HRO's Necessary Overhead

Investing in more administrative resources seems counterintuitive to the idea of outsourcing, but facts are that HR is not well-prepared to handle some aspects of the deal.

By Paul Davies

Managing a large-scale HRO operation, particularly one that involves multinational transformation, is not typical HR work. Sure, there are similarities: Supervising people is more or less universal and there are still payroll cycles, resourcing plans, and learning centers to run.

But where outsourcing is involved, a good deal of the managing is done by proxy and is governed by a contract. It involves more financial arrangements than a typical HR budget, more direct systems responsibility, more project management and has a commercial focus seldom present in mainstream HR work.

Of course, such differences are not universally true for all HR roles and all HRO implementations, but they are characteristic for this reason. HR leaders embarking on HRO should set up governance structures and processes to cope with the new reality.

A good chunk of experience can be imported from IT, especially when, as is usually the case, the outsourcing or transformation includes a significant technology element. Project management methodologies, documentation discipline, business continuity planning, and change control are all familiar tools in the systems world. The trick is to adopt them in a manner that applies to the whole operation rather than merely technology deployments.

Change control, for example, might be motherhood and apple pie for systems development, but in HRO the concept also applies to a raft of potential contract variables including scope, solution design, process flows, and project planning. If any element needs to be changed, the proposal should be fully documented and all dependencies and consequences considered. There should be a transparent approval process including a formal record of decision and, just as importantly, a monitoring discipline should ensure that all dependencies are adjusted across the operational streams.

To manage this efficiently requires a small and, in some cases, dedicated, team. The same goes for project management, too. Though it goes against the grain to invest resources in overhead staff support when money is often needed at the "sharp end" of the operation, control of the project implementation and changes to the deal are key success drivers.

Another crucial consideration is issue management. Any complex transformation project or HR service operation is going to generate problems. Some can be crisis-generating show stoppers; others are slow burners that won't cause a flap until an indeterminate point in the future. Regardless of the problem, a predictable mistake is to place responsibility for the resolution of these issues with the person responsible for the associated stream.

It makes sense until one realizes that the burden of a transformation or shared-services implementation rests upon the same heads, and the issues have not been resolved because there's not enough time left to chase them down.

Consequently, in the early "spike" years, it pays to invest in issue management resources, which includes an oversight team similar to those dedicated to change control and project management but whose members are imbued with the skills to take on the burden of resolving problems. From a financial point of view, it's a difficult leap to make at the start, but once into implementation mode, a long list of unresolved issues will holler for attention as frantically as a swimmer in need of a lifeguard.

Another item that receives its due only after getting into difficulty is managing the finances of full-scale HRO contracts. The allocation of cost and distribution of invoices to different international entities alone is of an order of complexity beyond the normal HR department budgeting process. Equally complex, the tracking of baseline savings across administrative headcount, the management of audit, evaluation of change proposal costs, and tracking of performance credits require experienced shepherding.

Discussions about governance usually revolve around accountability and oversight—which executives will do what, and how the buyer and provider will face off at different points. They will settle escalation procedures and sometimes even delineate meeting protocols, management location, and the reporting format for metrics. After all, it's about governing the operation, not managing it.

However, 10 bucks to a dime says that the meat and gravy of those governance meetings is going to be around SLAs, project progress, contract changes, escalated issues, and finances. The infrastructure for researching, validating, and documenting these matters is as critical for good governance as defining who is ultimately responsible for the decisions. **HRO**

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