

## The Outsourcing Question

By William C. Byham, Ph.D., Chief Executive Officer

Reorganization around processes has led many organizations to develop a clearer sense of their own identities. As increasingly leaner organizations identify “what we are best at,” and, more significantly, “what generates profit,” financial and management responsibility for non-core functions becomes less appealing. As organizations sharpen their focus on so-called “core” competencies, such as “making chemicals” or “miniaturizing communication devices,” a new trend is in the making. Management consultants have raised the battle cry, “Do only what you do best and outsource the rest.”

What is outsourcing? A leading HR publication defined it as “having an external vendor provide, on a recurring basis, a service that would normally be performed within the organization.”

Simply put, outsourcing is the decision made by a company to pay another firm to do something that, theoretically, it could do itself. Once characterizing relationships with administrative service providers such as mailroom operations and data processing, outsourcing partnerships are becoming more common in traditionally corporate “cost center” functions, including the Human Resources Department.

In this paper, we will explore the impact of

outsourcing related to two key HR functions, Training & Development and Recruiting & Staffing. Our purpose is not to promote outsourcing as a panacea, but to evaluate its effectiveness as a strategy for meeting new challenges in HR management, to offer an analysis of its impact on the organization of the future, and to give some practical advice on developing an outsourcing relationship.

### The Core Competency Strategy

The idea promoted by Prahalad and Hamel, and many others, is that organizations should define the areas critical to their success, devote maximum resources to those areas, and outsource everything else. Outsourcing is seen as not only a way of creating focus, but also cutting costs and improving quality by giving the non-critical functions to organizations for whom the functions are core competencies.

The use of the term “core competencies” may be somewhat confusing to HRD professionals because they’ve come to use the same term to mean something dramatically different—the human characteristics (skills/knowledge, behaviors, and motivations) associated with job success, the core job/role competencies.

### Core Organizational Competencies

Core organizational competencies are the unique factors that make an organization competitive. According to Prahalad and Hamel, organizational competencies (a) provide potential access to a wide

To learn more, call your local DDI office or contact:

The Americas .....412.257.0600  
Toll-free Canada .....800.668.7971  
Toll-free U.S. ....800.933.4463

Southeast Asia .....65.339.5255  
Australia.....61.2.9466.0300  
Greater China .....852.2526.1188

France .....33.1.41.37.93.93  
Germany.....49.2159.91680  
New Zealand .....64.9.377.6742

United Kingdom ....44.1628.810800  
E-mail .....info@ddiworld.com  
Web.....www.ddiworld.com

variety of markets, (b) make a significant contribution to the perceived customer benefits of the end product, and (c) are difficult for competitors to imitate.<sup>1</sup>

### Core Job/Role Competencies

Core job/role competencies derive from the vision and values of an organization. They are descriptions of the “things” that someone must demonstrate on the job to help an organization achieve its vision and values. They are usually in three categories—skills/knowledge, behaviors, and motivations.<sup>2</sup>

## Human Resources Becomes More Strategic

### Alignment of Human Resources with Business Strategy

No longer is HR viewed as a cost center; instead, HR’s new mission is to add measurable value to a business, value which will be realized by external customers. Value is created through aligning HR efforts with business strategy, determining the HR interventions that will have the greatest impact (see Performance Consulting), and providing services of the appropriate quality. It is increasingly common for companies to expect the HR function to assume a leadership role in building a healthy, productive, and customer-focused culture. The nuts-and-bolts work of this culture-building is in systems alignment. In the modern business model, HR efforts will focus on employee activities which add real value for the external customer. HR systems, including training, performance management, compensation, and selection and promotion, must be aligned with strategic objectives in this model, which places the customer at the center of business success.

This new mission has created new roles and tasks for HR staff, while staffing levels have remained generally constant or become smaller. Of necessity, then, HR managers have begun to outsource certain administrative tasks in order to “free up” existing personnel for the complex activities associated with systems alignment, such as performance consulting.

### Performance Consulting

Performance consulting is a process through which experts partner with managers to drive employee performance to the levels necessary for achieving business goals. The performance consultant is charged with designing performance enhancements that address all aspects of employee productivity. Where the traditional trainer or HR specialist might only address the knowledge or skills required for an employee, the performance consultant examines how other factors, such as compensation, unit structure, or equipment availability, might be controlled to promote enhanced employee performance.

The question that the performance consultant must ask, then, is not “How should this employee perform as an effective Customer Service Rep?” but rather “What does this Customer Service Rep need to do to help XYZ Company meet its sales and service goals?” In other words, unlike traditional training needs assessment that presupposes a training solution, performance consulting focuses not on what people need to learn, but on what they need to do—behavior.

<sup>1</sup> *Harvard Business Review*, 1990, pp. 93–94.

<sup>2</sup> For more detail on how job/role competencies may be used in the management of HR systems, see DDI’s research monograph: *Using Competencies to Build a Successful Organization*.

Training is one tool available to performance consultants, but far from the only one. As DDI has been pointing out for years, traditional training is the most expensive employee performance improvement intervention. Other interventions might include:

- Communications Around Employee Performance Goals.
- Redesigning the Workspace.
- Reallocating Equipment.
- A Performance Management/Appraisal System.
- On-the-Job Work Aids.
- Changes in the Way Employees are Hired/Selected.

