

# I D C   E X E C U T I V E   B R I E F

## **The Outsourcing Bottom Line: Canadian Executives are Satisfied With the Results of Outsourcing Multiple HR Functions**

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### **IDC OPINION**

Outsourcing is a word that conveys a variety of meanings and elicits a range of emotions spanning indifference to intense hostility. In reality, the term outsourcing is little more than a formal term to describe the division of labour, a fact of business that is as old as business itself. Outsourcers are business process experts whose products and services allow customers to focus on their own products and services, the attributes that make them successful in the marketplace and provides them with revenue and profits. Outsourcing is an established business practice that when implemented and managed correctly, can provide significant value to buyers by allowing them to focus on the products and services that provide meaningful differentiation and can represent a source of competitive advantage.

### **IN THIS EXECUTIVE BRIEF**

This IDC executive brief examines the thoughts and perceptions of Canadian business executives as it relates to their key business issues and priorities and how they are using outsourcing and the capabilities of external service providers to manage their business and meet their corporate objectives. The paper illustrates the success that many Canadian businesses have experienced outsourcing business processes to trusted providers in general and specifically for human resources.

A key take-away is that Canadian companies are finding value in outsourcing multiple business processes in partnership with a single provider that can meet the full range of their needs over time and deliver economies of scale, scope and specialization.

The trends and issues examined in the executive brief are brought to life in Part II of this executive brief, a case study of SmartCentres, a

long-term customer of Ceridian Canada that has, over the years, leveraged multiple Ceridian offerings, each time improving the performance of its human resources department.

## **SITUATION OVERVIEW**

These are challenging times for Canadian businesses. The list of competitive pressures continues to grow and evolve – headed by the soaring Canadian currency – making it difficult to find reliable and predictable ways of growing revenue and profit while maintaining strong commitments to corporate objectives. Add to the mix the looming matter of demographics and emerging employment challenges and it becomes clear that Canadian businesses are facing issues that will affect their ability to maintain current sourcing strategies and achieve their full growth potential.

Business practices, however, are subject to continuous pressure to change and adapt in order to meet new and emerging demands. Corporations have, for many years, leveraged the expertise and investments of other organizations to manage business operations ranging from the overlooked (electricity) to the necessary (telecommunications) to the critical (human resources). In recent years, these external service providers have augmented long-standing offerings with new products/services that extend the value of outsourcing into adjacent processes, increasing their ability to service customer requirements.

In terms of human resources and the HR department, the scope of responsibilities have remained relatively constant but budgetary pressures and time constraints have begun to impact quality of service. Figure 1 depicts the variety of functions/activities for which the HR department has responsibility.

**FIGURE 1**

HR Value Chain Elements



Source: IDC, 2008

There are a variety of options open to businesses in terms of how these activities are sourced ranging from internally owned and operated, to external options ranging from selective outsourcing (discrete activities managed and maintained by external providers) to full scope outsourcing (external management of entire HR departments and/or functions).

**KEY BUSINESS ISSUES**

***Top Business Priorities***

The diversity of challenges affecting Canadian businesses is presented in Figure 2 below. Reviewing the list of responses demonstrates that despite the range of responses, Canadian businesses are still largely dealing with persistent issues of

managing business operations and finding new ways of overcoming challenges.

