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HUMAN RESOURCES OUTSOURCING

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HUMAN RESOURCES OUTSOURCING

Abstract

This report is about outsourcing and the reasons and needs that lead companies to use this type of service, with a particular focus on the current situation and foreseeable future trends in HR outsourcing in Spain. Due primarily to the way the HR function has evolved in recent decades and to considerations of a tactical and strategic nature, a growing number of companies are hiring the services of outsourcers. It is a way for them to relieve their HR departments of non-core business functions and increase their added value by specializing these services. The functions that HR departments tend to “delegate” to outside suppliers include: recruitment and selection; payroll; training/eLearning; compensation and benefits; health and safety; and outplacement.

Keywords: collaboration agreement, specialization, flexibility, cost reduction.

HUMAN RESOURCES OUTSOURCING (1)

1. Background

The transition to the information age is bringing about a virtualization of companies which, among its many forms and developments, entails the externalization of areas within the company that are not considered key to the business. At the same time, companies are having to operate in an increasingly competitive environment, bounded by factors such as technological change, globalization of business activity, market deregulation and fragmentation of demand.

The technological change we are seeing today is driven by the Information and Communication Technologies (ICTs), whose rapid diffusion has had following effects:

- Development of new, more dynamic economic sectors that generate greater value added and create more jobs, but that require specifically qualified personnel to carry out the new functions and services.
- Development of the way businesses are managed, as ICTs by their nature can be applied not only to production but also to other, deeper layers of business administration.
- The ICTs act as catalysts of other factors of change such as the globalization of economic activity, the internationalization of markets and sociological change.

All of this obliges companies to change their strategies, structures and processes, and above all, to be permanently open to change.

At the same time, the deregulation or liberalization of the markets that began in the 1990s has prompted an intensification of competition in many sectors where there was none before, and in some cases has led to the emergence of completely new sectors of business activity. All of this, combined with the disappearance of tariff barriers, has stimulated a process of internationalization of the markets and globalization of business activity.

The transformation of the market is also apparent in the demand, which has undergone major changes, becoming more fragmented. This has made it more difficult to satisfy customers' needs and expectations, so companies are constantly making efforts to improve and innovate.

All of these factors make up what we have called the competitive environment, which creates a need for specialization and expertise on the part of any company that wants

(1) Published with the collaboration of Accenture.

to survive. Yet companies cannot always specialize in every area and so they sometimes turn to outsourcing to provide the most satisfactory solution for their particular circumstances.

In this context, IRCO (International Research Center on Organizations), an IESE research center focusing on Organizational Change and Leadership, and Accenture, one of the world's leading management and technology services organizations, have decided to pool their experience and knowledge to prepare this report on the current situation and future trends in outsourcing of HR functions in Spain.

1.1. Objectives

This report has three main objectives:

- Describe the current state of outsourcing in general, and HR outsourcing in particular, and the opportunities it offers.
- Find out and analyze the opinions of the top managers of Spanish companies regarding HR outsourcing, both as it exists today and as a future trend.
- Identify the commonest practices and trends in HR outsourcing.

1.2. Methodology

In preparing this report, bibliographical references were researched and a field study was carried out. The field study consisted of a questionnaire addressed to General Managers (and, failing that, to Human Resource Managers) of Spanish companies in various sectors. The final sample consisted of 154 companies distributed among five sectors: (i) Industry, Services, and Consumer Goods (“Products”); (ii) Electricity, Water and Gas (“Utilities”); (iii) Government and Public Administration (“Government”); (iv) Information and Communication Technologies; and (v) the Financial sector.

The conclusions derived from an analysis of the abovementioned sources were refined through individual interviews with experts and a Focus Group discussion (2).

1.3. Report Structure:

The report begins with a definition of outsourcing and the different types of outsourcing. This is followed (Section 3) by a more detailed examination of HR outsourcing, the functions in which it is most commonly used, and some real-life examples. The paper continues (Section 4) with a discussion of practices and trends in HR outsourcing in light of the results of a questionnaire sent to Spanish companies. The advantages and risks of HR outsourcing are analysed, and the paper ends with some conclusions.

The report includes an exhibit with the main conclusions of the Focus Group discussion.

(2) At the end of the document there is a reference to the interview and expert Focus Group participants.

2. ¿What is outsourcing?

2.1. A definition of outsourcing

We may define outsourcing as “the acquisition by a company of competencies it has not chosen as core competencies, through collaboration with another company” (Rueda and Gidrón, 1998, p.43). Thus, the term “outsourcing” may be applied to any process or business function which is not strategic for the company and which therefore should not take up valuable management time.

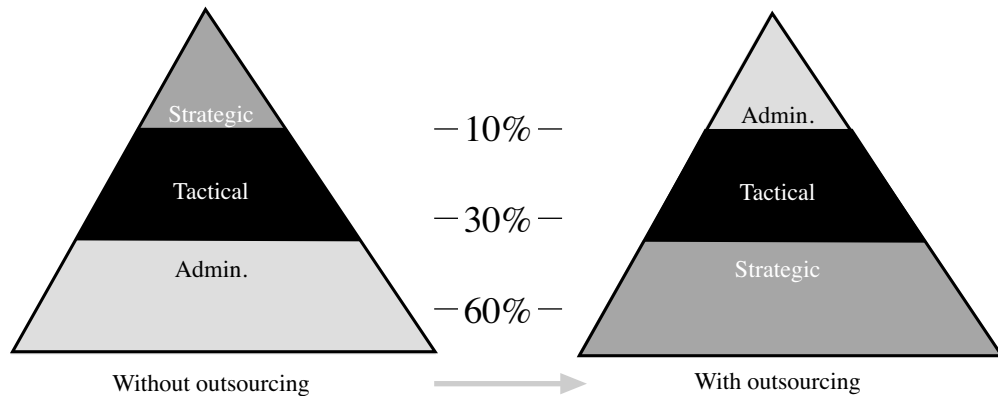
By core competencies we mean “those that define the company’s reason for existing and distinguish it from its competitors, while non-core competencies are those that provide support for the business” (Prahalad and Hamel, 1990).

The main characteristics of outsourcing are as follows:

Outsourcing Characteristics

- An outsourcing contract is a collaboration agreement that involves a series of mutual transfers between the parties, on a technical or material level and on a more personal level, with the outsourcer assuming part of the risk of the client company, being better equipped to do so (Erdozaín, 2001).
- Outsourcing is a management tool. When a company initiates an outsourcing process, it ceases to manage internally a series of functions or processes that are not part of its core competencies and instead acquires them from an outside supplier or outsourcer. By doing so, the company is able to devote more of its time and personal and material resources to matters that directly concern its strategy. Chart 1 below shows how companies that outsource are able to transform the way their business works by devoting more time and resources to strategic issues and less to administrative tasks.
- The outsourcer, for its part, has its “core business” or competitive advantage in the functions and processes it has acquired from the company that undertakes the outsourcing process. The client thus gains access to expertise which enhances the service it offers.
- The same volume of business can be managed by fewer people, giving the client company greater flexibility, capacity and resources to devote to activities related to its core business.
- During the outsourcing process, the client company retains control and strategic management of the service it has outsourced and is responsible, together with the outsourcer, for establishing the guidelines that will align the service with its strategic objectives. In other words, the client and the outsourcer must agree on a series of quality standards; but these standards will be agreed on the basis of a strategic improvement proposal on the part of the outsourcer, and will steadily rise thanks to the efforts by both parties to adapt to the new demands of the market.
- Outsourcing allows companies to leverage their resources to reinforce their competitive advantage.

Chart 1



Source: HR Magazine (April 1995)

Differences between Outsourcing and Externalization

Although they often are used interchangeably, there are clear differences between “outsourcing”, “externalization”, and other related terms such as sub-contracting or vertical disintegration. The chart below shows the main differences:

Term	Main Characteristics	Parties	Notes
Outsourcing	Hire outside contractors/ Seek external suppliers	Outsourcer or Client Manager and Client	<ul style="list-style-type: none"> • Collaboration relationship: mutual commitment to achieving results • Client company with need to improve management of certain non-core functions/ processes • Reasons: tactical and/or strategic • “Proactive” attitude on both sides • Shared responsibility • Outsourcer: Support function in new business lines
Externalization	“Push out” what was once “inside” the company	Provider and Client Company	<ul style="list-style-type: none"> • Rendering of services • Immediate or practical strategic reasons • “Commercial” relationship • Provider: support function
Subcontracting	Supply of services or functions	Provider and Client Company	<ul style="list-style-type: none"> • Responsibility for results is not shared by both parties
Vertical Disintegration	Disposal of “core” activities	Companies that share core activities *	<ul style="list-style-type: none"> • Never an agreement for disposal of support activities, but always linked to strategic decisions of the company.

*For example, an automobile manufacturer transfers one of its plants to another company.

2.2. Types of Outsourcing

Depending on criteria such as cost savings, accountability and level of services rendered, we can classify outsourcing in three main types: traditional, collaborative, and Business Transformation Outsourcing (BTO).

Traditional Outsourcing

This is the basic type of outsourcing where there is a “transfer of the management or administration of a process or function from in-house staff to an outside service provider” (Breitbart, 1996).

Main features:

- The prime aim of traditional outsourcing is to reduce costs and help managers to concentrate on key aspects of the business.
- It involves developing support functions.
- The benefits are attained in the short term in the form of cost reductions (20%-50%) and improvements in management.
- The service level is the same as if the service were provided by in-house staff, while the economic risks are shared by both parties (core company and outsourcer).

Collaborative Outsourcing

In this type of outsourcing the client firm receives an injection of new capabilities to improve the management of particular services.

