduce costs, the second to provide quality support for its employees and the third was to focus on its core HR strategies, and offload the time consuming administrative work. As the VP for HR stated “*Our cost of delivering HR activities was uncompetitive, and the quality of the delivery was uncertain. Further the burden of administration on the HR departments in the business units was preventing the function from performing more effectively in the more strategic HR services*”. At \$600 million (US), this was the largest outsourcing contract on record. Through rapid growth, BP had acquired 10,000 new employees and dozens of incompatible systems in compensation and appraisal. The BP-Exult agreement specified that the outsourcer would handle the administrative elements of compensation, benefits, payroll, organizational development, performance management, employee development, training, recruitment and relocation for 56,000 US and UK employees. BP retained everything that required judgment and policy.

The deal achieved the following results: a 40% reduction in HR staff, a reduction in operating costs of \$15 million a year, and the avoidance of funding \$30 million in capital costs for technology. The outsourcing allowed HR professionals the time to support the business lines (Adler, 2003; Oshima, Kao, & Tower, 2005).

Outsourcing refers to a contractual relationship for the provision of business services by an external provider. In other words, a company pays another company to do some work for it. Currently, outsourcing is being promoted as one of the most powerful trends reshaping management. However, organizations have always outsourced some functions. For decades, most organizations hired firms to operate their cleaning or restaurant functions. What is different now is the scale. Firms are outsourcing everything from information technology management to entire functions such as human resources.

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## 1. Outsourcing

*Outsourcing* occurs when an organization contracts with another organization to provide services or products of a major function or activity. Work that is traditionally done internally is shifted to an external provider, and the employees of the original organization are often transferred to the service provider. Outsourcing differs from alliances or partnerships or joint ventures in that the flow of resources is one-way, from the provider to the user. Typically, there is no profit sharing or mutual contribution.

## 2. Outsourcing HR functions

Surveys continue to show that nearly all organizations have outsourced parts of their HR functions (Gurchiek, 2005). Over half of these organizations plan to outsource even more functions. IBM outsourced its entire HR department, which was called Workforce Solutions, a profit centre that produced gains in flexibility, accountability, competitiveness, and profitability. Box 1 provides examples of other companies that outsourced parts of their HR functions.

In HR, the functions most likely to be outsourced are temporary staffing, payroll, training, recruiting, and benefits administration. Box 2 lists the functions within HR that are likely to be outsourced. HR departments are under increasing pressure to produce deliverables, not just do-ables, and so are searching to determine which activities add value and who can best do these. Outsourcing is also a response to the demand from executives that HR reduce costs for its services. Outsourcing to service providers with international expertise also allows HR departments to harmonize employee packages for a global workforce, while complying with local laws.

While smaller firms might outsource all HR functions, most large firms retain the critical components. Box 3 describes the reasons that small businesses outsource HR. Larger organizations rarely engage in 100% outsourcing for three reasons. As has been argued throughout this text, the HR function is so critical to the culture and strategic objectives of an organization that it must be closely managed by the organization itself. Second, situations arise that are impossible to predict, such as industrial relations disputes, and this unpredictability makes it difficult to develop a contractual arrangement with a vendor. Timeliness of response is crucial. The final reason is the lack of providers of total HRM services. The field of outsourcing is replete with hundreds of small companies specializing in market niches. One company might do an excellent job of benefits counselling, another might specialize in employee assistance, but few can do everything from training to managerial succession to payroll. These competencies have to reside within the firm.

## 3. The rationale for outsourcing

Almost all organizations outsource, and the trend is growing. In a study conducted by Hewitt Associates, 94% said of those surveyed said that they had outsourced one or more HR functions (Gurchiek, 2005). CIBC's decision to outsource is explained in Box 4. If the organization needs experts and cannot afford to hire or train them, outsourcing may be a solution. Most organizations want to achieve cost savings or improved services or access to experts or

### Box 1

#### HR outsourcing examples

Many organizations outsource their HR functions. Gow Corp., a 90-employee Alberta organization that processes livestock for institutional and restaurant clients, teamed with its vertical partners (a distributor and a supplier) to outsource and share two HR professionals who would handle payroll, training, health and safety, etc. The United Church of Canada outsourced job evaluation, recruitment, and compensation, in order to tap a wealth of experience that was not available in-house. Pratt and Whitney Canada outsourced its training function to DDI (Development Dimensions International). Pratt and Whitney executives wanted a partner that could handle the tactical level in managing administrative tasks, but also the strategic level in matching learning solutions to business needs.