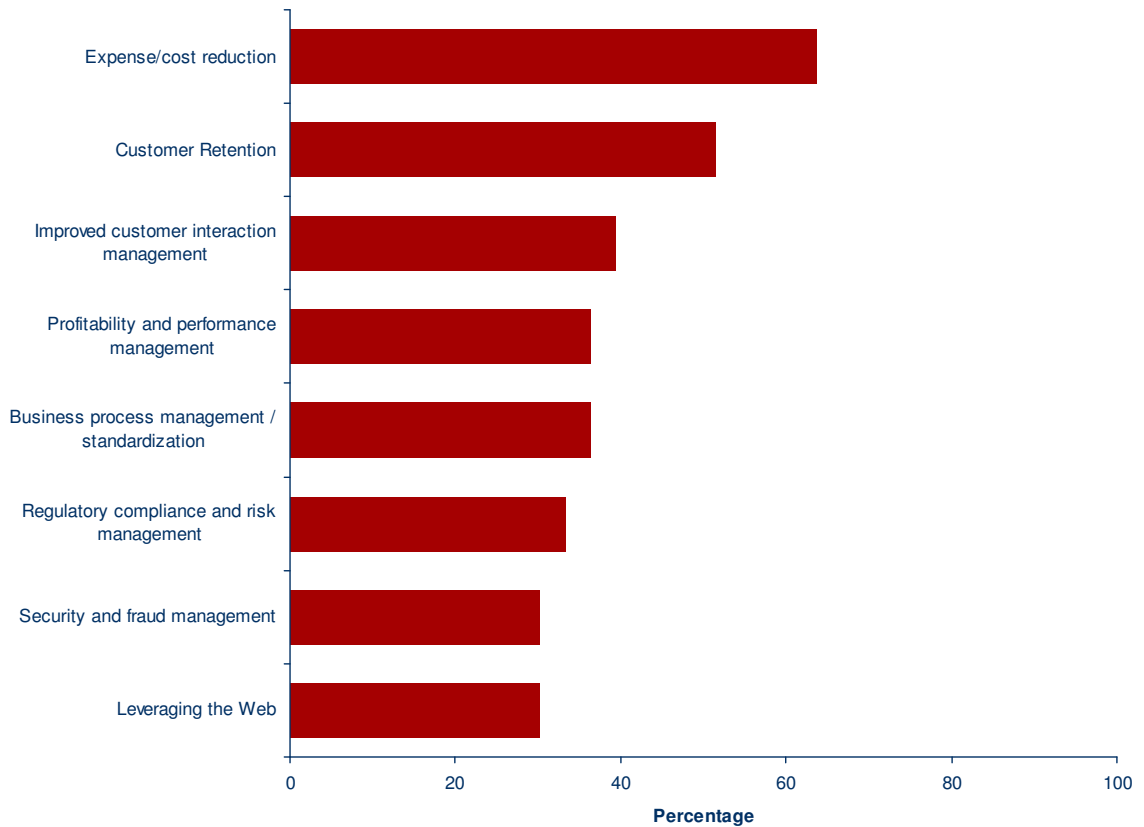
- The top priority for Canadian business executives is controlling expenses and reducing operating costs. In a recent survey, 63% of executives indicated that expense and cost control was the top business priority for 2007. See Figure 2.
- Executives were also aware of the importance of maintaining existing customer relationships as one of the key determinants of business success. Slightly more than half of the sample (51.5%) cited customer retention, making it the second highest rated response.
- Improving interactions with customers was also highly rated, accounting for 39% of responses. The significance of this response indicates the primacy of customers as well as the importance of employees, at all levels of the organization, contributing to its success.
- In a follow-up question, fully one-third of respondents selected expense/cost reduction as the number one priority for 2007. It was the overwhelming choice for respondents. In comparison, leveraging the Web and customer retention tied for second place, capturing 12% of responses. Expense and cost reduction is clearly the top priority for Canadian business executives.

This is the context within which today's HR leaders operate when dealing with employee issues and when delivering services and programs geared to attracting and retaining employees and focusing them on meeting corporate objectives of expense control and customer service excellence. There can be real value unlocked by companies that use external process experts to maximize the contribution of employee-centric processes to the corporate vision.

**FIGURE 2**

**Top Priorities for 2007**

*From the following, please indicate which would be strategic priorities for your organization in fiscal 2007?*



Source: IDC, 2008

**Top HR Priorities**

From a human resources perspective, the overall objectives are largely the same although expressed in different ways. The HR department, while embodying the objectives of the entire corporation, has specific objectives and issues that are particular to the operation of the function. The question that arises is: can the HR department meet its objectives through internal means only or are there constructive ways to engage external providers for certain activities? Figure 3 reveals the following insights from the HR department:

- The top priority for human resources executives is to make improvements to the competency and capabilities of the HR department. When asked to indicate a top priority, just over 25%

