



HR Outsourcing Continues to Grow

Human resources outsourcing is on track to continue record growth in the United States, according to a new survey by Hewitt Associates. The survey of 129 large companies representing nearly 2 million employees found that organizations are satisfied with their HR outsourcing decisions and plan to outsource more HR services by 2008.

Currently, 94 percent of survey participants outsource at least one HR function or activity. The most commonly outsourced HR functions--either fully outsourced or almost fully outsourced--include outplacement services (91 percent); employee assistance programs (89 percent); defined contribution or 401(k) (83 percent); COBRA Administration (77 percent); and defined benefit (pension) (68 percent). By 2008, companies plan to expand outsourcing into the following areas (listed in order): leave management, learning and development, payroll, recruiting, health and welfare, and global mobility.

"The growth of HR outsourcing will continue to gain momentum as organizations reap the benefits, including significant cost savings, new capabilities and services for employees, and enabling HR to focus on more strategic work that is integral to the business," said Bryan Doyle, president of Hewitt's HR outsourcing group. "For most organizations, HR administration is not their core area of expertise, so by turning it over to an HR expert, they can focus on critical business needs."

According to the survey, companies' top reasons for outsourcing HR include access to outside HR expertise, service quality, ability to focus on core business, cost savings, opportunity for better data, and relief from administrative burdens. Even when organizations decide to pursue HR outsourcing, some face challenges. Survey participants ranked their top concerns about HR outsourcing as (1) losing control of key processes, (2) employee reactions to an external service provider, and (3) difficulty in building a business case.

In selecting an outsourcing provider, companies say the following requirements are most important: demonstrated HR process expertise (95 percent), prior experience/ track record (93 percent), service level agreements in contracts (83 percent), cost savings guarantees in contracts (65 percent), and leading-edge technology (65 percent).

"It's important to understand that HR is unique from other areas that companies typically outsource, so it's critical that they conduct a thorough evaluation to ensure they select a provider with the HR expertise, experience and capabilities needed to manage people issues and deliver the quality service and results they are looking for," said Doyle.

Overall, the majority of survey participants (89 percent) are satisfied with their outsourcing arrangement. Eighty-five percent achieved hoped-for benefits, and an additional 20 percent realized some unexpected benefits. When asked about achieving cost saving objectives, nearly half (45 percent) responded yes, while 45 percent said that cost saving was not an objective in their decision to outsource.



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Only 23 percent of companies have brought an outsourced function back in-house. Of those that did, 62 percent did so because of poor service while 38 percent did so because they did not achieve anticipated cost savings.

Other key survey findings:

The most common service-level agreements include transaction accuracy (75 percent), data delivery (66 percent), system availability (62 percent), issue resolution (59 percent) and employee/participant satisfaction (45 percent).

Six in 10 survey participants do not have a companywide outsourcing strategy.