Sources: Adapted from A. Patel, "Vertical HR: Will the experiment work," p. 14; L. McKibbin-Brown, "Who is outsourcing what?," p. 32; P.J. Labrie and J. Bedard, "Outsourcing training at Pratt & Whitney Canada," p. 42-all from *HR Professional*, Vol. 10, No. 3 (June/July 2002).

## Box 2

## HR functions that may be outsourced

## Compensation

- Payroll
- Benefits
- Compensation administration
- Pension
- Training
  - Program delivery
  - Program design and development
  - Training consulting to line departments
  - Training needs analysis
  - Program evaluation
  - Strategic planning for T&D
- Administration
  - Developing training policy
- Recruitment and selection
  - Advertisements
  - Screening of applications
  - Testing
  - Reference checking
  - Preliminary interviews
  - Salary negotiations—at the executive level
  - Exit interviews
- Health and safety
  - Employee assistance programs
  - Wellness programs

technology as the basis for their decision to outsource. However, many managers approach outsourcing as a solution without first defining what the problem is (McCauley, 2000).

There are at least six major reasons that organizations outsource: financial savings, strategic focus, access to advanced technology, improved service levels, access to specialized expertise, and organizational politics.

#### 4. Financial

The first reason cited for the outsourcing decision is to save money. Organizations believe that costs can be reduced by outsourcing a function such as payroll. Economies of scale can be achieved when the provider, such as Ceridien, which specializes in providing benefits administration, concentrates on one area and provides this service to many

## Box 3

## Small business and HR outsourcing

Most businesses do not hire an HR professional until the employee numbers reach about 100, or even 400. But legislated HR functions, such as payroll and benefits, are necessary for every organization, regardless of size, so small businesses turn to other small businesses specializing in HR. The advantages are the following:

- Lessens the handling of routine, transactional HR work (payroll) by in-house staff
- Offers access to experts who may provide advice in atypical situations (employee fraud)
- Provides the management of one-off services (such as computer training)
- Ensures that the company is complying with current legislation

Outsourcing is not the same as using consultants who may provide assistance on a project-by-project basis. Small businesses are looking for a long-term relationship with a provider who understands small business in general and their business in particular.

## Box 4

## Outsourcing at CIBC

One of Canada's largest companies outsourced major portions of its HR functions. CIBC employs about 44 000 people, about 450 in HR. In 2001, CIBC outsourced payroll processing, benefits administration, a call centre for employment enquiries, occupational health and safety services, and HR technology to a company specializing in HR services, EDS, in a seven-year, \$227-million deal. Two hundred CIBC HR employees have been transferred to EDS, cutting the bank's HR department nearly by half. CIBC's vice-president of HR commented, "I don't think that in today's world, power is about the number of employees you have working for you. HR should get its power from how much it helps the business units meet their goals."

The reasons for outsourcing included the desire to improve service, to increase automation, and to have the HR department focus on the strategic issues of making a contribution to the company. CIBC does not add value by administering pension plans; EDS does. The HR department is freed from routine transactions and can focus on policy, providing advice and programs to move the business forward.

The CIBC-EDS deal was unique as an outsourcing arrangement for several reasons. CIBC arranged with EDS to introduce best practices back into its organization and to update the bank on industry trends on a regular basis. CIBC searched for a vendor that would be a cultural fit with its organization. The main attribute the bank was looking for was "adapting to client needs." As the CIBC vice-president of Strategic Alliance Management said, "You can't put everything in a contract, so it is important to choose a company you can work with. You should be as clear as possible in terms of defining roles and responsibilities, but you cannot possibly think of all eventualities up front..... It is important to have a process built into the contract to manage these issues."