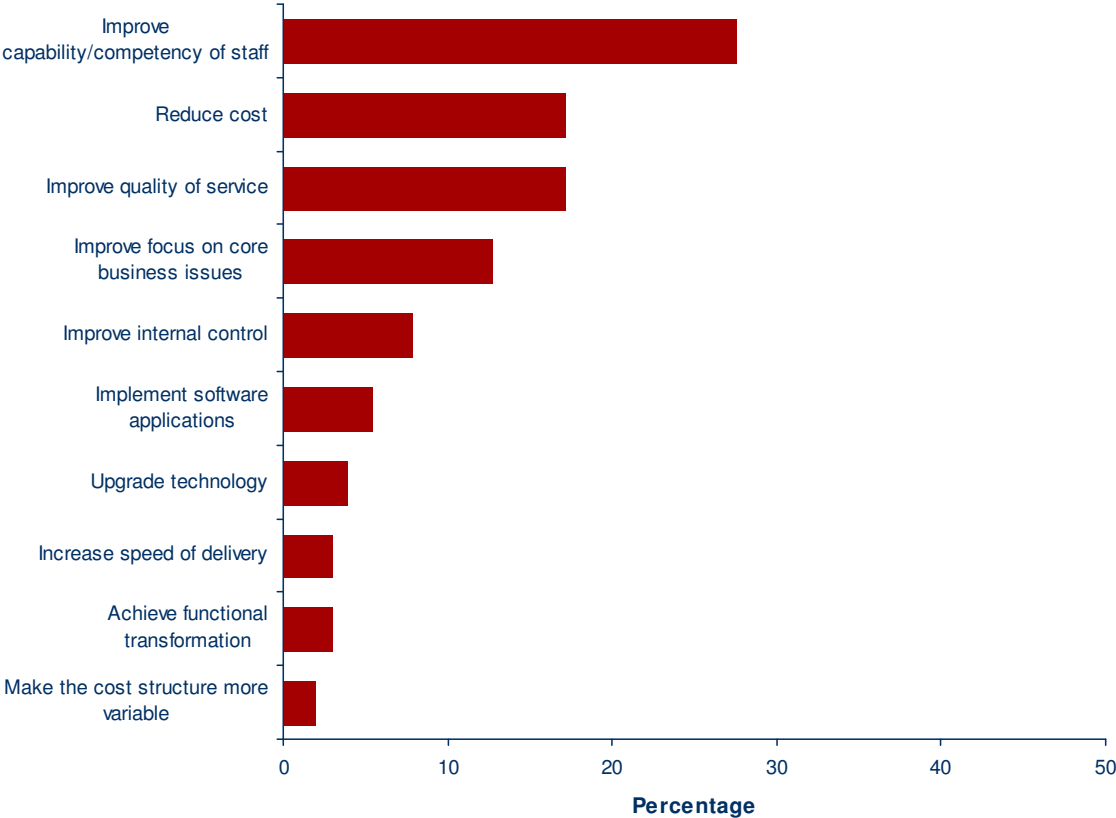
of a recent survey sample selected improvements in staff capabilities.

- In a tie for second place with 17% of responses: cost reduction and improve quality of service. The issue of cost is less significant for the HR department because costs and expenses tend to be well managed.
- Making improvements in the quality of service (17% of responses) is reasonably tied to expenses because cost constraints means that HR departments have more responsibilities than resources to adequately deliver on these tasks.

**FIGURE 3**

**Top Priority for Human Resources**

*What is your top business priority for each of the following processes? Human Resources*