Increasingly, Human Resource departments are expected to function as “Performance Consultants.” This requires HR staff to engage in extensive and ongoing consultative relationships with line managers—a new requirement that is one of the dynamics driving the outsourcing trend. Since performance consulting, as an activity, is far more time-consuming than other HR interventions, it is hoped that outsourcing some traditional training and staffing activities will leave inside staff with more time for performance consulting.

## The Bottom Line

Almost without question, outsourcing HR activities will positively impact a business’ bottom line. First, a set of fixed costs will be lifted from the budget and replaced by a variable cost structure. Services and resources will be paid for only when used. Second, any company in the business of outsourcing should be able to demonstrate absolute cost savings through volume discounting of the products and services provided.

An *HR Magazine* survey<sup>3</sup> found that the top reasons for outsourcing include:

- to use the expertise of specialists (88%).
- to save time (54%).
- to save money (41%).
- to save administrative costs (38%).
- to focus on more strategic initiatives (30%).
- to eliminate a function which is not part of the core business (26%).
- to redistribute increased responsibilities (21%).
- to reduce liability (7%).

Contrary to conventional wisdom, few indicated that they outsource for reasons related to downsizing.

## Outsourcing Human Resources

Some of the more administrative elements of HR have been outsourced for years, including payroll, temporary staffing, benefits, and benefit plan design. Only recently, however, have organizations considered outsourcing large parts of the training and staffing functions.

The *HR Magazine* survey found that 91% of responding HR departments currently outsource one or more functions. About 40% of these organizations outsource less than \$100,000 annually in HR services, but 16% outsource more than \$1 million annually. The survey also reports that an increasing number of HR professionals will outsource more services in the future; many respondents indicated that one or more functions currently performed in house are on the outsourcing list.

<sup>3</sup> *HR Magazine*, December 1995, pp. 75–79.

Another survey, conducted by *The Economist* and Andersen Consulting<sup>4</sup>, confirms this: 25% of surveyed firms plan to outsource all or part of their human resource functions in the next three years and 41% plan on doing the same with employee benefits during this same period. Further, the survey results document a trend to the use of outsourcing as a competitive tool, rather than a simple cost control strategy.

Traditionally, organizations have outsourced the delivery of some training programs (specific classes, experiential events, etc.) to local colleges, consultants, and organizations, such as DDI, and staffing activities to executive search companies and employment agencies. The new trend in outsourcing is noteworthy because it represents an emerging interest in turning over a larger portion of training and staffing activities, and sometimes, the management of those functions.

## Making the Decision to Outsource

Before an organization decides to outsource all or part of Human Resources, it's essential that management understand exactly what happens in that function. Though it may take quite a while to identify all of the activities associated with running a Human Resource department, not to mention what they cost, this information is central to any outsourcing decision. Once these activities are identified, the organization can begin to determine which, if any, should be outsourced.

It may seem counter-intuitive, but when managers consider outsourcing, the decision process should not begin with the question, "What can I outsource?" Instead, an outsourcing partnership should be built around the answer to this question: "What do I want to keep?" In every function, in almost every organization, there are activities which are a part of the organization's culture. They may involve proprietary information or be highly technical, or they may be viewed as rites of passage or "the way we do things here." Examples in the Human Resources area might include an Employee Orientation Program or a Product Training "crash course" for new sales people. The value they add to the organization may be either substantial or intangible. Clearly, though, they are activities which could not be replicated by an outsourcing partner.

The decision to outsource must be based on the client organization's need, not partner capability. Too often, when a client organization is sold on the idea of outsourcing by a potential partner, the relationship is shaped by what the partner has to offer. In these situations, many potential benefits may be lost, since the partner may not offer support in areas of greatest importance to the organization.

<sup>4</sup> "New Direction in Finance: Strategic Outsourcing," *The Economist Intelligence Unit* and Arthur Andersen, 1995

## Making the Decision to Outsource Part of Human Resources: A Process Map

1. Define HR's vision: How does HR contribute to the organization's success.
2. Identify HR's key business objectives that support its vision.
3. Use work process redesign technology to identify all the specific activities and processes that are part of the function.
4. Check: Are these activities/processes aligned with the key business objectives?
5. Check: Which of these activities/processes represent "best practices" for HR?
6. Identify activities/processes which must be kept (e.g., training that includes proprietary or highly technical information).
7. Identify activities/processes which might be outsourced.
8. Check: Do the activities/processes that will remain with HR align with key business objectives?
9. Check: Are there new activities/processes that HR staff should manage, in place of the outsourced tasks (e.g., performance consulting)?
10. Check: Is the existing staff ready to handle these new activities/processes or will they require development or retraining?

## Outsourcing Training and Development

An informal poll of training directors attending a recent national conference indicated that the majority of their training program delivery would be outsourced by the year 2000.

This finding supports other recent surveys that demonstrate that the outsourcing of training and development activities is becoming increasingly common. Consistently, organizations and HR departments cite the following reasons for this trend:

- Access to world-class capabilities in areas which are not core competencies for the client organization.
- Ease of administration (outsourcing partners have computer and other systems that can deliver training or services faster or better).
- Translation of fixed costs to variable costs.
- Cost savings, through volume discount arrangements.
- Partner held accountable for value-added, ROI-focused training activities.
- Expansion of available development and delivery resources.