Sources: D. Brown, "CIBC HR department halved as non-strategic roles outsourced," *Canadian HR Reporter*, Vol. 14, No. 11 (2001), pp. 1 and 6; S. Geary and G. Coffey-Lewis, "Are you ready to outsource HR?" *HR Professional* (June/July 2002), pp. 26–29.

corporations. Specialized vendors are more efficient because they can spread the costs of training personnel and undertaking research and development across more users. Studies of outsourcing arrangements of at least two years' duration showed that outsourcing resulted in cost savings ranging from 10–20%, with an average of 15% (Adler, 2003; Henneman, 2005; Oshima et al., 2005). About 50% of the firms felt that their cost savings objectives had been met, and labour productivity had improved.

Related to the issue of saving money is cost control. Company users of a service may be more cautious when the contractor charges them for each service, as opposed to the "free" in-house service. Training is a good example. If in-house training is free and training provided by an external vendor costs \$1000 per day, then managers are more stringent about requiring employees to prove that the training is needed and that there would be measurable benefits. Sometimes, when an organization is just starting to offer a service, such as fitness training for employees, it is cheaper to contract this out than to make the capital investments in a gym and specialized staff. This capital can then be redirected to other initiatives that have a higher rate of return. Outsourcing also makes sense when usage of a service is variable or unpredictable. An organization may recruit on an irregular basis for IT staff; in this case, retaining an in-house IT recruiter is not economically viable.

## 5. Strategic focus

Employers recognize that they cannot pursue excellence in all areas. Therefore, they decide to focus on their *core competence*, such as customer service or innovation, and move secondary functions, such as benefits administration, to firms in which these functions are a core competence.

How is core defined? There are four meanings (Alexander & Young, 1996):

- Activities traditionally performed internally.
- Activities critical to business success. Core work contributes directly to the bottom line; non-core work doesn't.

- Activities creating current or potential competitive advantage.
- Activities that will influence future growth or rejuvenation.

The notion of core competencies was created by Prahalad and Hamel, who argued that the real sources of competitive advantage were not products but management's ability to consolidate skills and technologies into competencies to adapt to changing circumstances (Prahalad & Hamel, 1990). A competence is a combination of technology, management, and collective learning. For Nike, that core competence is product design, and it outsources nearly everything else (Leavy, 2005).

Executives will decide to concentrate on what the organization does best, and contract everything else out to vendors. Core functions that should not be outsourced are orientation, leadership development, employee relations, final selection, performance management, and succession management, organizational change as these depend on an understanding of organizational culture, a long-term orientation, consistency, trust, and confidential information.

By outsourcing non-core activities, managers hope to be able to focus on value-added roles. For example, CIBC outsourced the design of training programs and development and delivery, allowing the company to focus on planning, needs analyses, and coaching after program completion (Burn, 1998). Companies which did outsource reported that they reduced administrative tasks by more than half and increased their strategic focus by 40% (Oshima et al., 2005). The firm Avenor Inc. of Montreal outsourced all pensions, benefits, and payroll administration. As James Merchant, CHRP, vice-president of Human Resources at Avenor explained,

Outsourcing allowed us to get out of low value-added administrative work and become more strategic. We now focus on health and safety, leadership development, total compensation, and employee and labour relations. Our department at head office has 12 staff today compared to 40 in 1994. But, with our change in focus, our performance within the organization has taken a quantum leap (Burn, 1997).

## 6. Technical

Another driver of this trend has been technology. Many functions are outsourced because organizations want to improve technical service, or they cannot find technical talent, or they need quick and reliable access to new technologies (LaCity & Hirshheim, 1995). Much of traditional HR service has involved answering employee inquiries about benefits or making changes to employee files. These kinds of tasks can be handled easily by interactive voice responses and managed by companies that specialize in this service. Technology also enables a company to reduce transaction time (the time it takes to handle a request).

