

Human Resources Business Process Outsourcing

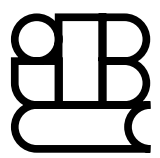
**Transforming How HR
Gets Its Work Done**



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Preface

Above all else, this book is about how the role of the human resources (HR) function can be redefined in order to create more effective organizations. Major changes in business conditions have placed new and increased demands on the HR function. To meet these demands, some of the traditional HR work must be done differently, and HR needs to provide new services. HR must excel at both delivering traditional transaction services and providing high value-added strategic services. If HR stays at the transactional level, the department will become an afterthought. If HR goes strategic but lacks the ability to deliver on operational tasks, it will lose credibility.

Finding new and innovative ways to do HR-related transactional (administrative) work should be a concern for both business leaders and HR professionals. The same is true for finding ways HR can contribute to the formation and implementation of business plans and strategies. Business leaders need to raise the bar for the function by stating what is expected from HR professionals. HR professionals need to change their views about what HR can and should deliver and how HR should be organized. We believe that the HR function can help leaders build competitive organizations and that HR organizations can be organized so that they create value, not just costs. In order for this to happen, HR professionals must redefine their role and acquire new competencies.

Business leaders and HR professionals are both targets of this work. When business leaders understand the untapped potential

within the HR function, we believe they will raise their expectations. When HR professionals understand the new realities they face and the new ways of delivering value that are available to them, we believe it will make a difference in how they work and in what they accomplish.

Our target audience includes all managers because when they find that HR activities can help them deliver value, they are supportive of a new, high-value-added role for HR. We want to ensure that line managers understand what HR can do and to encourage them to demand high value from HR professionals who are competent and committed to delivering that value.

One reality HR faces is that it cannot abandon its transactional work in favor of developing strategic expertise. If the function “goes strategic” and lacks the ability to deliver on its operational responsibilities, it will become irrelevant as quickly as if it had stayed focused on only administrative tasks. But there is a middle ground—a new territory for HR that presents a provocative opportunity for professionals in the field: creating an HR function that excels at both the delivery of traditional transaction services and high-value-added strategic services.

And so it is left to HR departments the world over to decide how, how much, and how quickly they want to change. We have written this book to explore the new territory; it is about how leaders can redefine HR roles and operations in order to create more effective organizations. It is full of valuable information about how the HR function can dramatically increase the value it adds to corporations, whether they adopt an HR outsourcing model or not. The book also should provide anyone who is considering adopting the HR BPO approach with invaluable information about the issues they need to consider and the potential advantages of doing HR BPO.

We think of the HR function as having a “demand” side and a “supply” side. Our first chapter focuses on the demand side, aspiring to answer the question, What are the new demands business leaders must meet in order to succeed? More specifically, Chapter One

explores the new realities of business from the point of view of senior executives charged with creating a company that will compete and win, and then it spells out how these business realities create increased demand for HR services and actions.

Chapter Two focuses on the “supply” side of the equation. In it, we seek to answer the questions: What can HR departments do to deliver value? What new business models for delivering HR will work? How can HR contribute to organizational effectiveness?

The answers to these questions raise an additional query: How does one measure the effectiveness of HR? This is the focus of Chapter Three. Our sense is that for any successful, sustainable change to occur in the services and output of the HR function, managers must first have a grounding in where they currently stand in terms of value delivered, value added, and cost to serve. Chapter Three offers a template for that analysis.

In Chapter Four, we turn to the exploration of how the HR function in corporations is structured. Our aim here is to explain the new approaches that organizations are taking, identify what options they have, and spell out how they should organize their HR function in the future.

We have had the unique opportunity to study Exult, an HR business process outsourcer (BPO), from its early days in 1999 to the announcement of its merger with Hewitt Associates in June 2004. We have had in-depth access to the company’s top management team and customers. Chapter Five begins our exploration of the HR BPO approach in action with a case study of Exult. We offer it for two reasons. First, we think the story of an entrepreneurial start-up in this field provides a view of how an important HR market space has evolved in its early years. Our aim is to provide an understanding of how a major provider in the industry thinks of its business model and how that model is evolving as the field matures.

Second, and quite aside from the particulars of the Exult case, we think that an inside look at any successful start-up in these turbulent times offers lessons to managers who are poised on the brink

of a significant change effort. Transforming HR is about more than cost control and taking a twenty-first-century approach to administrative paperwork; it is also about developing a compelling business case for a function that hopes to add new value to its organization. In that sense, HR departments the world over are potential “start-ups.”