Source: IDC, 2008

## **Outsourcing to Achieve Business Objectives**

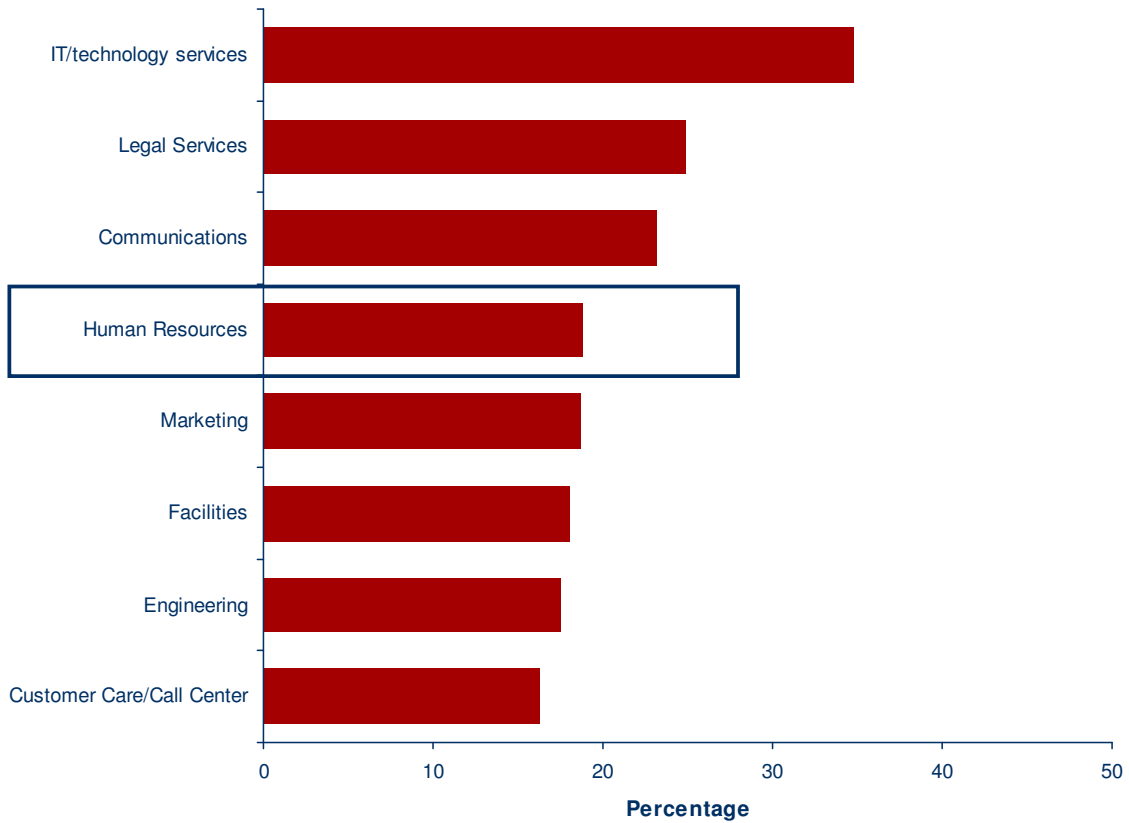
One of the ways to achieve the business objectives highlighted at the outset of this executive brief is to engage specialists to operate and manage selected business processes. As with any other division of labour calculation, organizations have to distinguish between activities that contribute directly to revenue and profitability and those that do not. The history of business and modern corporations is that there will almost certainly be providers in the marketplace that specialize in a specific business process. Figure 4 summarizes the processes that Canadian businesses are increasingly comfortable partnering with outsourcers to provide management services.

- Outsourcing to improve corporate functions is most acceptable for IT/technology services. A total of 35% of respondents from a recent survey indicated a willingness to outsource IT to achieve functional improvements.
- For respondent organizations that continue to manage most business processes internally, legal services and communications (i.e., marketing communications) were rated as the second and third candidates for outsourcing as a vehicle for process improvement.
- Human resources received approximately 19% of responses, the fourth highest ranked business process.

**FIGURE 4**

### Improving Corporate Functions: Willingness to Consider Outsourcing

*In order to improve each of the following corporate functions, would you be willing to outsource them? Summary*



Source: IDC, 2008

While a reasonable percentage of Canadian businesses are considering outsourcing HR functions, it is important to determine the percentage of survey respondents that believe outsourcing will have a beneficial impact on the organization. It is only a preliminary step to be willing to outsource. The belief that the benefits of outsourcing are tangible will be one of the key drivers behind adoption. Figure 5 provides a summary of perceived value of outsourcing.