## 7. Improved service

Quality improvement is cited as another benefit of outsourcing. Performance standards can be written into the contract more tightly than may be possible with current and long-tenured employees. Managers can choose the "best-of-breed" vendors that have outstanding track records and more flexibility in hiring and rewarding their employees.

HR departments are often criticized for being overly bureaucratic. When using a service provider whose focus is service, clients of HR see a marked improvement in flexibility, response, and performance. Most firms gain control of their service levels, because their outsourcing agreement can quantify deliverables in the contract (Cooke, 2004). Confidentiality is also a good reason to outsource. An employee with a drinking problem, for example, is more likely to seek assistance from an external counsellor, than an in-house employee assistance officer.

## 8. Specialized expertise

Another reason cited by some companies for outsourcing is that they find the laws and regulations governing HR so complex that they decide to outsource to firms that have the specific expertise required. The motto is "Outsource when somebody can do it better than you."

Employees who are outsourced to the service provider may see opportunities for career development in their disciplines. In an organization specializing in training, for example, employees would have greater access to

expert colleagues to use them as sounding boards, and to career paths and opportunities to upgrade their knowledge and skills.

The use of experts also reduces the risks and liabilities for organizations. Specialists know the legislation better than anyone and can assure the user organization that all their practices comply with legislation. Access to leading practices is another motivator to outsource.

## 9. Organizational politics

An outsourced function is not as visible as an in-house department performing the same tasks. Some organizations make the decision to outsource to get rid of a troublesome department, such as one where employees are underperforming. Outsourcing a function also reduces the head count. Head counts are important in the public sector; the fewer civil servants on payroll, the happier the tax-paying public. Organizations which outsource achieve a ratio of 1:231 (one HR person to 231 employees) compared to the tradition 1:100 (Oshima et al., 2005). The contractor is often able to justify and negotiate technology improvements and other investments more easily than in-house managers.

## 10. Risks and limitations

As with any major decision, there are positives and negatives to outsourcing. The decision to outsource carries risks and has limitations. Are the anticipated benefits realized? What are the risks to service levels? What is the effect on employee morale? Does outsourcing reduce the value of the organization? These four questions are discussed below.

## 11. Projected benefits vs. actual benefits

For organizations with experience in outsourcing functions, there are hints that the process is not as cost-effective and problem-free as expected. Surveys have indicated that about half of the respondents found that it was more expensive to manage the outsourced activity than originally expected and that service levels were not as good as expected (Albertson, 2000). About 40% reported problems with higher costs. The reasons for the cost overrides include system incompatibilities and client demands outside the standard vendor package. Interestingly, one study found that about one-quarter of HR staff time was still spent on benefits administration, which had been outsourced. Worse, half of this routine work was being done by the wrong people: senior specialists and managers (Rison & Tower, 2005). Outsourcing compares poorly to other processes designed to save costs. For example, re-engineering can generate cost savings over 50%; outsourcing savings seem to be, on average, 10 to 15% (Bryce & Useem, 1998). Over 30% of outsourcing arrangements were not renewed because the cost savings were not achieved (Geary & Coffey-Lewis, 2002).

## 12. Service risks

The vendor will provide services as specified in the contract. If the needs of the user organization change, contracts will have to change. The flexibility of adding new features or enhancing or reducing service is reduced. Furthermore, it is possible that the vendor may enter the market and become a competitor. For example, Schwinn, a U.S. manufacturer of bicycles, outsourced the manufacture of its bicycle frame to a Taiwanese organization, Giant Manufacturing. A few years later, Giant entered the bicycle market and damaged Schwinn's business. Companies can lessen this risk by erecting strategic blocks—terms in the contract that limit the replication of certain competitive advantages, such as proprietary technology—or spreading the outsourcing among many vendors.

A SHRM survey found that about 25% of respondents reported a decrease in customer service and a less personal relationship with employees (Lily, Gray, & Virick, 2005).

## 13. Employee morale

One of the primary risks in outsourcing is the effect on employee morale and performance (Elmuti & Kathawala, 2000). Outsourcing is a form of restructuring that always results in displaced employees. Organizations provide employees with a sense of identification and feelings of security and belonging. When these are disrupted, employees, as stakeholders, may feel resentful and retaliatory. About one-third of HR

professionals resist outsourcing because they risk losing their jobs, may be forced to work for a vendor, and fear that management believes that outsiders are more competent (Babcock, 2004).