We have also had the opportunity to examine, in depth, four early-mover companies that contracted with Exult for a range of HR BPO services as part of the process of transforming their HR departments. Chapters Six through Nine offer case studies on the process of transforming HR at British Petroleum, Bank of America, International Paper, and Prudential. We hope that these cases will help readers understand the creation and evolution of the HR BPO industry and help them understand what is involved in HR BPO so that they can make an informed decision about whether it is right for their organization.

In Chapter Ten, we turn to summary thoughts and offer the results of a survey and interviews we conducted in order to create a report card of sorts on our four cases’ efforts to reinvent their HR functions. It is not surprising that in every aspect of transforming their HR functions, the companies had both substantive successes and significant setbacks. We think their experiences contain transferable lessons that can help readers learn from the efforts of those who have gone before them. Finally, in the last chapter, we look ahead and identify the key issues that will affect the long-term development and effectiveness of HR BPO.

We need to make several points about the roles that the authors took in writing this book. Ed Lawler took overall responsibility for the fine-tuning and the integration of the book; he also contributed to each of the chapters. Dave Ulrich took major responsibility for Chapters One and Two, while Jac Fitz-enz took responsibility for Chapter Three. Because of his role as CEO of Exult, James Madden took major responsibility for Chapter Five on Exult. He also provided coordination and access with respect to the four Exult case studies.

The writing of the case studies was done by Regina Maruca, a professional writer. Content responsibility for these chapters remained in the hands of Ed Lawler. This is a critical point with respect to the writing because of the potential conflict of interest Jim Madden, as president and CEO of Exult, has with respect to the way these case studies are presented. In order to maintain the integrity of the case studies, as well as the integrity of the two concluding chapters, responsibility for these rested with the “non-Exult” authors.

We want to thank the many people who have contributed to the writing of this book. Many of the employees of the four case study companies gave freely of their time for interviews, as did a number of Exult employees. Kevin Campbell, the chief operating officer of Exult, deserves special thanks. He provided data about Exult as well as access to the four case study companies. Special thanks also go to Regina Maruca for her work on the case studies and on the overall editing of the book.

May 2004

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Dave Ulrich is professor of business at the University of Michigan. He studies how organizations build capabilities of speed, learning, collaboration, accountability, talent, and leadership through leveraging human resources. *BusinessWeek* named him the number 1 management educator in 2001, and he has won numerous other distinctions and awards. He has published over one hundred articles and book chapters and is author or coauthor of twelve books, including *Why the Bottom Line Isn't* (Wiley, 2003), *The GE-Workout*

(McGraw-Hill, 2002), *The HR Scorecard* (Harvard University Press, 2001), *Results Based Leadership* (Harvard University Press, 1999), *Human Resource Champions* (Harvard University Press, 1997), and *The Boundaryless Organization* (Jossey-Bass, 1995). He was the editor of *Human Resource Management Journal*, has served on the editorial board of four other journals, is on the board of directors for Herman Miller, is a fellow in the National Academy of Human Resources, and cofounded the Michigan Human Resource Partnership. He has consulted and done research with over half of the Fortune 200 companies. Currently he is on sabbatical as president of the Canada Montreal Mission for the Church of Jesus Christ of Latter-Day Saints.

Jac Fitz-enz, chief executive officer of Human Capital Resource, is acknowledged as the father of human capital strategy and benchmarking. As the founder and chairman of Saratoga Institute, he led the development of the world's most comprehensive human capital benchmark database. These metrics have been endorsed as the standard for the human resources profession by the Society for Human Resources Management (SHRM). He has published over 160 articles, reports, and book chapters covering human capital valuation, leadership, human resources strategy and benchmarking, talent attraction and retention, employee productivity, performance measurement, and outsourcing. He is the author of seven books on human capital and organizational management and is the only two-time recipient of the SHRM Book of the Year Award, for *Human Value Management* (Jossey-Bass, 1990) and *The ROI of Human Capital* (Amacom, 2000). He has trained more than sixty thousand managers in forty countries and was named Superstar HR Outsourcing Specialist by *HR Outsourcing Today* in 2003. He serves on advisory councils for PeopleSoft, PricewaterhouseCooper's Saratoga Institute, Exult, CRI, and Brassring.

James C. Madden V is founder, chairman, and chief executive officer of Exult, the innovator and market leader in human resources business process outsourcing for Global 500 corporations. He has

been a pioneer in the human resources outsourcing industry and has served in outsourcing leadership positions at Systemhouse, Booz-Allen & Hamilton, and Andersen Consulting (now Accenture). In 2002, Madden received the PricewaterhouseCoopers/Michael F. Corbett & Associates Outsourcing World Achievement Award and the *Orange County Business Journal*/Ernst & Young Excellence in Entrepreneurship Award. Madden devotes time to a number of civic, community, and business organizations, including the Hoag Hospital Foundation and TechNet, a technology industry advocacy group.