Interestingly, organizations considering outsourcing their training and development activities are not always initially focused on cutting costs. Contrary to popular belief, the initial drive towards outsourcing seems to focus much more sharply on quality and efficiency, with related cost savings being seen as an additional, though significant, benefit. This is particularly true when the move to outsourcing is driven by HR itself. HR departments are being required to do more with less. Typically, the "less" means less hours per program at less cost. As HR departments look beyond their traditional way of doing things in order to meet new demands, they often come to view outsourcing as a strategy for freeing up the time for high-level consulting and relationship building, while improving quality and cutting costs.

In situations where senior and line managers are driving the move to outsourcing, the need to make training and development more strategic and more bottom-line focused is cited as the most significant reason for the change. Outsourcing partner organizations are perceived to be more capable of strategic HRD management and more experienced at documenting ROI for clients. Line managers want their training and development departments not only to be aligned with the organization's strategy but to actively promote that strategy. A relevant example is promoting organizational change. Due to competitive and technological pressures, the need for organizational change has become more common. Yet executives voice frustration with unwieldy change efforts that seem never to move their organizations in

the appropriate direction with sufficient focus or speed. They see training and development systems, along with other organizational systems, as ways of focusing attention and skills on the new areas in which the organization must go, and they see outsourcing as a way of assuring that priority attention is put on these alignment efforts.

### Implementing Strategy, Meeting Individual Needs

Alignment of training and development programs with strategic organizational objectives is important in order to provide the skills necessary for employees and managers to move in the desired direction and to reinforce the importance of the objective. However, organizations need to provide some basic programs (certain technical, sales, financial, safety, interpersonal, leadership, and managerial courses) to maintain the basic awareness, understanding, and skill levels required of employees. Additionally, certain high-status employee development programs are used as employee rewards or incentives, as well as for skill development.

Thus, many organizations offer a combination of programs/courses:

1. A course catalog (or standard curriculum) of basic and advanced programs designed to meet

common developmental needs or government/industry requirements.

2. Periodic courses or development activities to facilitate a change or align organizational thinking with a new initiative.

Of course, the standard curriculum must also be in overall alignment with organizational strategic initiatives. Similarly, the periodic courses should be built on the same philosophical approach as the catalog courses, to avoid learner confusion and to reinforce the importance of the catalog courses. Finally, there is no reason courses designed around a strategic initiative can't appear in a catalog, if that catalog is published and distributed often enough.

Most often, the first category of training programs, the standard curriculum, may be delivered or administered by an outsourcing partner, while activities within the second category often require that an internal staff member at least participate in design and delivery.

## Five-Point Outsourcing Scale for Training and Development

Outsourcing of training and development is not an all-or-nothing affair. Various levels of outsourcing are possible, depending on an organization's needs. Basically, there are five levels of outsourcing:

### ❶ Vendor - Customer

Inside staff uses external resources to support some portion of development or delivery of the training curriculum. The administration and management of the training and development function are the responsibility of the inside staff. The outsourcing partner teaches a class, conducts a training activity, coaches employees, designs a program, or evaluates an intervention, as directed by the client. Assignments are often for single courses or short-term assignments. This level is sometimes referred to as "out tasking."

### ❷ Supplier - Customer

Inside staff decides to target an audience or topic, defines needs, plans training curriculum, schedules and administers programs. They use external expertise as an ongoing sole provider in this particular area. For example, a partner might develop/deliver groups of classes or programs (e.g., all leadership programs or all decision-making programs) to an audience or business unit identified by the client.

### ❸ Strategic Supplier - Customer

Inside staff handles alignment with the organization's vision and values, conducts high-level performance consulting, and selects training responses and training modalities. The partner acquires or develops, and then delivers and evaluates a large group of required training programs, and in contrast with Level 2, the partner has responsibility for administration and, often, evaluation. (Partner often must manage several vendors and use many delivery options).

### ❹ Partners

Lean inside staff coordinates corporate strategy and integrates HRD initiatives among multiple business units; acts as liaison between top management and partner. Partner representatives, located in a business unit, are responsible for performance consulting and identifying appropriate training/development responses in the business unit, in addition to the administration and delivery of all (or most) training and development activities.

### ❺ Strategic Partners

Inside staff nonexistent or consisting only of a relationship manager who remains on board to measure partner effectiveness and ROI. Partner representatives located in corporate headquarters and other locations corporatewide plan, deliver, administer, and evaluate all of the client's training and development responses.

At Levels 1 and 2, organizations are outsourcing development of training activities, delivery of individual training programs, and/or evaluation of training effectiveness. In many organizations, these activities have been contracted out for years, and vendor relationships have been evolving over time.

The idea of outsourcing significant management and administrative responsibility for training delivery, as represented by Levels 3 through 5, is, on the other hand, a new one for most organizations. Corning has been operating at Level 3 for more than 10 years, but is an exception. Increasingly, though, Level 3 outsourcing partnerships are perceived by many training professionals to be the "future state" of HRD departments.