Main features:

- Administrative processes are improved thanks to two factors: cost-cutting and greater responsiveness to changing business needs.
- Collaborative outsourcing tends to involve “re-engineering” and changes in administrative processes.
- It often results in the creation of a “multi-sourcing” formula that acts as a services company.
- Prices are set on the basis of production.
- It gives more flexibility than traditional outsourcing, as services are tailored, the service level is higher, and both parties share the benefits.
- It is used to transform critical processes.

Below we present a case study in which Accenture (the outsourcer) works with Caixa Catalunya (the core company) through a collaborative IT outsourcing agreement.

Collaborative Outsourcing Case Study: “Caixa Catalunya”

In 1998, the Caixa Catalunya savings bank was facing a number of challenges in its business:

Restrictions:

- The bank was becoming increasingly involved in programs and processes that required great technical expertise.
- They had subcontracted a large number of IT professionals to provide the skills they lacked.
- As a consequence, their IT budget was getting larger and larger.

Strategic Factors:

- They needed to rebuild their IT capabilities in collaboration with an outside provider and implement a new model to ensure that their internal customer needs were handled in a cost-efficient manner.
- All of this had to be accomplished while containing growth and reducing costs.

Caixa Catalunya formed a strategic alliance with Accenture that led to the following:

- A new company was formed solely to carry out the IT task within Caixa Catalunya.
- This provided access to best practices and the latest technology.
- A new model was implemented to ensure that internal customer needs were met efficiently.

Outcomes:

- Caixa Catalunya’s IT fixed costs were reduced considerably, freeing up resources to invest in higher value-added businesses.
- The total net IT savings were 15%, based on a full-time staff of 240 IT professionals.

Business Transformation Outsourcing (BTO)

A program that sets out to transform the way in which a business works in order to achieve immediate and sustainable improvements in business management.

Main Characteristics:

- Designed specifically for rapid strategy implementation, which means that opportunities and risks are multiplied.
- Seeks external results such as increased share price, improved market position or increased return on investment (ROI).
- Implies an organizational change, which requires top management support for decision-making throughout the entire process.
- Requires preparation of an individually tailored contract. There are no stereotypes:
 - The structure of the BTO agreement should include innovation.
 - The financial structure of the BTO contract should include sufficient investment to cover all expenses at the best possible cost, and motivate “business partners” by getting them to take responsibility for goal achievement and requiring them to share risks and benefits.
 - The format of the alliances resulting from BTO may be very different. It may involve the creation of joint ventures (which will bring together the people who are to transform the critical processes).
- The result tends to be the creation of operating units owned and run jointly by the outsourcer and the client company, units which become profit centers rather than cost centers, as they now operate as independent market entities with their own differentiated core business.

In Europe BTO has already demonstrated its potential. A case in point is J. Sainsbury plc, the UK's second largest supermarket chain. On this occasion Accenture (the outsourcer) entered into an agreement with Sainsbury to radically transform the business through the IT function.

BTO Case Study: Sainsbury plc

J. Sainsbury plc was in the midst of an economic slide that was preventing it from responding to the major competitive threats from such grocery retailers as Asda and Safeway. Its cost structure was increasing much more rapidly than its revenue and so its profits had declined greatly compared to those being reported by other market leaders. The figures showed that Sainsbury's net profits had actually declined 40% over the previous three years, and share price and market capitalisation had consequently fallen significantly.

Calling for aggressive action, the Board of Directors hired Sir Peter Davis as the company's new CEO, giving him a mandate for radical change. Within a period of months, Sir Peter Davis had entered into a partnership with Accenture, which would act as the company's main supervisor in designing and implementing a strategic repositioning. This alliance involved:

- The creation of a new company, called SWAN, to be in charge of project development and the maintenance of Sainsbury's computer applications.
- The transfer of 800 Sainsbury employees to Accenture through SWAN.
- The assumption of a contractual relationship based on shared risk, part of the bill for the services rendered by SWAN being linked to business targets and share price.

Outcomes:

- Sainsbury had net first-year savings of \$51 MM and total savings of \$357 MM over seven years.
- 50% cost reduction in corrective maintenance.
- More flexible and more productive service structure.
- Greater internal client satisfaction and awareness of the costs associated with this function.
- IT core competencies transformed to increase service levels.

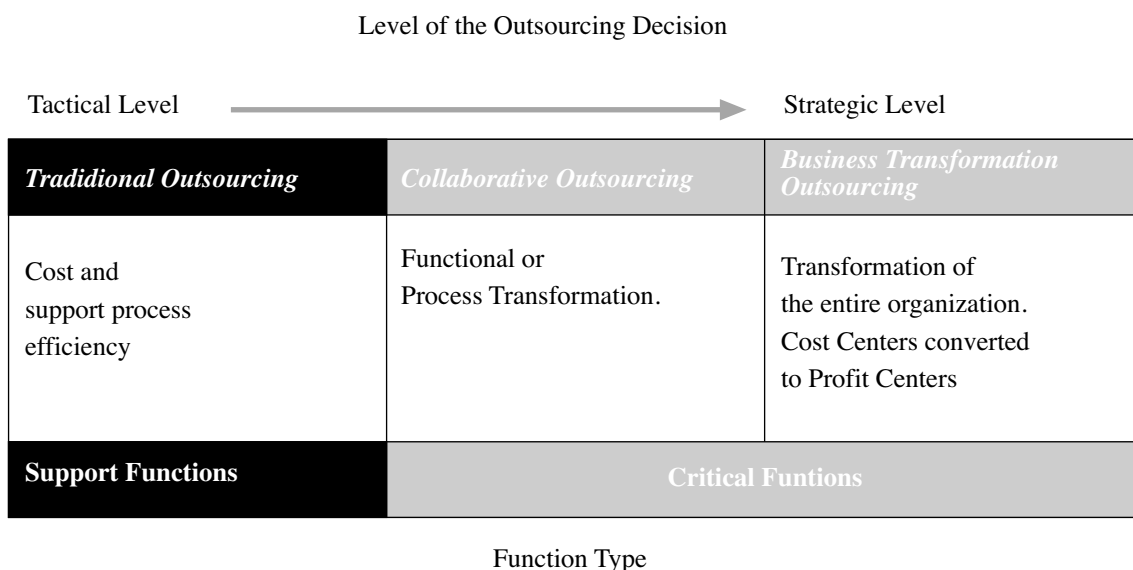
Source: Institute for Strategic Change, Accenture, July 2001

BTO Benefits (*Business Transformation Outsourcing*)

- Step-change improvement in enterprise-level performance
- Reduced time-to-market
- Shared Risk
- Increased innovation through access to world class skills, resources and industry knowledge
- Enhanced core competencies
- Strengthened competitive positioning

Chart 2 below shows more clearly where the different types of outsourcing fall in relation to two coordinates: the level at which the outsourcing decision is made (strategic or tactical) and the type of function to which it is applied.

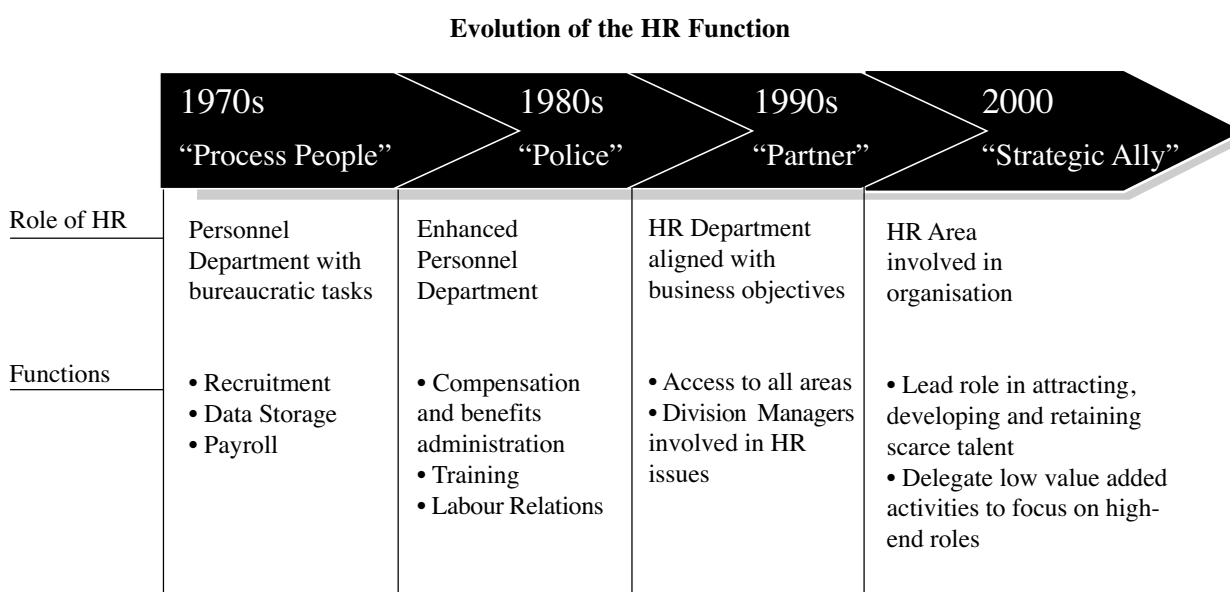
Chart 2



3. HR Outsourcing

3.1. Background

Like so many other business functions, HR has evolved enormously over the last 30 years. It has gone from being a bureaucratic Personnel Department to being one of the key players in any new organisational development and plays an integral role in defining and implementing business strategy. The following chart explains the evolution of HR over the last 30 years:



Source: IRCO-IESE.

As may be seen in the above chart, HR functions now play a more active role in attracting and retaining talent, in organisational development and in organisational performance. People management is considered much more important nowadays, as people are what add value to a company.