Regina Fazio Maruca is a ghostwriter, editor, and writing coach who specializes in leadership, management, and marketing topics. A former senior editor at the *Harvard Business Review*, her own byline has appeared in publications including *HBR* and *Fast Company*.

Human Resources
Business Process
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Chapter One

Forces for Change

Human resources (HR) departments are at an important crossroads. Large-scale transformation of the HR function is not only desirable; it is necessary. Why? First, the traditional transactional work of HR is rapidly becoming a commodity; at many companies, there are significant cost savings to be realized by treating it in this manner. Top managers are increasingly aware of the efficiencies that new technologies can provide, and they are putting pressure on the HR function to reduce costs as never before. Second, there is a growing demand for expertise regarding the deployment and management of human capital and organizational capability; the HR function can and should provide that expertise.¹ Managers at all levels increasingly need strategic guidance about how they deploy their workforce and build their organizations in order to fulfill company goals.

In order to respond effectively to both pressures, the HR function must simultaneously create transaction efficiencies and transformational changes. But substantive change in the nature of a staff function's work and role is rare. What's more, when such change does occur, it is usually driven by forces outside the department, such as a merger, a divestiture, a technology change, a change in the economy, or a new business strategy. Rarely do staff functions step up to reinvent themselves.

Currently, most HR leaders can still choose whether they will respond to change or whether they will lead change. HR executives still have the opportunity to shape how they and the HR function respond to the demands that their function is experiencing. To us, the path is clear. We believe that HR executives who stick with the

status quo and maintain a focus on transactional work will soon become obsolete. At the same time, we believe that HR professionals who meet the need for strategic expertise concerning human capital management and organizational effectiveness will contribute value that far exceeds the past contributions of the HR function. In the process, they will make themselves indispensable to their organizations.

A Case of Supply and Demand

To assess the nature and extent of the change required of HR, imagine a simple demand-supply model for businesses and apply that model to the future of HR. Start by stepping back and considering the major factors that are placing new or shifting demands on businesses today.² Since top managers grapple with these issues, HR professionals need to understand and respond to them in order to add value and establish their worth:

- *Customer-firm interactions are evolving.* Customers have more access to information and are more informed than ever before. As a result, customer expectations are higher than ever before, and competition for customer share is greater than ever before. Customers expect—and usually get—lower cost and higher-quality goods and services; as a result, they put pressure on organizations to reduce their own costs even as they strive to improve quality.³

HR directly affects operating costs because of the cost of its own operation and because it is partially responsible for a major expense: wages and benefits. In addition, the quality of HR services influences product and service costs and quality because the quality of HR services affects employee behavior and performance.

- *Targeting key customers is increasingly important.* At eBay, 10 percent of the customers purchase 90 percent of the products; in the airline industry, 10 percent of the customers provide 40 percent of revenue and 60 percent of profit. Financial service firms strive for share of wallet; food product firms seek share of stomach. In each of

these cases, new customer realities have established new rules for winning; customer share is now more important in these scenarios than market share.

To gain a critical customer share, companies must build a value proposition uniquely tailored to a particular target customer. Amazon, for example, knows the book buying patterns of those who buy more books and can tailor its offerings to those target customers. General Motors knows the car buying patterns of those who replace cars more frequently with new cars than others and can tailor its offerings to those customers.

Companies must also shift their focus from winning a single customer transaction to winning a lifetime of transactions. Amazon wants not only to sell a book, but also to build a relationship with customers so that they will spend a high portion of their lifetime book buying money with Amazon. As a result, Amazon needs to build a customer share strategy, directed at target customers, through brand loyalty and the kind of exceptional service that can be delivered only by a skilled, committed workforce.

One way to increase customer intimacy in key customer groups is to involve these customers in significant company activities that are designed to improve service levels. By involving customers in HR activities (for example, by participating in the design and delivery of training activities), HR practices may be used to create intimacy with targeted customers. When leaders worry about employees as if they are customers and customers as if they are employees, both customers and employees are more engaged and committed. When HR practices are used to align both employees and customers, both employee and customer share grows.

- *Information technology is continuing to evolve.* As we all know, information is increasingly ubiquitous and also increasingly easier to access and manipulate. This trend has significant implications for business-to-business, business-to-supplier, and business-to-employee relationships.⁴ It is also the foundation of e-business operations. Information technology allows for warehousing the kinds of customer data that enable companies to identify specific customers and determine