## What is Outsourced at Level 3?

At level 3, most of the administration of training programs is outsourced. This includes:

- Course content.
- Course selection/development, as needed, based on the needs determined by the client.
- Publication of the course catalog, if there is one.
- Internal marketing of courses.
- Course registration.
- Logistics, such as scheduling rooms and equipment availability.
- Administering evaluations.
- Financial responsibilities (e.g., charge-backs to business units).
- Tuition reimbursement (sometimes level 4 or 5).

## What is Outsourced at Levels 4 and 5?

At levels 4 and 5, internal staff roles and structure change to accommodate the developing business partnership with the outsourcing partner. The partner is more intimately involved in tying training and development initiatives to strategic goals. Their representatives deal directly with high-level managers and executives who have the business needs and who are accountable when the measurements of the organization's success go in the wrong direction. The outsourcing partner does not wait to be told what to do or what training program to run, but instead acts as a

performance consultant helping translate organizational vision into performance solutions, including training, compensation system design, or performance management. The outsourcing partner staffs the HRD department and few, if any, client staff remain. Client management works directly with the outsourcing partner to initiate organizational change or new strategic directives.

Sometimes organizations will retain a small staff to conduct selected courses—especially those that involve technical content unique to the organization, are closely aligned to a strong organizational value, or are considered to be part of the organization's culture. For example, DuPont has outsourced most of its training to a partner, but retains control over safety training. At Level 4, discrete business units are operating in this manner. At Level 5, the entire organization, including “corporate,” has made the switch.

## Outsourcing at BASF

Following a strategic decision to concentrate personnel resources on core competencies, senior leaders at international chemical manufacturer BASF Corporation set about restructuring key functions to align with its new focus. Among the first changes to be made, multiple HR functions were streamlined into a centralized Career Development Group.

Charged with managing diversity issues, training, staffing, international human resources, and executive development, the managers of the Career Development Group realized that they faced a substantial administrative burden. The managers viewed open enrollment training, in particular, as an area which would require significant staff time (for curriculum design and management, catalog distribution and maintenance, training delivery, and course registration). While training was certainly important at BASF, it was clearly not a core competency for the organization. Following the pattern established by the overall restructuring, the managers began to consider outsourcing the training function. A task team began to look for partners who could deliver open enrollment training, and manage the administrative processes attached to training activities.

Potential outsourcing partners were evaluated against the following criteria:

1. Employee training and development should be a core competency of the partner.
2. The partner should be positioned to provide “local touch” to our offices, but should also have “global reach.”
3. Training delivered by the partner must be in alignment with BASF’s business needs; the partner must be prepared to document that alignment.

After a selection process which included the solicitation of discussion documents and formal proposals, as well as multiple meetings, BASF selected DDI as an outsourcing partner in November, 1996.

The relationship, which includes elements of levels 3, 4, and 5 on DDI’s scale, began with a clear delineation of roles. According to the agreement, DDI would take on those areas of training where its expertise added the most value, including:

1. Training needs assessment.
2. Program selection.
3. Administration of open enrollment (e.g. basic supervisory training, interpersonal management skills, and team building activities).

BASF staff would retain responsibility for those areas in which their experience and perspective added value, including:

1. Executive Orientation.
2. Standard Seminar Series.
3. Plant management and utility training.

As DDI and BASF begin their relationship in spring 1997, each looks forward to a productive outsourcing partnership.

## Advantages of Outsourcing Training and Development

### 1. Cost Savings

Cost savings can accrue to an organization from outsourcing training and development in a number of ways—some quite legitimate, others that sacrifice quality and effectiveness. Some legitimate cost savings:

**Cost of instructors.** Most full-time instructors working for organizations are actually in the classroom less than 50 percent of the time—often, only one-third of the time when they have training management assignments. If one divides the number of days actually in the classroom into the fully loaded salary of an instructor (benefits, cost of providing an office, telephones, holidays, vacations), an organization can easily calculate its instructor costs per delivery day. When training delivery is outsourced, the organization only pays for the time in the classroom. There are usually significant cost savings. Even considering the management costs tacked on by the outsourcing vendor, savings of 20 percent to 25 percent can often be achieved with relative ease by outsourcing some or all training delivery.

**Travel costs can be cut through distance learning and self-study, which eliminates people going to classes away from home.** Effective partners offer self-study options because they have the potential to save the organization money, but more importantly because the technologies can effectively meet the personal and business-driven needs of the learners.

**High-Technology Solutions.** Alternative delivery platforms, including CD-ROM and Intranet, are re-defining training. Companies at the forefront of the training and development industry have already made significant investments in these technologies and are often able to use them in place of classroom training delivery, while maintaining effectiveness. Since the partner absorbs the cost of development of the training in the new delivery format, these solutions deliver cost savings to the client.

**Administration.** Outsourcing partners often have proprietary or off-the-shelf computer systems that save manpower and offer better client services. These systems might keep track of training programs and instructors, do billing, and follow up with training participants for research and reinforcement purposes. For example, DDI has invested in an automated system to get employee feedback on training effectiveness by phone.