Nevertheless, as can be seen from the chart, HR professionals have for many years carried out tasks that add little or no value to the business yet take up an enormous amount of time and effort. Payroll management, for instance, has been estimated to occupy up to 70% of the HR department's time and yet it adds very little value to the corporation's bottom line.

Fully aware of this paradox, HR directors have been seeking solutions that will allow them to spend more time on the tasks that will have the greatest impact on their talent management function and devote their efforts to the aspects of people management that most directly affect their company's core business.

Outsourcing of HR functions is a solution that the HR directors of Spanish companies have been turning to in growing numbers as they reassess the value added of their own functions and the functions of their department as a whole. One of the most illustrative examples of what this involves is that of the "la Caixa" savings bank, which has substantially improved the value added of its HR department by outsourcing "transactional" functions, thus reducing the amount of time and the volume of resources involved.

La Caixa Case Study: *Outsourcing for renewal*

Very often, HR departments in big companies employ large numbers of people to carry out activities such as payroll, hiring, etc. that have nothing to do with the tasks specific to an HR department, whose mission should be to develop people's potential in order to help the company's management units to improve the business and contribute added value to the business strategy. This was the case in La Caixa, and so la Caixa saw the need to reorganize its HR department

The options were: to transfer all of the HR staff assigned to administrative tasks to another department within La Caixa; or to set up a new company to perform these tasks. La Caixa chose the latter option and so took the first step towards outsourcing.

A new company was formed to handle the purely administrative side of the HR function. It was called Rol 20 and was the first company in Spain whose sole purpose was the outsourcing of HR administration.

Since April 1998, Rol 20 has been handling all of the administrative processes associated with payroll, selection, hiring and employee assistance.

Outcomes:

Before the outsourcing process was undertaken, la Caixa's HR department had 144 employees, whereas today there are only 33 and the department has been divided into three units:

- 1.- Management Systems: providing support for the strategic decision-making process, and helping in the management of outsourcing and decentralisation processes.
2. –Professional Development: in charge of studying the needs of each of la Caixa's branches and the staff working in them.
3. – Internal Consulting: responsible for analysing and managing business improvement projects

Source: "La Revista de la Externalización" (Grupo Eulen), January 1999.

3.2. Origin and Definition of HR Outsourcing

Outsourcing was originally developed as a tool for managing, through third parties, activities that the company had previously carried out with its own resources. It enabled companies to reduce costs and concentrate on their core activities.

As Jac Fitz-enz, founder of the world famous Saratoga Institute, observes, “only 10% of the HR department’s functions within the company add value while the other 90% are merely transactional in nature” (Fitz-enz, 2000).

It is the functions that add least value that are most commonly outsourced. In some cases, the outsourcing agreement covers only specific HR functions, such as payroll, training or recruitment.

However, there are other outsourcing services provided by some multinational consulting firms, such as “Total Human Resources Outsourcing”, which offer “end-to-end” HR solutions. In these cases, the client company’s HR are managed almost entirely by a series of integrated services that provide support to the different functions of the HR department. It is a matter of re-engineering a company’s HR processes in an integral fashion, so that the company obtains the maximum benefit from its IT investment and is able to offer a higher quality service.

Two examples of this type of solutions are ePeopleserve, a company developed by BT and Accenture on the basis of a BTO (Business Transformation Outsourcing) project, and Netpersonas, a solution developed by Accenture and Caja Madrid, also based on a BTO project, which provides outsourcing services to Caja Madrid and other companies upon request.

One of the most complete definitions of HR outsourcing, in our opinion, is the one given by Mary F. Cook: “HR Outsourcing is the use of a provider service which will perform, on an as-needed basis, the administration of an HR activity that is normally performed within the organization” (Cook, 1999, p.27).

As Mary F. Cook explains, for an HR activity to be outsourced successfully, three conditions must be met:

1. It must be a task that can be done by the company’s own employees but that can also be provided by an outside provider, possibly at a lower cost.
2. It must be possible to negotiate an agreement with an outsourcer who will be bound by a contractual service level agreement and an agreed price.
3. It must be possible to set a term for the agreement, with the possibility of early termination if either party fails to meet its obligations.

We wanted to formulate our own definition of HR outsourcing that would avoid any confusion with “HR Externalization”, which we believe is something different:

Definition of HR Outsourcing

Transfer of HR functions and/or processes, and, in some cases, of the means used to perform them (especially personnel), to another company whose “core business” consists precisely of performing those same functions. This latter company will be responsible for supplying the former with the products and services deriving from the functions transferred to it and will contribute specialized knowledge. It will also advise on innovation and development of those functions.

3.3. Reasons for HR Outsourcing and the need for it

Most companies consider that using an outside service to hire staff, administer payroll, conduct training programs, etc. is more efficient and less costly than hiring qualified people to perform these tasks internally.

To understand the reasons or motives that lead HR directors to hire an outsourcing service for certain functions, we drew up a classification that matches the actual circumstances of the market. Thus, we can distinguish between operational, tactical or ad hoc reasons, on the one hand, and strategic reasons, on the other.

Cost savings, or the possibility of converting fixed costs into variable costs through outsourcing, are examples of tactical or operational reasons. Other concepts linked to competitiveness, such as flexibility, streamlining or “speed-to-value”, are strategic reasons.

In the study performed by Accenture and IRCO (IESE), 51% of the respondents claimed to have used HR outsourcing for tactical reasons, compared to 49% for strategic reasons. In the respondents’ view, the tactical (or operational) and strategic reasons that prompt many Spanish managers to outsource HR functions are:

Tactical Reasons	Strategic Reasons
Cost-saving (54%)	Concentrate resources on core activities (35%)
Convert fixed costs to variable costs (14%)	Access to expertise or specialization (18%)
Improve operating efficiency (8%)	Flexibility (12%)
Access to advanced technology (3%)	Improve service quality (8%)
Resource control (1%)	Internal promotion (4%)

Source: IRCO (International Research Center on Organizations), IESE.
Sample: 154.

3.4. Outsourced HR Tasks

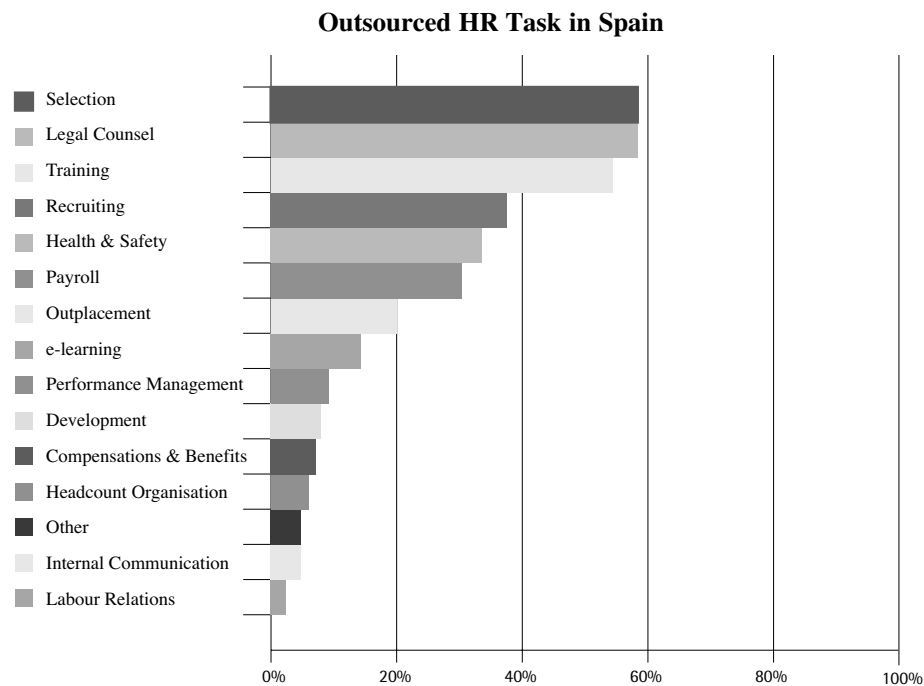
The following table shows the HR tasks that may be susceptible to outsourcing, according to two recent studies conducted in the US and Europe:

Studies	Outsourced HR Tasks
Europe Cranfield School of Management and William M. Mercer (2000)**	Training and Development (77%) Recruitment and Selection (59%) Compensation and Benefits Administration (30%) Outplacement (29%)
US American Management Association (1997)*	Temporary personnel employment Payroll Training – Management and Supervision Training – Functional Benefits Administration Hiring of Personnel Permanent personnel employment

* Study conducted with 4,000 medium and large organizations across Europe

** In this study, 75% of the companies surveyed outsourced one or two HR tasks

According to the results of our study, the HR tasks outsourced in Spain are:



Sample: 154.