In an outsourcing arrangement, employees are transferred to the outsourcing firm, transferred internally to other functions, outplaced, and/or offered voluntary retirements. Despite all these options, redundancies and layoffs of staff do occur. In certain cases, the service provider employs the entire displaced workforce but may negotiate higher fees to accommodate what is perceived to be surplus or inefficient labour. Employees are resentful of these arrangements, with their connotations of “serfdom” in which the “serfs” are sold as capital equipment (“Outsourcing”, 2000).

Outsourcing can lead to the disintegration of an organization’s culture. Instead of empowering and valuing employees, an outsourcing decision alienates and “deskills” employees. The transferred employees will experience emotional loss and a change in culture. The outsourced function may have served as a developmental site for managers and this is now lost, unless arrangements can be made with the vendor.

In most cases, negotiated arrangements of pay and job security are not transferrable. The vendor is able to offer cost savings because of reduced wages and increased work intensity (Bryce & Useem, 1998).

Organizations that attempt to outsource face a backlash. The City of Toronto endured a three-week strike by garbage workers over the issue of outsourcing. Citizens lived with rotting garbage on the streets during a heat wave while the strike was under way. Members of CUPE were demanding job security (“lifelong employment”) for employees, but the city won a public relations battle by saying that the demands were unreasonable because no working and tax-paying citizen enjoyed this right.

Once rumours of outsourcing arrangements are started, HR managers can expect talented employees to start job searches and all employees to suffer anxiety resulting in lost production. Managers will have to deal with the reactions of displaced employees and survivors and allow for a period of mourning.

#### 14. Reduced value

Extreme levels of outsourcing hollow out a company, leaving it a shell. There may be unintended consequences of outsourcing the organization’s knowledge and skills to outsiders. The vendor may even sell the acquired know-how and company secrets to a competitor. Organizations can find that outsourcing employees’ skills limits these organizations’ ability to learn and exploit changes.

The organization experiences a reduced capacity to generate profits or innovate. Even a non-core activity, such as IT, may be tightly linked to other functions such as HR, so outsourcing IT reduces the firm’s capability for cross-functional synergies and creativity. The vendor cannot know your organization’s special needs, nor can it distinguish your high-profile customer (the president of the company that outsourced the function) from any other customer. When HR functions are outsourced, the internal image of HR may deteriorate as there is less interaction with internal customers and less and less HR work is performed by the HR department (Sullivan, 2002).

However, even with these risks and limitations, it is estimated that between 1% and 20% of outsourced HR functions have been brought back in-house (Gurchiek, 2005; Pollitt, 2004).

#### 15. Management of outsourcing

Managing the outsourcing well is critical. First, outsourcing must be subjected to a cost–benefit analysis. Can the contractor do a better job, faster, while maintaining service levels and meeting legislative requirements? How will this be measured? The following sections describe ways of selecting vendors, negotiating the contract, and monitoring the arrangement.

#### 16. Selecting the vendor

Once a decision is made to explore outsourcing a function, the organization should

- inform the staff of the affected function,
- prepare an *RFP* (*request for proposal*),
- invite internal and external bids, and
- establish a team to evaluate these bids.

## Box 5

## Response requirements to a request for proposal for outsourcing

In a response to a request for proposal, the potential provider should do the following:

- Explain how the provider is uniquely qualified to accomplish the measurable objectives that are described in the request.
- Describe actual situations in which the provider is currently providing the services that are proposed for this operation.
- Identify the challenges that the provider expects to encounter while improving the operation.
- Explain how these challenges will be met and present a proposed timetable for meeting them.
- Describe the economic model that is proposed for the operation.
- Specify the fee that the provider believes to be reasonable compensation for its services.