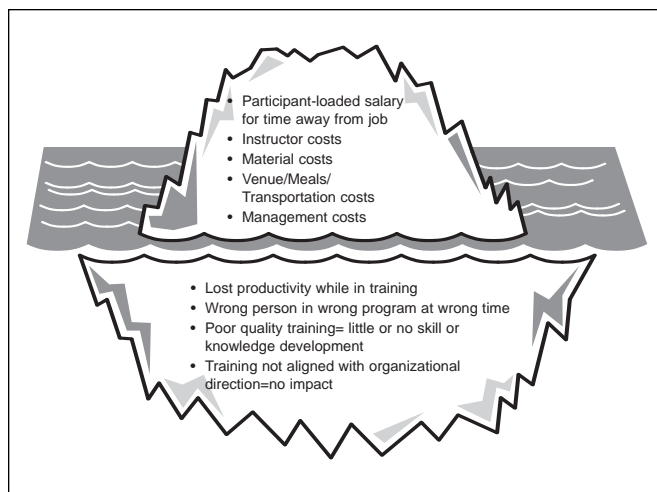
**Program Development.** With a full-time program development staff, an outsourcing partner can develop and deliver a new program quickly, without straining client resources. Beyond this, outsourcing partners can often develop new technology and courses at less cost because they are able to spread development costs over multiple clients with similar needs.

**Technological Currency.** Organizations no longer need to send individuals to professional conventions and other places to keep up on new technology, such as distance learning or CD-ROMs. The outsourcing partner can represent the knowledge needs of a number of organizations at conventions and can assign individuals to track and report on new developments.

**Documented Effectiveness.** Research into training effectiveness is another area that partners can typically supply more efficiently because they have developed methodologies and expertise. For example, DDI has three full-time Ph.D. professionals who do nothing but training effectiveness research. Very few in-house training organizations could afford such emphasis.

Beyond these items, an HRD function which approaches its work in a business-oriented, results-focused way will generate significant savings for an organization. These savings are generated when the right individuals are trained in the right programs at just the right time. Many corporations are looking to partner with outsourcing companies to help them find this edge.

The cost savings obtained from the items listed above are merely the tip of the iceberg relative to real savings that can often come from outsourcing as illustrated in Figure 1.



**Figure 1** *The True Costs of Training*

The hidden part of the iceberg—the alignment of training with the organization’s vision and values, the assurance that the training is effective (actually changes on-the-job knowledge or behavior), the delivery of training when it can be immediately used (the teachable moment), and the provision of on-the-

job reinforcements to reinforce the learning—are not concepts unique to outsourcing providers. They can be achieved by any organization without outsourcing. However, many organizations lack the staffing resources and financial commitment to training to make these dynamics possible. In these cases, outsourcing partners may be very effective at bringing about needed changes, while still monitoring costs.

### **A Caveat: Specious Cost Savings**

The degree to which an organization receives cost benefits depends almost entirely on the partner it selects. For example, if an organization decides to outsource development and administration of its training curriculum, the quality of that curriculum will be determined by the outsourcing partner. If the partner is a well-established training organization, outsourcing may well represent an improvement in course quality; the client will have access to world-class training programs, which its own staff would never have had the resources to develop. On the other hand, if the partner is a “broker,” largely dependent on third-party vendors to supply course content, curriculum quality may actually decline, as the broker purchases low-cost training which may be unsuited to the client’s needs.

An outside partner, or an inside training and development staff, may easily cut training costs by sacrificing quality. They can do this by increasing class size, cutting course content to decrease delivery time, providing inexperienced trainers, or providing “off the shelf” courses which may not meet learning goals. Organizations intent on achieving maximum cost savings run the risk of selecting a partner who will choose these unacceptable methodologies to generate requested savings. Careful contract negotiation should address client concerns in these areas.

## **2. Training Course (Program) Library**

Outsourcing partners often have large libraries of high-quality courses/programs. The availability of these programs is a major advantage brought by the partner. Not only can the courses/programs be used to meet client needs, they offer a platform on which programs can be tailored to client needs when no existing program exactly fills the client's requirements.

A major advantage of some partners is the integration of training courses around core job or role dimensions/competencies and common training methodologies. This allows programs to more effectively build on each other and link with other HR systems like selection and performance management.

## **3. Familiarity with Courses Available from Other Sources**

If a partner does not have an appropriate course to meet a client need, it must either develop or purchase one from another vendor. Many outsourcing partners bring extensive familiarity with courses available in the training market.

## **4. New Courses (Programs) Development Capability**

Outside partners often have made considerable investment in program development technology, such as video and CD-ROM production, distance learning, etc. They have individuals whose full-time jobs are to keep up with the very rapid changes in technologies. These partners can provide a level of speed and sophistication in new program development unequaled by most training departments.

## **5. Familiarity with Technology**

New delivery platforms, such as CD-ROM and the Internet, are redefining the training and development industry, just as on-line systems have created new ways of tracking registration and participation levels in training courses. Industry leaders have stayed ahead of these trends and are poised to leverage emerging technologies to improve the quality and efficiency of their services.

## **6. Speed and Quality of New Program Development**

Since some training and development companies staff full-time development professionals, as outsourcing partners they are able to assign development teams to client projects, as needed. Because these teams are involved in program development for multiple clients, their solutions will be based on experience, as well as training expertise.