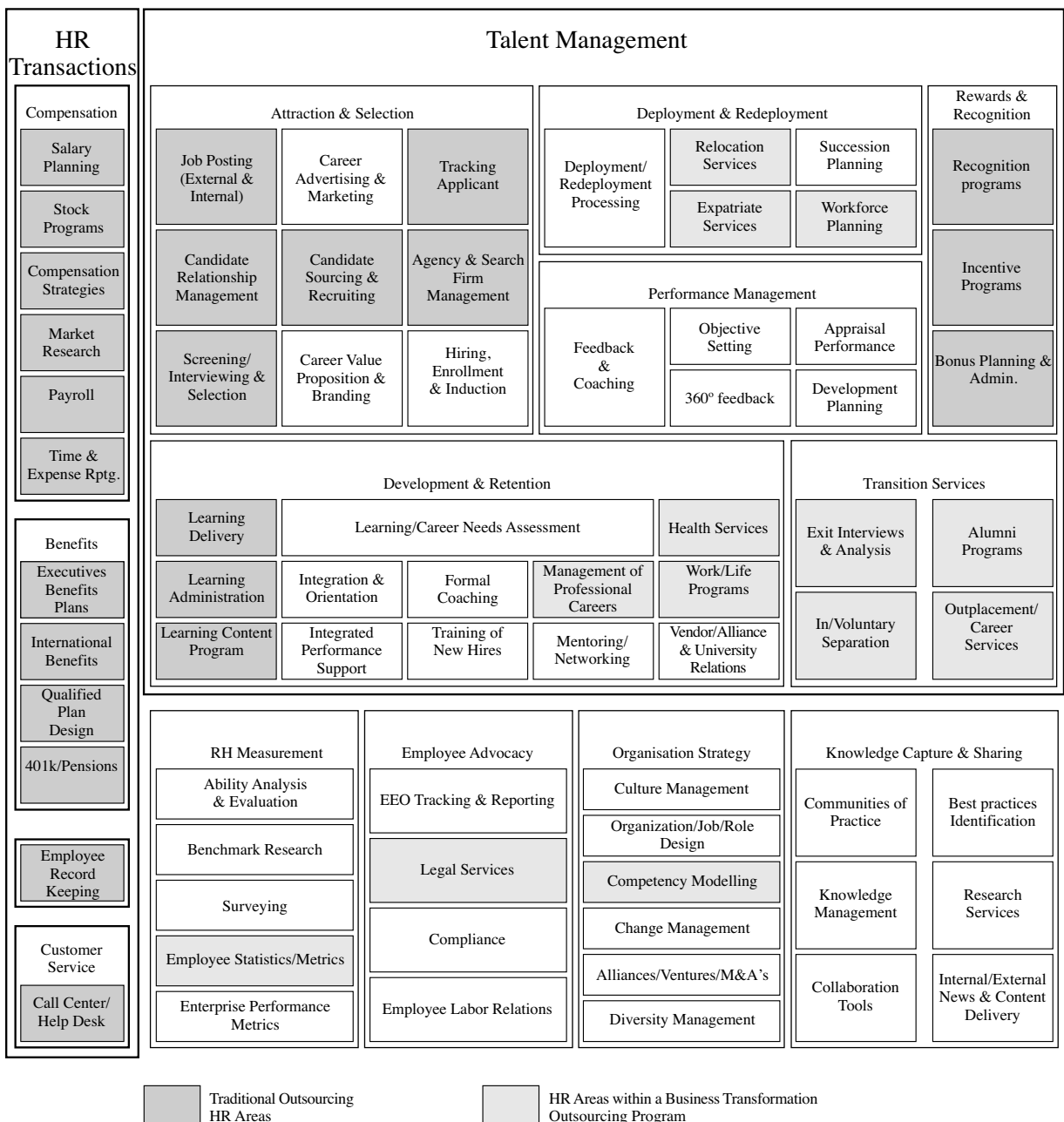
As we have seen, there are numerous studies about the specific HR functions that are most commonly outsourced. However, we need to identify the different processes that make up each HR function in order to identify the “critical” activities (the ones that should be kept in-house) and the “non-critical” or transactional activities (the ones that can be managed effectively by an outsourcer).

On that basis, we can now consider which type of outsourcing is appropriate in each case: traditional outsourcing or BTO (Business Transformation Outsourcing). In traditional outsourcing, the functions initially performed by the company are taken over by the outsourcer. BTO, in contrast, involves a project to transform the entire HR function. The breadth of HR services offered and the savings obtained through economies of scale enable the outsourcer to offer the client company a package of services, functions and/or processes that normally would not be outsourced on their own, but which can, however, be outsourced as a package (such as expatriate or outplacement services).

In the process map that we will see later on, we distinguish between the HR functions that can be outsourced on their own and those that may be included in a BTO. This process map will serve to “situate” the practical examples of each type of outsourcing presented further on.

Besides the map and the examples, we will briefly list the HR processes most commonly outsourced. It is not an exhaustive list, but we believe that it describes the current and future trends observed in the market:

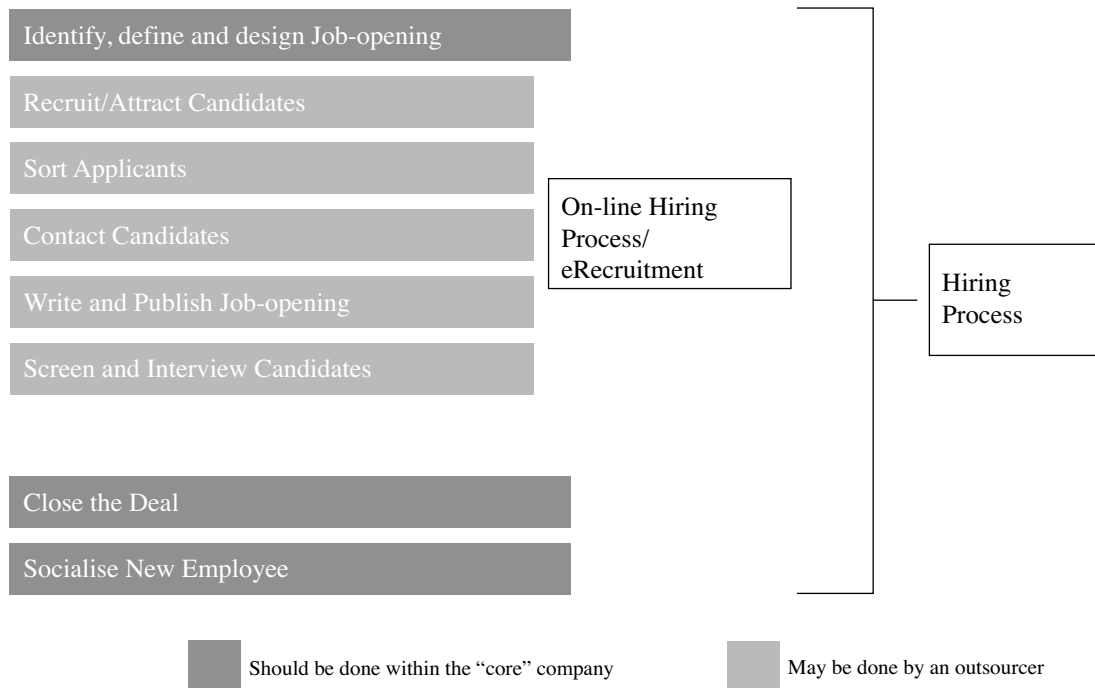
- Recruitment and selection
- Payroll
- Training / eLearning
- Compensation and benefits
- Health and safety
- Outplacement
- Others



3.5. Traditional HR Outsourcing

3.5.1 Recruitment and Selection

By outsourcing of the recruitment and selection process we mean agreements by which the outsourcer carries out the entire process up until the candidates' final interview with the core company, which must make the final decision. This type of process may include:



There are certain stages along the hiring process that are best kept within the core company. According to Mary F. Cook, for example, the core company must retain responsibility for job identification, description and design; the final interview; the making of the contract; and employee socialization. The content of the contract, however, can be decided in consultation with an outside advisor. The other stages of the process (including recruitment) can be carried out entirely by the outsourcer.

Profile of companies that outsource recruitment and/or selection

More and more, employers are opting to conduct recruitment and pre-selection of personnel through a job website or their own corporate web page. The number of companies that use eRecruitment tools to speed up their recruitment processes is increasing. The following table shows the result of the study:

HR Function	Profile
Recruitment / eRecruitment	<ul style="list-style-type: none"> • 35% of Spanish companies • Mainly European multinationals (65%) • Main Sectors: Product (Industrial, Services and Consumer) and Communication & Hi-tech
Selection	<ul style="list-style-type: none"> • 58% of Spanish companies • In multinationals (55.5%) more than in national companies (44.5%) • In small enterprises or large multinationals rather than in medium-sized companies* • Sectors: Communications & Hi-tech and Product (Industrial, Services and Consumer).

* The reasons for this apparent contradiction, in our opinion, are: the quest for flexibility and limited resources in small companies, and the use of more modern management tools combined with ambitious headcount reduction plans in larger companies.

In a study on eRecruiting conducted by IRCO in June 2001, 35% of the respondents said that they used their corporate web site for recruiting, while 39% used so-called job sites or recruitment platforms.

On-line Recruitment Methods in Spain


Recruiting Tool	Always/Sometimes use (%)	Don't Use (%)	N.A. (%)	Total Companies
Own Corporate Web Site	35	47	17	119
Job Site	39	29	31	119
E-mail	55	26	17	119

Source: IRCO-IESE, June 2001.

Sample Size: 119

Advantages of eRecruitment

As with other on-line services such as eLearning, the advantages of eRecruitment compared with traditional recruiting are evident. The following table shows the results of the abovementioned study:

Advantages of eRecruiting	
	<ul style="list-style-type: none"> • Time saving in curriculum processing, initial filtering • Cost saving in recruitment • Curriculum and candidate information available 24/7/365 • Curriculum and candidate information available from anywhere in the world • Automatic information processing • Access for passive candidates • Ability to address target candidates effectively and give a modern image of the company • Opportunity for SMEs to gain access to a very large pool of candidates at a reasonable cost

The following is an account of a case of outsourcing of eRecruiting in which savings of up to 97% in candidate search costs was achieved:

eRecruiting – Robert Half Case Study

Robert Half International (RHI) is one of the world's largest specialist personnel recruitment and selection companies. It has hundreds of offices around the world and through its seven divisions selects qualified personnel in areas as diverse as finance, legal services or new technologies.

Accenture has developed for RHI a tool called "Candidate Finder", a web-based application that carries out searches for potential candidates in the different job sites, draws up rudimentary profiles and sends them to the most appropriate person in RHI.

This tool exploits the potential of the Internet to conduct searches and reduces the administrative work associated with the search for candidates. This means that RHI personnel can devote more of their time to conducting interviews and performing other, more value added tasks such as investigating candidates' expectations and goals.