Source: Moneta, L., and W.L. Dillion. 2001. "Strategies for effective outsourcing." In *New Directions for Student Services*, No. 96 (Winter), John Wiley and Sons, p. 42. Copyright © 2002. Reprinted with permission of John Wiley and Sons, Inc.

See Box 5 for a summary of the key information that should be contained in a response to an RFP.

The point at which the staff should be informed about the potential outsourcing is hotly debated. If informed early in the process, the most talented and marketable employees may leave, and the stress and anxiety among those remaining affects productivity. However, employees will find out sooner than management might like, and it is far better to keep them in the loop of communication; they may even play a vital role in the development of the RFP.

The items to be included in an RFP vary by the service to be outsourced. Typical details include activity levels, errors, response rates, deliverables, and goals ("The Economist", 1995). Costs are never included.

Companies that have had successful outsourcing arrangements always started by comparing vendor bids against bids newly submitted by in-house functional experts (LaCity & Hirschheim, 1995). The internal group may have had ideas to reduce costs or improve services, but were thwarted for many reasons. Once it's clear that outsourcing is the preferred route because the same service cannot be provided in-house, the organization can proceed with its outsourcing plans, secure that every avenue has been explored.

## Box 6

## Outsourcing at Autoglass

Autoglass, a company in the business of repairing and replacing automobile windows, uses and weights ten criteria in choosing a vendor:

1. Commitment to implement urgently needed system 10
2. Software competency 10
3. Cultural fit 9
4. Contract conditions 9
5. Hardware competency 8
6. Knowledge of user requirements 7
7. International capability 7
8. Cost 7
9. Client references 6
10. Contract length 5

Other companies look at:

- HR process expertise (95%)
- Prior experience and track records (93%)
- Service level agreements in the contracts (65%)
- Leading edge technology (65%)

Sources: Gurchiak, K. 2005 "Record growth in outsourcing of HR functions" HR Magazine, 50, 6, 35–36., M. Milgate, *Alliances, Outsourcing, and the Lean Organization*. Copyright © 2001 Michael Milgate. Reproduced with permission of Greenwood Publishing Group Inc., Westport, CT.



The evaluation team should include the technical experts, including a manager who will not be affected by the outcome, procurement officers who can qualify suppliers, and even customers who can check out the suppliers' track records and personnel (Laabs, 2000). This team sets the evaluation criteria, analyzes bids against the criteria, and chooses the vendor. The process should be as obsessive and detailed as the due diligence undertaken with mergers and acquisitions. Examples of evaluation criteria can be found in [Box 6](#).

### **17. Negotiating the contract**

Experts advise organizations looking to outsource to not work with the contract the vendor will offer because these contracts typically do not include performance standards or penalty clauses if the vendor does not meet requirements (LaCity & Hirschheim, 1995). Payment provisions in these standardized contracts also tend to favour the vendor. The vendor also has a tendency to want to start the service before the contract is signed and "take care of the details later." Anything not provided at the beginning is then subject to excess fees.

An essential first step that the user organization must undertake is the establishment of benchmark levels with current services. The goal is to document baseline services currently being provided, using criteria such as response time, response cost, and customer satisfaction ratings. Thus, a performance standard might read that "90% of benefits enquiries must be answered within 24 h." Of course, everyone forgets about the other 10%, so that too must be specified (e.g., "The remaining 10% must be answered within three working days"). Quality measures have to be included—for example, "Clients rate the service satisfactory or excellent 98% of the time." The most common service-level agreements are transaction accuracy, data delivery, service availability, issue resolution and client satisfaction (Gurchiek, 2005). Failure to meet these levels must result in penalties, such as reduction in the costs or payments to the user. On the other hand, if service is superior, incentives should be built into the contract. It may be necessary to include clauses for severe fluctuations in demand. Finally, any contract should include a termination clause.

The negotiations tend to be imbalanced, with the vendor having employed many technical and legal experts in order to prepare the agreement. The user organizations should do likewise and hire an expert to protect their interests. A technical expert can help develop performance standards and a legal expert ensures that the customer's wishes are expressed in the contract.