## **7. Size and Geographic Distribution of Trainer Network**

Partners often have a cadre of trained deliverers of their and others' training programs and have systems to select, train, and monitor delivery personnel. Trainers may be available nationwide or worldwide, therefore allowing the outsourcing organization to cut travel costs (and often improve employee acceptance of the training) by using local delivery resources rather than flying people in from central locations.

## Outsourcing Recruiting and Selection

The idea of outsourcing is not new to the Recruiting and Selection area. For many years, organizations have contracted with other firms to provide temporary employees, screen resumes, and administer tests and background checks for applicants. Recent studies indicate, however, that, as is the case with Training and Development, it is becoming increasingly common for organizations to outsource more substantial elements of the recruiting and selection process for employee, professional, leader, and managerial positions. DDI's research indicates that clients considering outsourcing these activities cite six primary reasons:

- To control hiring costs by eliminating fixed costs and leveraging the outsourcing partner's technology.
- To gain "best practice" recruiting and selection systems designed by industry experts, particularly around emergent areas such as Internet sourcing and on-line resume screening.
- To have the flexibility to respond to episodic recruiting and selection needs, such as plant start-ups, acquisitions, or seasonal needs, without incurring substantial long-term overhead costs.
- To use the partner's contingent resources to implement, with a sense of urgency, technologically driven changes.
- To align recruiting and selection with other HR practices so that employees and managers are in place on time and ready to contribute to efforts to meet business challenges.
- To facilitate international hiring.

When viewed together, these reasons bespeak two key dynamics which are changing the face of the recruiting and selection function. First, organizations have come to view recruiting and selection in a new, more

strategic light. As in perhaps no other time, it is now considered to be a critical business challenge for employers to attract and retain high-caliber individuals in increasingly tight labor markets. Even in countries with relatively high rates of unemployment, there is a high demand for a narrow band of highly skilled and "knowledge" workers. The perceived value of these workers lies in their ability to take on tasks with little "ramp up" or training time (a clear cost savings) and with their flexibility to assume new roles as business needs evolve. When recruiting and selection activities are viewed as competitive tools, management's performance expectations rise as organizations demand greater accuracy and efficiency in hiring decisions.

Second, this new strategic role has impacted the skills required to manage the recruiting and selection function. Effective recruiting and selection requires more creativity and technological savvy than ever before. Searching and recruiting for highly skilled workers involves new sourcing techniques, including the Internet and mass media services. The global business climate requires recruiting for and from international posts on a regular basis. Beyond this, HR professionals are also now expected to make decisions at higher levels than ever before. Increasing demands on the time of line managers have created the need for HR staff to screen, interview, and hire more job candidates with little or no input from management.

As is the case with training and development, a key step in making an outsourcing decision involves listing all recruiting and staffing activities carried on and then deciding which must be managed in house. The rest are candidates for outsourcing. Clearly, these classifications may change over time, as a client-partner relationship thrives or falters, but the classification is an important starting point in the decision-making process.

## Five-Point Outsourcing Scale for Recruiting and Staffing

The decision to outsource recruiting and staffing activities is not an all-or-nothing proposition. Outsourcing partnerships in the recruiting and staffing area can be categorized in five levels, as represented here.

### ❶ Vendor - Customer

Client retains all management responsibility for recruiting and staffing. Partner provides any one of the following services for a particular business unit or staffing need:

- Analyze Key Requirements of Jobs (competencies).
- Design Selection/Assessment System.
- Develop recruitment advertising or PR campaign.
- Choose Selection Instruments (e.g., Tests).
- Design Instruments (e.g., Interview Guides).
- Administer Recruiting Process.
- Administer Selection Process.
- Monitor Hiring Process.
- Validate Selection System.
- Prepare EEO and other reports.

Assignments are short-term and defined by the client.

### ❷ Supplier - Customer

Client retains overall management responsibility for recruiting and staffing across the organization. Partner provides several of the services listed above, in any combination, for a particular business unit. The relationship is for a longer term.

### ❸ Strategic Supplier - Customer

Client retains administrative responsibility for recruiting and staffing across the organization, while overseeing the partner's implementation of recruiting and staffing activities in a business unit or for a special need, e.g., a plant opening. Partner provides all of the services listed above, for one or more business units, or in a special situation for a defined time period. Administration of selection process may be done by the supplier, the organization or a third party, such as a state employment agency.

### ❹ Partners

Client oversees partner's administration of entire staffing and recruiting process for one or more discrete business units, and acts as a liaison between partner and senior management. Partner provides all of the services listed above for one or more discrete business units for an extended period of time.

### ❺ Strategic Partners

Client senior management interfaces directly with partner. Partner provides all of the services listed above for all business units on a permanent basis.

## What is Outsourced at Level 3?

To this point, the outsourcing trend in the recruiting and staffing arena commonly has been defined by the need to hire large numbers of people at once, particularly when new plants or business units open. In these cases, a client will contract with a partner to advertise and fill a specified number of positions, based on criteria developed in a job analysis. The partner is evaluated by the speed and efficiency with which it conducts the process and by the quality of its hires. On the scale depicted above, this would

## Outsourcing at GE

In February 1991 GE Aerospace opened its state-of-the-art Regional Electronic Center (REC) in Conklin, New York. The new REC was opened as a result of a consolidation of electronic assembly capabilities within existing facilities.