The return on the investment made in implementing Candidate Finder has been spectacular and has led to a reduction in search costs per candidate of between \$30 and \$1.

Source: Accenture Outsourcing Division.

3.5.2 Payroll

Payroll processing has been a target for outsourcing for quite some time. Currently, in the U.S., almost one-third of companies outsource this function. As most organizations find it difficult to keep up-to-date with the fiscal and legal requirements relating to payroll, and as it takes up a lot of time, outsourcing of payroll management is becoming more and more common.

According to our study, 19% of the entire sample outsource payroll, which represents 33% of the companies that outsource some HR service or function. Most of the companies that outsource payroll have fewer than 500 employees, and operate in the financial and telecommunications sectors.

ePayroll

Besides eRecruitment and eLearning, the Internet revolution has brought other online services such as ePayroll or on-line payroll management. Thanks to these services, employers and employees can obtain the benefits of on-line communication and management in order to concentrate their energies on the fundamental areas of their business.

The self-service facet of online payroll allows rapid and fluid communication between employees and the outsourcer. Employees may consult their payroll from anywhere in real time via a PC. Usually, the employee has access to an online Client Service Center for reporting incidents and observations 24 hours a day. All of this is provided with a high level of security. And the employer gets a flexible service tailored to his company.

The added value that this type of service offers is: the self-service or self-help concept, the elimination of intermediaries, immediate access to information, automatic backups, and permanent specialized personnel.

Advantages to Payroll Outsourcing



- Access to a higher quality payroll management system than could be developed in-house
- Cost reduction
- Access to best practices and up-to-date HR management knowledge
- Access to a broader range of HR services
- HR department is freed from transactional tasks and can take on the role of strategic partner
- Access to a more reliable and better maintained system

3.5.3. Training / eLearning

Training has recently turned into a primary target for outsourcing. Most studies identify training as one of the HR functions most commonly outsourced. In a study conducted by Cranfield University and William M. Mercer in 1998, 77% of the participating organizations said they were using the training and development services of outside providers, which is more than were outsourcing either recruitment and selection (59%) or compensation and benefits (30%).

According to our study, 57% of companies that outsource some HR function also outsource traditional training. Of these, once again, a majority (71%) are multinationals.

It has also become evident that traditional training is inadequate to meet the growing demand for training in organizations, owing to limitations derived from the need for a physical infrastructure, high costs, and scarcity of employee time. With the emergence of eLearning, a change is taking place in the way companies carry out their training.

eLearning


eLearning is learning that is acquired through the use of an electronic technology, whether over a network (Internet, intranet) or in other formats (e.g. CD-Rom). Information is delivered via a structured outline, practical exercises, case studies, evaluations, consultations or simulations (Muñoz-Seca and Sánchez, 2001).

In the last five years, many companies have started eLearning projects, either by setting up their own virtual campuses or by outsourcing training services from specialized companies.

There is no doubt that within a few years eLearning will play a revolutionary role in Spain. Currently, it accounts for 2% of all training activities in companies, but by 2005 it is expected to reach 12%, with 50% annual growth (3).

(3) Source: Doxa

eLearning is more common in companies that have widely dispersed workforces. According to the results of our study, 100 percent of companies that outsource on-line learning are multinationals, European as much as American.

Advantages of eLearning	
	<ul style="list-style-type: none"> • Greater flexibility and access to training for all employees of the organization. • Very significant cost reduction. The cost of eLearning is estimated to be 30% of that of traditional training. There are no travel costs and the cost of the trainers is drastically reduced. • Resources are available to resolve user's queries. • The training service can be readily adapted to a changing environment.

How do outsourced eLearning services work

In outsourcing this type of services, the outsourcer is responsible for maintaining and updating the eLearning tool. Frequently, it also hosts the eLearning platform, as the companies that offer this type of service have a technology infrastructure (servers, bandwidth, etc.) that allows them to do this at a much lower cost than would be possible for the core organization.


There are also outsourcing services in which the outsourcer takes responsibility for maintaining and updating course content.

Joint commitment with the outsourcer

Finally, we must remember that outsourced eLearning must be managed jointly by the client company and the outsourcer; if not, the lack of coordination may have a negative impact on the trainers' productivity, on the trainees' perceptions and even on the company's public image.

Given the long-term nature of these service contracts, continuous monitoring and evaluation of the relationship by both parties is important to ensure that no bad habits set in and that the quality of the training and management activities does not deteriorate over time.

In any event, there is no doubt that eLearning, effectively managed, is an opportunity for the company to become more competitive and to optimize staff performance.

Advantages of e-Learning Outsourcing	
	<ul style="list-style-type: none"> • Allows training managers to devote time and resources to other higher value added activities, concentrating on designing and managing the training strategy or on other functions in the organization. • The eLearning outsourcer may contribute sound experience in the provision of similar services to other organizations. • Allows the organization to optimize the resources devoted to training and development, and reduce the costs of administration, management control, application maintenance, hosting, network maintenance, etc. • Allows the organization to externalize both the training personnel and the support personnel, reducing non-essential personnel costs and making them variable. • Transfers the management task to a specialized company that has a team of people who are experts in training and in the management of training. This gives a better guarantee of quality.

In what follows, we describe a case of eLearning outsourcing in which Accenture, as outsourcer, lent its services to an Argentine bank.

Banco Galicia Case Study

Banco Galicia is the largest private bank in Argentina by assets. It has 400 branches and almost 6,000 employees.

As a result of a wave of mergers and acquisitions in the Argentine banking sector, Banco Galicia needed to differentiate itself from its competitors, so it approached Accenture to reinforce some critical factors such as gaining customer loyalty, building long-term relationships, and speeding up the “time to market” of its products. As a result of this project, Banco Galicia achieved a significant transformation in people management and customer relations.

Objetives	Actions
<ul style="list-style-type: none"> • Reduce the costs of Banco Galicia’s training centre • Increase Banco Galicia’s customer-facing personnel’s awareness of the bank’s products through training that is: <ul style="list-style-type: none"> • Constantly updated • Available to everybody in the organization • Given at the right time and in the right place 	<ul style="list-style-type: none"> • Definition of profiles and roles • Validation of training content • Validation of training strategy • Implementation of an eLearning system • Electronic distribution of self-study material • Development of computer-based training • Development of online help

Besides the activities shown in the table, Accenture, as outsourcer, undertook to maintain the eLearning application and update the content for a period of 5 years.

Banco Galicia achieved its knowledge development objectives and reduced the cost of its training investment for the 2000-2005 period by 21%.

Source: Accenture 2002.

3.5.4. Compensation and Benefits: cafeteria plans

According to the results of our survey, only 7% of Spanish companies that outsource HR services outsource Compensation and Benefits. Though still rare, new arrangements are constantly being developed whereby a company with expertise in the subject takes over the task of designing attractive compensation plans that enable companies to retain talent and win loyalty.

Over the last few years many companies have seen how their most valuable professionals leave for other companies in response to offers with large salary increases that in many cases represent only small differences in net income. To fight this exodus, one of the systems that Spanish companies have begun to use is “cafeteria compensation plans”. This system has been very common in the U.S. since the 1980s and has begun to be introduced in Spain by multinational corporations.

In a cafeteria plan or flexible compensation plan, employees are offered a choice of benefits to suit their personal circumstances, such as life and health insurance, pension plans, computers, company cars and even training. This can have advantages such as allowing employees to optimize their compensation from a fiscal point of view (e.g. through compensation in kind), thus helping companies to retain the best.

A drawback of these programs is the job of administering them, which can take up a lot of time and resources. To avoid this, these administrative processes may be outsourced (e.g. using the corporate Intranet so that each employee can manage his or her own compensation package directly with the outsourcer).

In Spain, there are still very few companies that outsource these services to specialized consultancies. One known case is that of Multiasistencia, which introduced a cafeteria system a few years ago with the collaboration of a well-known HR consulting firm, a system which it currently regards as one of the key factors in its growth. Chupa-Chups also recently installed a cafeteria system for its expatriate employees.

3.5.5. Health and Safety at Work

According to expert opinion, the individual, family and social perception of workplace accidents, and of the impact of work on health and personal development in general, is changing very rapidly in Spain.

Nevertheless, the tendency to outsource and subcontract is leading to a situation where large sectors of business are facing the need to bring their relationships with third parties into line with the necessary accident prevention processes. This is a result of what the Law of Workplace Risk Prevention calls “Coordination of corporate activities”, which requires companies to establish clear preventive and legal procedures.

34% of the companies that responded to our study said that they outsource health and safety management. The ones that outsource most are the utilities (Electricity, Water, Gas, etc.) and companies in the Industry, Services, and Consumer Goods sector.

The latest legal change came in Article 2 of Law 12/2001 of July 9 introducing urgent measures of job market reform to stimulate employment and improve job quality. The

law stipulates certain “guarantees in the event of a change of employer” and places new obligations on employers to exercise preventive control of subcontracted projects and services.

All of this obliges corporate management to take a stand in the relevant decisions in order to integrate workplace risk prevention into the company’s processes, regardless of whether these services are outsourced or kept in-house.

In Spain there are companies specialized in workplace risk solutions. Also, some firms have formed cooperative mutual insurance companies to deal with work-related illnesses and accidents, in collaboration with Social Security. Given that these entities have been set up to deal with health problems originating in the workplace, they have an obvious interest in prevention, and their expertise in this field is quite high.

3.5.6. Outplacement

Since outplacement is only just being recognized in Spain, it is still very rarely used. The reason is that in Spain neither employers nor employees are accustomed to using this type of service.

The multinationals established in Spain were the first to use outplacement services. But Spanish companies are gradually beginning to appreciate and discover its advantages. According to data from our study, outsourcing of outplacement services occurs in 23% of the cases in which Spanish companies outsource some HR function or service. The great majority (84%) of the companies that outsource outplacement are multinationals.