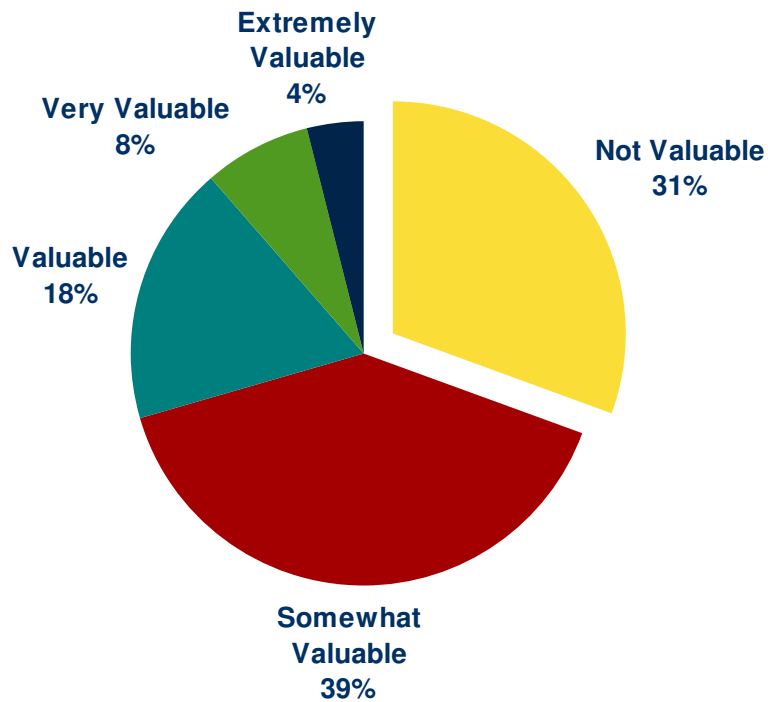
- Less than 33%, one-third, of the survey sample indicated that HR BPO would not be valuable as a process improvement strategy.

- An equal percentage of survey respondents, 30%, believe that outsourcing HR functions will be a valuable process improvement strategy. This includes Canadian businesses that believe BPO will be valuable, very valuable, and extremely valuable.
- Another 39% of the sample believes that HR BPO will provide some value for process improvement. In total, more than two-thirds of Canadian businesses sampled believed that the performance of the HR process could be improved through outsourcing.

**FIGURE 5**

**Use of BPO as a means to Improve the Performance of Human Resources**

*How valuable is BPO/could BPO be as a means of improving the performance of each of the following business processes? Human Resources*



Source: IDC, 2008

## RESULTS OF THE OUTSOURCING EXPERIENCE

### *Realizing Benefits of Outsourcing*

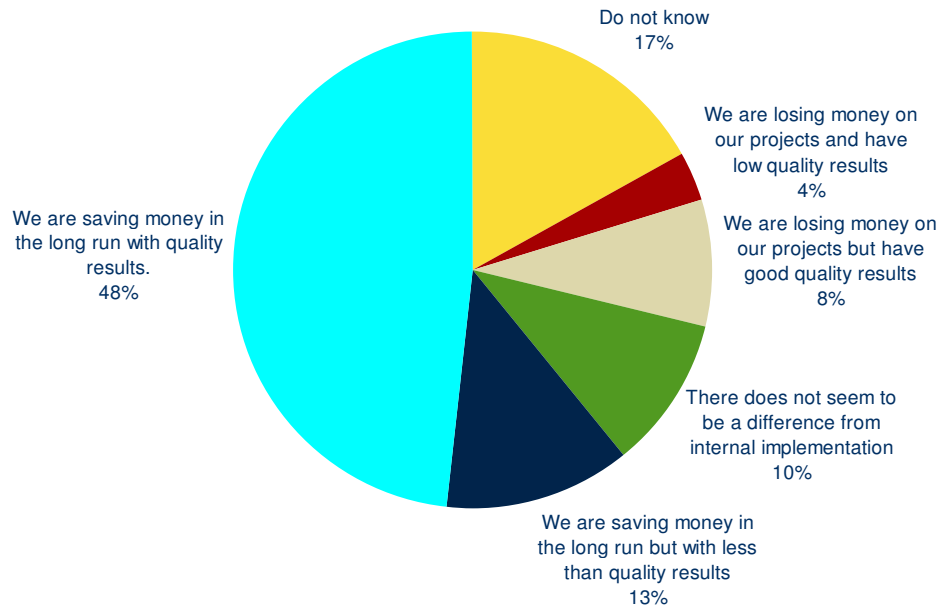
Business process outsourcing has never been a mass market solution; it requires comprehensive planning and a detailed understanding of the ways in which partners can contribute to successful business operations. A survey conducted at the end of 2006 illustrates the results achieved by Canadian corporations that work with outsourcing partners. See Figure 6 for more results.