The REC would be very different from existing GE Aerospace facilities. For example, there would be only three layers of management: a plant manager, an 11-person management team, and the associates (operations, technical, and administrative). In addition, the operations associates would be expected to build the electronic components from start to finish, from receiving the parts to shipping the finished goods. They would work in teams and be expected to demonstrate skills and abilities (e.g., providing feedback to co-workers, scheduling, quality inspection, and customer contact) far beyond traditional production positions.

GE Aerospace needed a selection process that would culminate in new hires who could thrive in the innovative work environment at the REC, and fulfill management's vision for the success of the plant. They selected DDI as a partner in the design and implementation of a selection process for the REC.

A team of DDI consultants took the lead in designing a process for selecting candidates, which was administered jointly by the consultants and the REC management team. The first REC associates were hired within a month, and less than two months later, those associates were shipping products to fulfill orders.

The REC is presently staffed by 400 people, all of whom were processed through the GE-DDI selection system, and is exceeding its initial quality and productivity goals.

fall under level 3, since the partner is accountable for the entire recruiting and staffing process to meet a short-term need, while the client retains accountability for the process corporatewide.

In the area of recruiting and selection, as is the case with training and development, it is possible for a client to manage multiple outsourcing initiatives, at different levels, with the same partner. For example, a soft-drink manufacturer contracted with DDI to manage all of the recruiting and staffing for its new bottling plant (Level 3), while also contracting with DDI to develop interview guides and train new interviewers (Level 1) in its sales and marketing division.

At this level, the amount of hands-on management required of the client varies by situation. The partner can make the final hiring decision or provide highly screened candidates to client managers for a final decision.

## What is Outsourced at Levels 4 and 5?

The greatest change in the outsourcing of recruiting and staffing activities has come with the increased willingness of clients to contract outsourcing partnerships at Levels 4 and 5. At these levels, the outsourcing partner is wholly responsible for recruiting and staffing within one or more business units within the client organization. Level 3 is a time-bound relationship oriented to meeting an episodic client need, such as the opening of a new plant or division. At Level 4, the relationship is more permanent, as the outsourcing partner's staff takes on the role of a staffing and recruiting department within the client organization. At this level, partner consultants work directly with client management to develop recruiting and selection strategies. As with Level 3, management may or may not participate in final hiring decisions.

## Advantages of Outsourcing Recruiting and Staffing

Organizations outsource recruiting and selection activities for many of the same reasons they do training and development activities, with a slightly enhanced focus on the ease of administration, garnered from outsourcing partner organizations who have developed technology-based applicant tracking, test administration, and other systems.

**1. Cost Control.** Most organizations report rising costs per hire due to changing needs. While it may not be possible for an outsourcing partner to absolutely cut costs, automated sourcing and on-line administration systems represent important strategies for controlling rising costs. Clearly, outsourcing can reduce the R&D costs associated with these recruitment and selection trends of the future, since the client need only pay for use of the service and not make a major investment in its development.

**2. Removing Fixed Costs.** Quite often, hiring needs come in waves, associated with the opening of a new business unit, the launch of a new initiative, or the availability of new graduates. Administrative staff and facilities sufficient for meeting client needs during a peak hiring time may not be used at other times during the year. In an outsourcing partnership, the client pays for staff and facilities only when they are used.

Outsourcing partners also provide needed consultants and technology systems during large opportunities, such as the opening of a new plant, without adding long-term overhead costs. During periods of unusual demand, client needs can be met without compromising quality or cost control.

**3. Efficiency Through Technology.** As experienced consultants in the recruiting and staffing field, outsourcing providers are able to install technical solutions, such as on-line applicant tracking systems, quickly and without passing on R&D costs to clients. Their comfort level with technology and their ability to deliver it quickly provide immediate value to clients.

**4. Global Capacity.** When recruitment and selection needs vary worldwide, partnering with a global outsourcing firm (a) reduces overhead costs and learning costs, (b) achieves needed results worldwide, and (c) helps focus internal resources on strategy rather than logistics. An effective outsourcing partner becomes part of the infrastructure (along with roads and telecommunication) that many companies need to remain internationally competitive.

**5. Resources on Demand.** As industry professionals, outsourcing partners have access (often in-house) to software and website designers, video producers, writers, artists, and others who can quickly create materials for clients to advertise positions and promote the hiring organization.

## Answering the Outsourcing Question

While outsourcing partnerships offer many benefits, there are also concerns and some potential pitfalls.

A few caveats:

1. Entering an outsourcing partnership may mean de-skilling the client in a critical area. It's important to be sure that the outsourced activity is truly not a core competency, since existing staff will be reassigned and therefore unavailable to return to the activity should a problem develop with the partnership.
2. Most outsourcing partners seek long-term contracts with clients in order to amortize start-up costs and to secure volume discounts from their subcontractors. Outsourcing clients must be careful to understand exactly what procedures are in place to dissolve the partnerships, if necessary.
3. Companies who are in the business of outsourcing often are in other businesses as well, such as selling training programs. Outsourcing clients should be sure that partners are committed to finding the best solutions, whether they produce them or not, and that they have a sound evaluation process in place to measure quality.
4. While it will take years to establish necessary case law, it now appears that clients retain legal liability for the functions they outsource. For example, a company that outsourced administration of its benefits program was recently held responsible for inequities created when the partner improperly reimbursed employee claims. Client counsel should be included in outsourcing contract negotiations in order to manage liability issues, particularly if selection is outsourced.