Given that employees today are subject to constant changes and transitions in their jobs, we believe that this will change.

Outplacement is most common during periods of change and crisis, as a means of support and guidance for professionals who have been separated from the company due to organizational changes such as corporate restructurings, mergers, acquisitions, etc. The goal is to help these professionals come to terms with their new circumstances and find, in the shortest time possible, a new position of a similar or higher level than their previous one, according to their abilities, experience and career ambitions. Thus, outsourcers specializing in outplacement must provide support on a personal level, so that these professionals maintain their self-esteem and make a fresh start in a positive spirit.

Specialized outsourcers use different techniques to develop outplacement policies. Most of them produce individual plans consisting of analyses of competencies and retraining programs. Others offer collective programs, or even what are known as Industrial Worker Placement Centers.

The employee, for his or her part, gets the benefit of receiving professional help from experts. The core company improves its image, preserves a good climate of labour relations, and prevents the change from negatively affecting its bottom line.

In some European countries (e.g. France) outplacement is the most widely used mechanism to meet the legal requirement that the company design welfare plans to soften the effects of restructuring processes. In Spain, the legislation on streamlining of the workforce provides for the preparation of a “Welfare Plan”, but in practice there are not enough legal, tax and financial incentives for outplacement plans.

Outplacement experts voice different opinions when asked if they believe the Government should take measures to foster outplacement. In our opinion, at least, outplacement assistance services should be incorporated in the development of any country's labour policy.

3.5.7. Further HR Functions

Beyond the fact that certain HR functions have been or may become the object of outsourcing agreements, Spanish companies are clearly looking for ways not only to cut HR costs, but also to obtain advantages that give added value to people management.

In what follows, we offer some examples

- 360° Evaluation and Work Environment Surveys.

Some companies, such as Sanitas, have opted to hire consultants to conduct 360° Evaluation and Work Environment Surveys for them. According to Jaime Pereira, Sanitas' HR Director, the estimated saving from externalizing these functions is 20%. Externalizing these and many other HR functions has meant redefining the functions of the 17 people remaining in the HR Department.

- Externalization of Payroll in large multinationals

Foreign multinationals like Coca-Cola, General Electric, HP, Compaq, Amena, Unisys or Nike, and Spanish multinationals like Bimbo or Puig, have externalized their payroll to an American multinational.

- Legal Counsel for Labor Issues

According to our survey, 58% of Spanish companies that outsource HR outsource legal counsel for labor issues. This may be because it gives the company greater confidentiality and neutrality in legal affairs and the benefit of the experience of legal specialists. Dragados, for example, has dismissed all of the lawyers in its Legal Department and has entrusted the management of its legal affairs to the law firm Sagardoy y Abogados.

- Partial externalization of certain HR functions

Banco Santander Central Hispano has settled for an unusual solution: it has placed part of its training activities in the hands of a third party while retaining the other part within the company.

3.6. Business Transformation Outsourcing (BTO)

BTO is intended to transform the way a company works with the aim of achieving a significant improvement in overall performance. The outsourcer's strategic approach is fundamental. BTO brings about a radical change in the company that translates into various long-term results such as market share growth, growth in turnover, and a change in the way the company takes on the competition.

British Telecom Case Study

In British Telecom, a Business Transformation Outsourcing project brought about a transformation in all HR areas in the organization, as shown in the following table.

1991	1997	2000
<i>Changes in BT's competitive environment drive large cost reductions</i>	<i>The internal market drives HR development and services</i>	<i>The pursuit of value creation leads to ePeopleserve Outsourcing</i>
<ul style="list-style-type: none"> • Traditional Outsourcing • Restructuring • Eliminating redundancies • Voluntary leaves/retirements • Reduction of employee subsidies 	<ul style="list-style-type: none"> • Scale • Technology • Integration • Marketing • Efficiency 	<ul style="list-style-type: none"> • Value creation • Strategy • War for Talent • Flexibility • Return on Invest. (ROI)
<i>HR Personnel</i> 14,500	2,500	700 (+1000 transferred to ePeopleserve)
<i>Number of employees</i> 250,000	140,000	125,000

The project resulted in cost savings in the HR Department of more than \$500 million per year, a 70% reduction compared with 1991. The cost reduction in HR administration was 80%.

To provide these outsourcing services, BT and Accenture jointly created ePeopleserve. This latter company now offers HR outsourcing services to clients such as BP, Visa, Avaya, Michelin, HSBC, Intel, Open University, Cable & Wireless, Marconi or British Gas. Thus, BT not only has achieved major savings, but also has converted what originally was a cost center into a profit center.

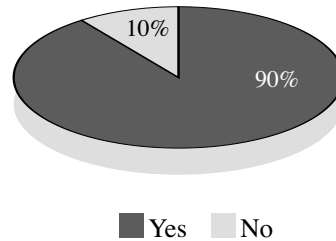
Source: Accenture Outsourcing Division.

4. Current Practices and Trends in HR Outsourcing. Results of the study and analysis

4.1. Practices and trends in outsourcing in general

The results of our survey show that:

- 90% of the companies in the sample outsource some function or service.

Chart 3. How much outsourcing are Spanish companies doing?

Source: IRCO (IESE) and Accenture, May 2002

Sample: 154

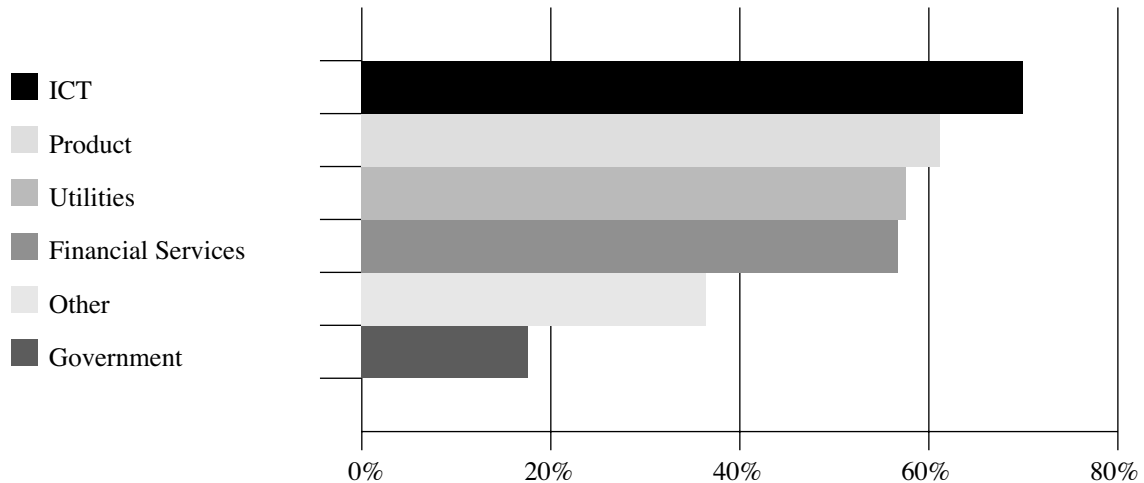
- The sector in which outsourcing is most widespread is that of Industry, Services and Consumer Goods (Products), followed by the ICT (Information and Communication Technologies) sector. The sectors least active in outsourcing are the Government and the Utilities (electricity, water, gas, etc.).
- The functions or services that are most frequently outsourced are HR (58%), followed by Legal Services and Computer Systems, both at the same level. This result may reflect the fact that what prompts managers to resort to outsourcing is not so much the need to save money as the desire to use the services of specialists in certain areas such as HR or legal counsel.
- The largest Spanish companies are the ones that do most outsourcing.
- The only service in which small companies outsource more than the larger ones is legal counsel.

4.2. Practices and trends in HR outsourcing

The results of our survey show that:

- 58% of the Spanish companies in our sample outsource HR functions.
- The sector in which outsourcing is most common is Information and Communication Technologies, followed by Industry, Services and Consumer Goods (Products). The Government sector is the one that makes the least use of HR outsourcing.

Chart 4. HR Outsourcing, by sectors



Source: IRCO (IESE) and Accenture

Sample: 154

- In our research we wanted to study the relationship between HR outsourcing and the outsourcing of other services such as legal counsel, information systems, etc. That way we would be able to determine the willingness to outsource HR functions in cases where other related services (such as legal counsel, information systems) are already being outsourced. Of the Spanish companies that already outsource HR, 66% also outsource legal counsel, 57% outsource information systems, and 33% outsource marketing and communication. This leads us to think that in HR outsourcing there is very often implicit the outsourcing of legal services (e.g. in relation to payroll, dismissals, etc.) or information systems.

Company size has a great influence on the level of outsourcing. The results of the study by the Cranfield School of Management and William Mercer in 2000 show that the greatest users of outsourcing tend to be the largest organizations. Our survey yields similar results:

- Companies with between 500 and 1000 employees, and the large multinationals (with more than 10,000 employees), are the ones that do most outsourcing. This may be attributable to two factors: large companies, and the MNCs in particular, may use outsourcing to concentrate all their HR functions in one place, while companies with between 500 and 1000 employees may require highly specific HR services that are not worth doing internally or would take time and resources away from activities bearing more directly on the company's strategy.
- 79% of respondents said that they had never outsourced any HR functions.

Although some had never outsourced any HR functions, some were considering doing so:

- The survey results show that 10% of respondents plan to outsource some HR function, while 79% have no such plans and 11% do not know or did not answer.