- A majority of respondents who have outsourced a business process indicated that their organization is realizing two benefits: it is saving money and it is receiving a high quality service. Just under 50% of survey respondents choose this option as the one that best describe their results.
- The second highest percentage of respondents is unaware of the results of outsourcing, indicating that these respondents have not paid enough attention to governing the outsourcing relationship, a key issue for all sourcing relationships.
- At the other end of the spectrum, less than 5% of respondents believe that outsourcing has led to lower quality results and higher costs. The discrepancy between this number and its opposite should give companies considering outsourcing a strong belief that outsourcing delivers more benefits than problems.

**FIGURE 6**

**Impact of Outsourcing**

*Generally speaking, how has your organization felt about its external services expenditures?*



Source: IDC, 2008

***The Potential Impact of Outsourcing***

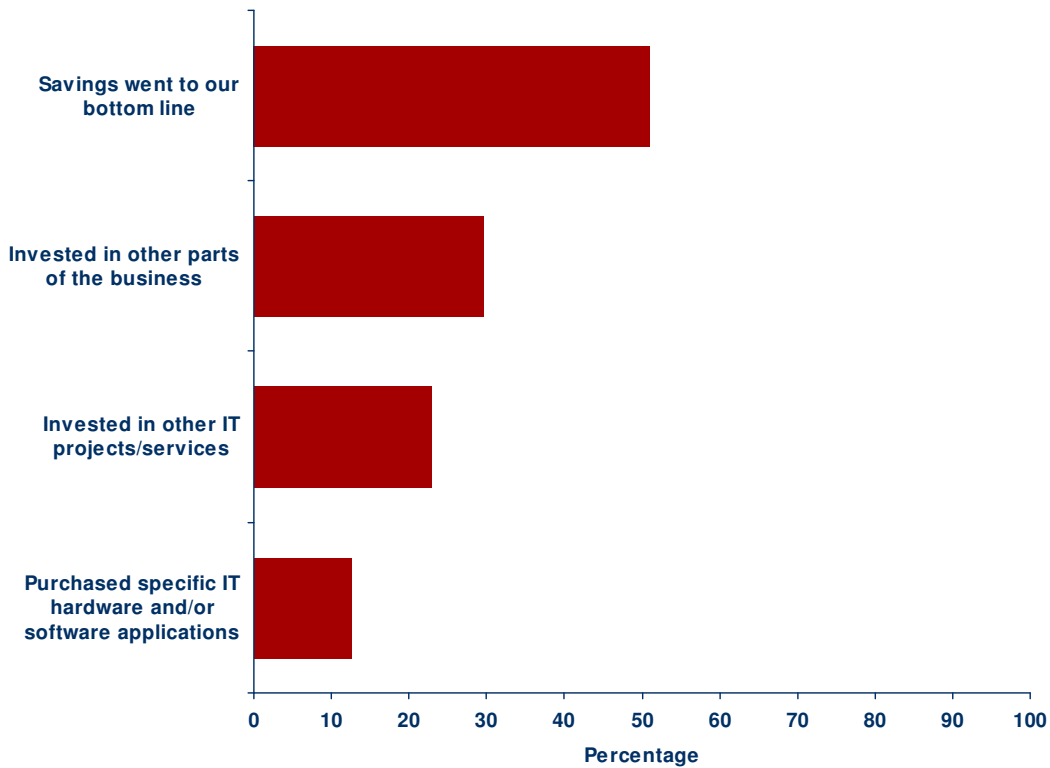
The majority of outsourcing buyers are saving money with quality results, so these businesses are in a better cash position assuming that there are no other substantial changes to the business. As a result, there are opportunities for these businesses to use this excess capital for other purposes. Capital is the life-blood of every organization and the contribution of outsourcing should not be overlooked as one of the least expensive ways of releasing capital resources and creating investment resources. Figure 7 illustrates the ways in which companies that have outsourced reinvested their capital savings.