5. Beyond legal responsibility for the partner's actions, the client has other investments in the partner's performance. In the area of selection, for example, the first person to meet a potential employee may not actually work for the potential employer, the client. But this person is still charged with representing the client in a positive and professional way. Similarly, in the area of Training and Development, the trainer delivering material to support an important new client initiative may not actually be part of the client organization. Once again, the client is dependent on that trainer's professionalism and credibility.

## Determining the Viability of Outsourcing

Given the concerns listed above, it is essential the organization considering outsourcing embark on a viability study. A comprehensive viability study would include:

- Return generated on investment in current programs.
- Comparison of organizational programs/systems relative to industry best practices.
- Leaders/managers perceptions of current quality.
- Senior management's perceptions of current quality.
- Employee perceptions of current quality.
- Presentation of the viability study should include a facilitated discussion with senior managers.

In general, it makes sense to hire an outside consultant to evaluate current practices.

## Requirements of an Outsourcing Partner

The best way to address the concerns raised by outsourcing and to avoid potential pitfalls is to select a highly effective partner and negotiate a strong contract. When evaluating partners, clients should consider the following items:

- The outsourced function or activity should be a core competency of the partner, as demonstrated by experience.
- The client and partner must share values, such as belief in empowerment, if their employees are to work together successfully and if the partner is to adequately represent the client.
- The partner should be well-established in its industry, as demonstrated by size, years of experience, and financial stability.
- The partner's resources should closely match the client's geographic needs.
- The partner should have financial systems in place to monitor progress and determine returns on the investment in the partnership.
- The partner should have appropriate technical processes/systems available and ready to bring to the client.
- The partner should have the ability to integrate its communication systems, such as E-mail and voice mail with the client's, if necessary.
- The partner should be able to demonstrate its ability to select and manage other vendors.

## Contract Decisions

Before a contract is formally prepared, client and partner should meet informally to discuss relationship issues and clarify roles. Such a session might begin with several questions:

- What are each partners' goals for this relationship?
- How will the relationship be monitored and evaluated?
- What access will the partner have to the client's top managers?
- What information or access will be off-limits?
- What procedures will be instituted to deal with problems, as they occur?

Perhaps the most critical decision for an organization, once it has made the decision to outsource, is the length of the term for the contract it will sign with its partner. While any term of less than three years will tend to minimize opportunities for most restructuring, shorter-term contracts do incent the generation of more immediate returns. DDI recommends that partnerships be contracted for three years, but that contracts must contain escape clauses for both parties.

The first true test of the partnership will come in contract negotiation. The following disclosures will be necessary for both client and partner:

- Current budget information for the function.
- Activity levels for the function, over the past two fiscal years.
- Existing vendor usage and pricing structure.
- Confidentiality agreement, signed by the outsourcing partner.
- Organizational charts and demographics.

A contract discussion is not only about price, but about performance expectations. The manner in which the parties approach the contract negotiation process will forecast the tone of future interactions and communication. Building in review periods against key metrics and service agreements will ensure constant communication and clarity of purpose and need.

## Transition Alternatives

Once an outsourcing contract is in place, the partners may choose from a number of transition scenarios. During the transition period, activities relevant to the outsourced function are divided into three categories:

1. Activities currently being performed in an acceptable manner.
2. Activities currently being performed in a manner which requires change or improvement.
3. Activities not currently being performed, for which processes or programs will have to be created.

As the transition progresses, the client and partner can manage these three categories using one of several approaches, including:

- The partner immediately takes over running Category 1 activities and programs, while reorganizing Category 2 activities and designing new Category 3 activities. The partner takes over the management of Category 2 and 3 at the completion of the reorganization/design processes.
- The client retains responsibility for Category 1, while the partner conducts a major needs analysis aimed at the reorganization/design of Categories 2 and 3. The partner runs Category 2 and 3 activities as they are developed or enhanced. Category 1 activities are the last to be passed over to the partner.

- The partner begins with design and implementation of Category 3 activities, while the client retains responsibility for Categories 1 and 2, which are gradually transitioned to the partner.

There are other alternatives beyond these suggestions. A thorough discussion, including all parties to the contract, will likely result in an implementation plan appropriate to the client's unique needs.

## The Future of Outsourcing

The future of outsourcing is being determined by the contracts and relationships being created today. An outsourcing partnership must grow and evolve. What will the relationship look like at the end of three years? Over time, a virtual business may evolve as parties from both organizations become intertwined through contracts based on shared goals. The key requirement for this future state is trust. Only when both sides trust each other will client and partner invest in each other's business success. Such trust will be rewarded as partnerships yield significant returns. In the end, though, an outsourcing partnership is only as good as the partners who create it. Their work will shape the future of outsourcing.