- The reasons Spanish companies give for not outsourcing HR functions are mostly that their in-house staff is capable of handling the work on their own (52%) and other reasons (36%). Budget limitations in the HR department were cited in 12% of cases.
- A majority (49%) of the Spanish managers who say that they outsource some HR function consider that the number of functions outsourced has grown with respect to previous years. 7% believe that their company has become more dependent on the outsourcer compared with previous years, regardless of the number of functions outsourced. In other words, although a company may outsource only, say, recruitment and selection, the outsourcer has gradually assumed more and more responsibility in decisions affecting those functions.
- 21% of respondents say that the number of functions outsourced and the degree of dependence on the outsourcer has remained unchanged in recent years, and 11% say that the subject is being increasingly talked about among management in the company.
- The factor valued most highly when choosing an HR outsourcer is the economic value added, followed by the commitment to quality. The least important factors for Spanish managers are the geographical location of the outsourcer and the existence of previous relationships with the outsourcer.

5. Advantages and Risks of HR Outsourcing. Success factors

To sum up what has been said so far, we can conclude that the advantages of HR outsourcing are:


Advantages of outsourcing	
	<ul style="list-style-type: none"> • Cost Reduction (20% - 50%) • Flexibility Better service quality • Added value in HR activities and personnel within the “core” company • Professional development • Outsourcing of a proactive nature: Improvement • Continuous service • In a BTO, a cost center is converted into profit center • The Outsourcer assumes certain risks, which frees up the “core” company

Exhibit 3 provides a model outsourcing agreement containing provisions to offset the abovementioned risks. They include the setting up of a monitoring committee, the possibility of planning for migration to a different outsourcer, and a review plan for ending the relationship between the outsourcer and the core company.

At the time of entering into an outsourcing relationship there may arise a series of dangers or risks inherent in any long-term relationship in which both parties take on a series of commitments and responsibilities. In the following table we propose ways of dealing with such risks:

Risks and Success Factors in Outsourcing	
Less than expected cost saving	Don't seek only savings but other factors: speed to value, service level...
Loss of "identity" in the "core" company	Maintain confidentiality in the outsourcing relationship
Loss of specific internal HR "skills" Dependence on the outsourcer	Avoid "HR anorexia": don't outsource critical competencies of the "core business"
Feeling of a loss of control in the outsourcing relationship	Direct and constant contact between the "core" company and the outsourcer

6. Conclusions

In summary, we set forth a series of conclusions about HR outsourcing in Spain:

- **Growing importance of human capital:** Human capital has a growing importance, and it is becoming more and more difficult to find and retain good candidates. Because of this, companies are concentrating their efforts on developing better techniques for retaining talent and building loyalty. All of this affects the budgets that companies allocate to their HR departments, which makes it necessary to find ways to assign the department's functions to specialists without the need for heavy internal investment.
- **The role of the HR Director is changing, to become a privileged position for supporting the business and general management:**
 - As a result of the growth of HR outsourcing, the profile of the HR Director is changing. Today's HR Director plays a key role in turning HR into a competitive advantage and creating value for shareholders. In short, the HR Director must always be thinking of new ways to create added value for the business, while offloading operations that represent a heavy administrative and transactional burden (practically 90% of the department's work) onto outside partners or outsourcers.

- **Outsourcing is becoming a strategic competitive weapon for focusing the HR function on value-added activities:**
 - Outsourcing has traditionally been adopted for tactical reasons, or in the interests of short-term results. Gradually, however, companies are giving it a more strategic focus aimed at reinforcing long-term competitive advantage.
 - Many companies try to distinguish between core processes and “non-core” processes in deciding which should be outsourced, but this should not be the only criterion: transferring certain processes to a specialist may make them more competitive or give them a richer content than they would have otherwise.
- **The outsourcing provider extends the reach of its functions to provide a broader integrated service:**
 - While some tasks have traditionally been outsourced on their own (payroll, selection, training...), the current trend is to look for integrated transactional service providers (e.g. ePeopleserve).
- **The Internet is an essential element in the provision of HR outsourcing services:**
 - Internet technology has facilitated the entry of more companies into the HR market, with dedicated systems for on-line HR management.
 - This has accelerated the evolution of the outsourcing of HR-related services (e.g. eRecruitment, ePayroll, eLearning...) and has fostered the development of collaborative relationships between outsourcers, clients and employees, now that technology allows the transfer of data in real time.
- **Training is one of the areas expected to see the greatest growth in outsourcing, generally supported by technology, with eLearning as a key element:**
 - E-Learning, either on its own or, above all, combined with traditional training approaches, will be one of the key elements of the HR function of the future.
 - This will force HR management to acquire new knowledge and skills in order to be able to take advantage of the opportunities that technology can offer for people development.

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Exhibit 1

HUMAN RESOURCES OUTSOURCING

Research Methodology and Data

To prepare this report we carried out a bibliographical study, and fieldwork consisting of a questionnaire to gather data, interviews with experts, and a Focus Group.

Bibliographical Research

The bibliographical research consisted of collecting a list of works produced by academics, and books and articles related to the subject of HR outsourcing. By gathering and evaluating the main approaches to the subject we were able to establish the reference framework or current state of play in the field.

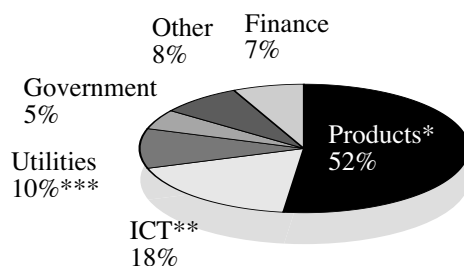
The conclusions we draw from our bibliographical research are as follows:

- There are in Spain more references to HR outsourcing, new technologies or even outsourcing in general in specialized HR journals than in books or articles.
- Nevertheless, we had no difficulty in finding articles by U.S. outsourcing experts, who in most cases are the CEOs of large multinationals. Bearing in mind that the United States is a country that usually takes the lead in best practices, we can deduce that independently of whether it is used for HR services or for other services, outsourcing is a matter to be decided by a company's top management.
- In Spain outsourcing is still not widely known and, as the bibliographical references show, is often taken to be an English term for the subcontracting of tasks that somehow “get in the way” or represent a “fixed cost that can be turned into a variable one”.

Questionnaire-Survey

The questionnaire-survey was aimed at the General Managers of Spanish companies or, failing that, the HR Directors. Responses were received from 154 companies. The survey results have been analyzed using the usual methods.

The profile of the sample is as shown in the diagram:



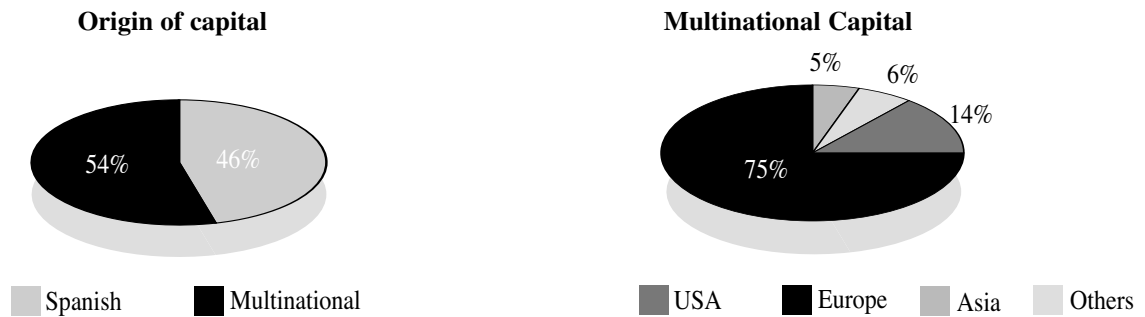
* Industry, Services and Consumer Goods

** Information and Communication Technologies

*** Electricity, Water, Gas, etc.

Sample: 154

Exhibit 1 (continued)



Nationality and Sector of Participating Companies

Sector	Total	Multinational	Spanish
Finance	11	5	6
Government	7	0	7
Products*	80	41	39
ICT	28	22	6
Utilities**	15	9	6
Others	13	7	6

Sample: 154

*Industry, Services and Consumer Goods

**Electricity, Water, Gas...

Number of Employees and Nationality

	Total	Multinational	Spanish
Less than 500	53	18	35
500 - 1.000	23	13	10
1,000 - 5,000	35	19	16
5,000 - 10,000	16	12	4
More than 10,000	27	22	5

Sample: 154

Exhibit 1 (continued)

The purpose of the questionnaire was to find out what the top managers of companies in Spain (Spanish and multinational) thought about the current state and future prospects of HR outsourcing, and the practices and trends in HR outsourcing in Spain. This was intended in part to fulfill the second and third objectives of this research paper.

Interviews

Occasional meetings were arranged with outsourcing experts from Accenture. Specifically, a meeting was held with two partners of Accenture, Mr. Basilio Rueda (head of the Technology Solutions and Outsourcing Division in Spain) and Mr. Rafael Galán, and another with Mr. Fernando Romero Plasencia and Mr. Santiago del Brío, outsourcing experts from Accenture.

Interview no. 1

First, the authors held an interview with two outsourcing experts: Mr. Basilio Rueda, partner of Accenture Head of the Technology Solutions and Outsourcing Division in Spain, and Mr. Rafael Galán, also a partner of Accenture. Out of this meeting came a number of essential ideas for the approach we adopted in this study when it came to defining the concept of outsourcing in general and HR outsourcing in particular:

- The distinction between the different types of outsourcing, detailed in the following section (Traditional, Collaborative and Transformational Outsourcing).
- Discussion centered on the importance of adopting a strategic approach to outsourcing as a management tool, the need to agree on outputs or service levels with the outsourcer, and the need to focus this study on the areas in which we think outsourcing is likely to grow most in the future.

Interview no. 2

The interview conducted with Mr. Fernando Romero and Mr. Santiago del Brío, experts in IT outsourcing from Accenture, helped us to go a step further in our conceptualization of outsourcing and the different models it offers. They described their experiences with the various outsourcing agreements their company has entered into with large multinationals.