- The majority of respondents (51%) are using the capital saved through outsourcing to improve their profitability. Improvements in profit numbers clearly help businesses attract and retain investors and shareholders in addition to stabilizing financing options.
- The second highest proportion of respondents, approximately 30%, reinvested the retained capital back into the business. This option is certainly more cost effective than borrowing capital from financiers.
- The remaining respondents focused their investments on IT products and services (23% reinvested the money in other IT projects and 13% used the money to buy new IT products). As it becomes more ingrained in business processes, making more investments in IT is one of the best ways of making process improvements which benefit the entire organization.

**FIGURE 7**

**Benefits Achieved as a Result of Outsourcing**

*What did the business do with the savings from the outsourcing agreement?*



Source: IDC, 2008

## MULTIPLYING THE BENEFITS OF OUTSOURCING

### *Outsourcing Preferences*

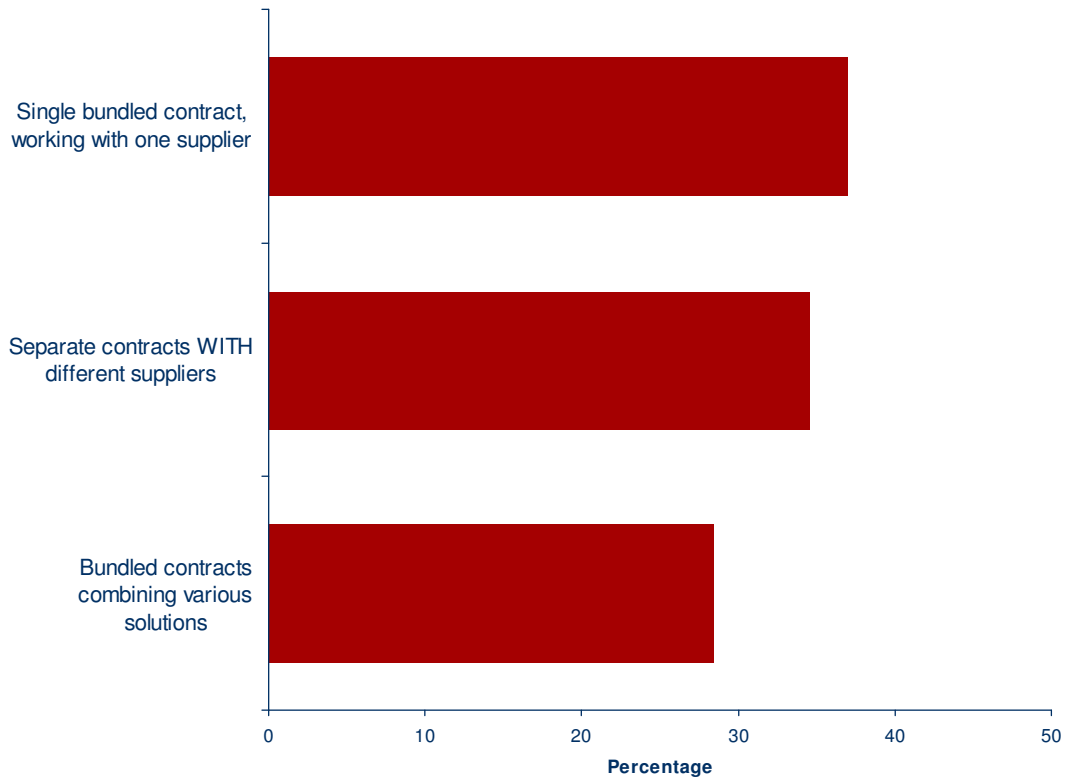
There are a variety of ways in which buyers can engage outsourcers. The outstanding question that needs to be addressed is how buyers should structure outsourcing contracts and leverage the skills and knowledge of business process specialists. It is often easier, over the long run, to work with outsourcers that can address the outsourcing requirements of different processes. Selective outsourcing is a viable option, but buyers need to keep in mind the challenges of dealing with multiple providers. Figure 8 reports outsourcing buying preferences.