### **18. Monitor the arrangement**

The work is managed by results—in other words, there are targets or objectives such as "All calls answered within 90 s"—not necessarily by time expended to generate the results. A person will need to be assigned to monitor that the results are as expected; in complex arrangements, it may take a team to do this monitoring. The outsourced project or function must be clearly defined. If the terms are fuzzy, however, the contractor might be invited to brainstorm and help generate the guidelines and standards (Petrick, 1996). A relationship with the firm must be established to ensure that the outsourcer acts in the firm's best interests and has knowledge of its unique needs. References must be checked, just as they are when hiring any employee. Demand frequent and accurate reporting. Conduct internal and external client satisfaction surveys.

When managed according to these guidelines, organizations can maximize the benefits of outsourcing while mitigating the risks. The following case outlines some of these steps.

### **19. Case: Calgary Health Region**

In November 2001, the Calgary Health Region issued an RFI (Request for Information) to suppliers interested in forming a partnership to finance and deliver an HRIS and provide certain human resources functions. A steering committee, composed of the vice-president, Human Resources; executive director, Human Resources; vice-president, Finance; executive director, Finance; director of Compensation, Benefits and HR Systems; and executive director, Information Technology, was formed to steer the project and screen the responses to the RFIs. The steering committee selected three of the responses and issued an RFP (Request for Proposal). Each supplier was given six weeks to provide a systems solution and shared-service outsourcing arrangement reflecting best HR practices, expertise, and financial arrangements. They were given detailed specifications and asked to bid on identified HR and payroll functions (e.g.,

payroll, benefit administration, pension) as a core service and bid on options such as recruitment services and occupational health and safety services.

The Evaluation and Selection team reviewed the submissions, and all met most of the requirements. Each consortium of suppliers was invited to present their proposals and respond to questions during a one-day presentation. All consortiums included a change management consultant and an information systems consultant. A detailed scoring system was developed that included an emphasis on service delivery and the impact on the current HR staff. The Evaluation and Selection team conducted site visits and reference checks on organizations in Boston, Vancouver, Edmonton, Toronto, and Calgary. The consortium chosen comprised Telus (providing the lead with an investment in the software application People Soft 8.8), PriceWaterhouseCoopers (for change management and implementation support), together with additional individual advisors. Due diligence was conducted in the fall of 2002. The negotiations continued for weeks in an attempt to craft a detailed proposal and a shared service contract that would result in the creation of a new organization and service provider.

The advantages of this potential partnership to the Calgary Health Region would be that their HRIS needs would be met by a state-of-the-art HRMS with no capital outlay. The region's current cost of "business as usual" for the staff and associated expenses transferring to the new organization would be paid to the provider throughout the term of the contract. In turn, the new organization would benefit from efficiencies generated by new systems and processes as well as revenue generated by building the client base. Additionally, the Calgary Health Region would potentially benefit from any new business generated. Each current HR employee would be guaranteed a job for at least one year, with the same or better compensation, benefits, and performance bonus plan as well as additional perquisites such as stock options. Some employees seemed to be excited by the possibility of working in an organization whose core business is HR and not always competing for funds with the dominant health-care divisions.

The consortium saw a benefit from a long-term contract and the possibility of generating revenues from increasing the business and client base. Indeed, the major expectation was that this service could be provided to other organizations, particularly in the health-care and educational sectors, where there is limited capital available for investment in human resources services and associated systems.

However there were some risks. The service delivery may not have met expectations despite standards such as "99.9% accuracy in payroll," and financial penalties would occur for failure to meet these standards. There may have been some loss of control related to the direct supervision of the service, although there would be contract managers in both organizations. The separation of groups of employees who normally worked together, such as the recruitment consultants and the recruitment assistants, may have posed problems (i.e., what is the impact of splitting strategic and transactional functions?). Finally, several groups of employees might have had to relocate to the new company; some were unionized, others exempt. There might have been a fight for successorship rights and the possibility of labour board challenges.

Source: Duncan Truscott, Acting Vice-President, HR; and Diane Pollo, Director, Compensation, Benefits, and HR Systems, Calgary Health Region. Courtesy of Calgary Health Region.

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