Exhibit 2

HUMAN RESOURCES OUTSOURCING

Focus Group conclusions

To conduct this study, the authors brought together a group of high-level executives from Spanish companies to learn their opinions on HR outsourcing in the Spanish market.

The objectives of the Focus Group were:

- To get a more accurate picture of the reality of outsourcing in different business sectors in Spain.
- To analyze the survey results and compare them with the opinions of the Focus Group participants.
- To make a qualitative leap as regards the content of this research by incorporating the points of view of the Focus Group participants.

Conclusions of the Focus Group on HR Outsourcing
<ul style="list-style-type: none"> • In recent years the key to operations has been and still is to optimize a situational advantage and obtain a better competitive position. In the face of change the goal is flexibility. • For some, outsourcing is a “vogue”, although it has always existed in some form or other; for others, in contrast, what we are seeing is merely the beginning. • Any type of outsourcing, whether of a function or a service, entails a “social change” that affects a company’s HR. • The internationalization of markets has led to the development of “international outsourcing” as a tool for concentrating certain services of large multinational companies. • There is more and more outsourcing, both in terms of the number of outsourcing agreements and in terms of the content of the agreements. The trend is to look for specialized providers. • The outsourcing phenomenon is unstoppable and it is best to at least be aware of the possibility of outsourcing in the company. • There is a certain amount of apprehension about “giving away” services or functions that are “critical”. • Outsourcing is a tool for obtaining: effectiveness, efficiency and strategy. But there are certain functions that should not be delegated to an outside provider: labor relations and union relations. • In the HR departments of Spanish companies there is a “reluctance” to consider outsourcing. The actual “format” of the HR departments in many companies sometimes stands in the way of outsourcing, even in cases of outsourcing within the company itself. • Outsourcing is seen as a tool that can be applied to certain services that are complementary to the management of a company’s various areas, as in the case of HR services; and in some publicly owned companies it is even used as a way of gradually turning them into private companies, without having to aggressively privatize the company as a whole. • Outsourcing is not always the best option, nor the most appropriate at every stage of a company’s life. The strategic requirements and the choice of outsourcer therefore need to be very carefully considered.

Exhibit 3

HUMAN RESOURCES OUTSOURCING

Model Outsourcing Agreement

To ensure the satisfactory operation of outsourcing contracts Accenture has developed a Service Model, which it uses in its IT Outsourcing Division. The model is made up of the following four components aimed at giving the client a guarantee of service quality and control.

Operational model: gives the client a single contact person, making it easier to control and monitor the service by establishing a Service Level Agreement (SLA) and Operational Requirements Agreements (ORA).

Relationship model: provides a clear framework for communication and notification between the client and the outsourcer, using monitoring reports and contacts at different levels.

Migration/Transition plan: allows smooth introduction and start-up of the service, while maintaining certain minimum quality levels during the process.

Retrieval plan: allows a smooth reappropriation of the service at any time, guaranteeing satisfactory transfer of know-how.

In what follows we explain in greater detail how each component of the model works:

1. Operational model

This model provides the users (i.e. client company employees) with a single contact person, making it easier for management to monitor and control the service.

It is client- and user-oriented:

- Single point of contact with the client's management.
- Responsibility for service management.
- Single entry point for user requests and incident reports.
- Management of request and incident handling process to keep the client permanently informed of the status of his request or report, through the client's IT department.

In the Operational Model the following agreements are established:

- Service Level Agreement (SLA): this is a legal contract that describes the services that the outsourcer will provide to its client and specifies the agreed service levels and service level indicators.
- Additionally, Operational Requirements Agreements (ORAs) are established between the outsourcer and third-party providers. These agreements stipulate the set of external requirements that are needed for the achievement of the service levels set out in the SLA.

Exhibit 3 (continued)

The outsourcer must offer certain minimum service levels from the moment the service starts. These minimum levels will be reviewed after an initial stabilization period (normally 6 months) in order to obtain the target service levels stipulated in the SLA. The service levels must be subject to penalties and incentives, understood as a percentage of the total billing for the period, with the aim of motivating the service provider to provide the correct level of service.

2. Relationship model: Communication framework

The Relationship Model is based on contacts at various levels:

Management Committee: made up of the top management of the client company and the members of the outsourcer responsible for managing the service. The functions of this committee are:

- Manage and effectively deal with issues and questions arising in relation to the agreement that cannot be resolved by the Monitoring Committee.
- Review and analyze the overall service level of the outsourcer in fulfilling its obligations and responsibilities.
- Reach agreements on changes in the prices of the services due to changes in activity levels and/or in the scope of the services provided compared to the original agreement.

Monitoring Committee: made up of the client company managers responsible for the service and their counterparts in the outsourcer. They monitor and control the service from a technical point of view. Their functions include:

- Evaluate the service provided through Service Monitoring Reports.
- Propose and analyze changes to the SLA and changes in the scope of the service.
- Analyze the need to renew elements of the technological infrastructure and its economic impact on the service, proposing their adoption.

The service information the client receives is structured on 2 levels:

Ongoing Information: The necessary communication procedures are designed to ensure that the client is constantly informed of any incident or alteration in the service. This implies defining channels of communication, contact persons and competencies, tools to be used (mail, telephone, etc.), scaling of problems, and decision making.

Monitoring Reports: these are a means for the client to periodically analyze the service it receives from the outsourcer. The reports contain the information needed to determine the level of fulfillment of the quality requirements, trends, problems detected, current incidents, and actions that have been taken.

3. Migration plan

This is the set of actions that need to be taken to migrate to a new platform and transfer the services to the outsourcer.

Exhibit 3 (continued)

It is a change process that affects both human and material resources, all the more so if the agreement includes the transfer of some of the client's personnel to the outsourcer. The outsourcer must therefore take particular care to get this point right.

4. Retrieval plan

This plan must make it possible for the client, or such other provider as the client may designate, to take over the services once the agreement is terminated. The activities included in this plan are grouped in three separate stages:

- A. **Planning:** detailed description of the technical solutions and activities needed in order to take the service back from the outsourcer, avoiding any deterioration in service levels.
- B. **Execution:** performance of the actions specified in the Plan, focusing principally on the transfer of the necessary knowledge to ensure that the personnel of the client or of the new service provider designated by the client are able to provide the service.
- C. **Post-Retrieval Review:** Review of quality and service levels following the execution stage. The basic goal is to check that the goals of the Retrieval Plan have been met, identify cases in which service levels have deteriorated, and propose corrective measures.

Source: Accenture Outsourcing Division.

Exhibit 4

HUMAN RESOURCES OUTSOURCING

Questionnaire

1. *Company name*..... 2. *Post held*.....

3. *Is your company Spanish or multinational?* • Spanish • Multinational

If multinational, please indicate nationality

- U.S. multinational
- Asian multinational
- European multinational
- Other

4. *What sector does it operate in?*

- Financial Services
- Government (local, national or international)
- Industry, Services and Consumer Goods
- Information and Communication Technologies
- Utilities (Electricity, Water, Gas...)
- Other.....

5. *Number of employees in your company*

- Less than 500
- Between 500 and 1,000
- Between 1,000 and 5,000
- Between 5,000 and 10,000
- More than 10,000

6. *¿What functions does your company outsource at present*

- Information Systems
- Administration and Accounting
- Legal Counsel
- Marketing and Communication
- Production
- Other

7. *Is your company currently outsourcing any HR function?*

- Yes
- No

If your answer to this question is no, please go to questions 9, 10 and 11.

If your answer to this question is yes, please go on to the next question (no. 8).

8. *8. What HR functions is your company currently outsourcing?*

- Recruitment
- Selection
- Training: Traditional
- e-Learning
- Union relations
- Compensation and Benefits
- Health and Safety
- Internal Communication
- Personnel Development
- Management by Competencies
- Assignment
- Workforce
- Separation and Outplacement
- Labor Law Counsel
- Payroll
- Other (please specify).....

Exhibit 4 (continued)

Has there been a trend in your company towards more outsourcing of HR in recent years?

- Yes, there has been an increase in the number of functions outsourced.
- Yes, there has been a significant increase in my company's dependence on outsourcers, independently of the number of functions outsourced.
- No, in fact we outsource less now than we used to.
- No, there has been no significant change either in the number of functions outsourced or in the degree of dependence on outsourcers.
- Not necessarily, but the issue of HR outsourcing is increasingly discussed among management.

Please go to questions 12 and 13.

9. If your answer to question no. 7 was "no", has your company ever outsourced any HR function in the past?

- Yes (specify functions).....
- No • Don't know

10. If your answer to question no. 7 was "no", does your company have any plans to outsource HR functions in the future?

- Yes (specify functions).....
- No • Don't know

11. If your answer to question no. 7 was "no", what is the main reason why your company does not outsource any HR functions?

- Because it has a limited budget for HR.
- Because it has had, or has heard about, bad experiences with outsourcers.
- Because the company's own HR people can handle all the necessary jobs themselves.
- For other reasons (please specify)

12. Please indicate whether the reasons that have led to the use of outsourcing in your company are tactical or whether they are linked to the company's strategy

- The reasons are tactical or operational
(e.g. cost saving)
- The reasons are strategic
(e.g. concentration, integration, value chain)

Could you state what those reasons are?

.....

13. In your opinion, what is the most important criterion in selecting an outsourcer for HR functions? Please number the following criteria from 1 to 9 in order of importance, 1 being the most important.

- Commitment to quality
- It depends on the kind of function or service to be outsourced
- Geographical location of the outsourcer
- The fact of having had a previous business relationship with the outsourcer
- Price
- References/reputation
- The range or capacity of the outsourcer's resources
- Capacity to provide economic value added to your company
- Other (Please specify)