- The largest proportion of respondents, totaling 37%, preferred a single provider, aggregating a number of different contracts. This type of contract allows buyers to exploit the advantages that result from economies of scale, scope, and specialization.
- Just over 33% of survey respondents preferred to take the selective outsourcing approach, working with different suppliers according to business process or vendor specialization. This type of multi-sourcing is popular but it does raise challenges in terms of complexity and governance efforts.
- There are relatively few providers that can adequately address the requirements of outsourcing multiple business functions in one contract. Even in the cases where this type of outsourcing agreement exists, sub-contracting arrangements are often struck to manage and administer specific business processes.

**FIGURE 8**

**Outsourcing Preferences**

*How do you/would you prefer to procure your Outsourcing Services?*



Source: IDC, 2008

Irrespective of how customers choose to engage with partners, outsourcing, as a services market, is a feasible strategy for attaining a variety of corporate objectives that go well beyond simple cost savings to include operational performance improvements, improved management and control, and gaining access to skills, expertise, and resources that would otherwise be unavailable.

***Satisfaction: Delivering on Objectives***

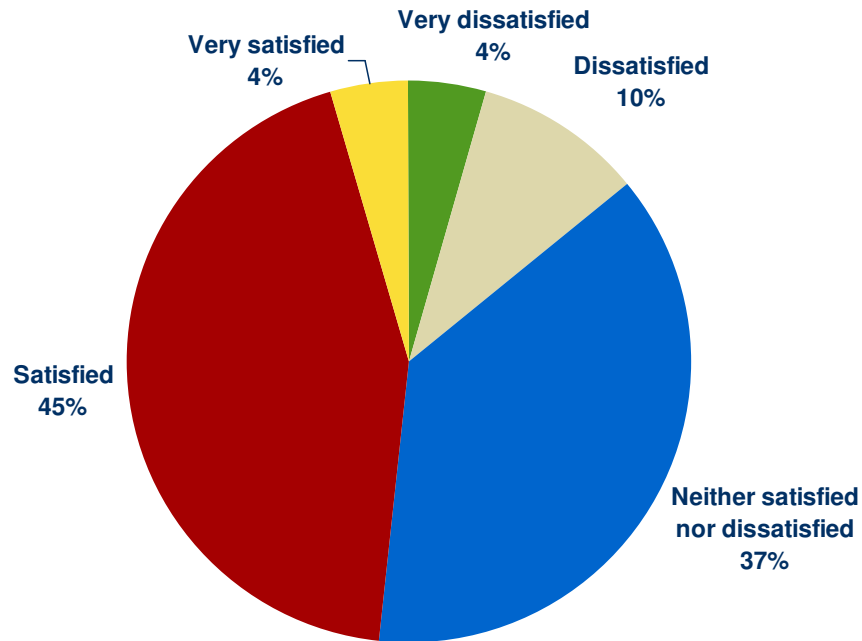
Satisfaction is clearly one of the critical determinants of present and future success for outsourcers and it is one of the metrics that are closely monitored by both buyers and suppliers to manage outsourcing relationships. It is also notoriously difficult to satisfy customers and over-deliver on expectations irrespective of the product or service involved. The results from a survey fielded in mid-2006, pictured below in Figure 9, provide some answers on the question of satisfaction.

- Just under 50% of survey respondents indicated that their organization was satisfied with their outsourcing provider. The level of satisfaction is a measure of the relationship with the outsourcer, its services, as well as the satisfaction with the results of the services being provided. While the absolute number may be somewhat disappointing, placed into the context of general attitudes of buyers it is not a surprising result.
- The second largest percentage of survey respondents (37%) expressed a neutral satisfaction rating. While not exactly a ringing endorsement with outsourcers, the neutral rating is typical for satisfaction rankings. In total, more than 85% of respondents expressed a neutral rating or higher.
- Importantly, only 14% of the sample's respondents indicated that their organization was dissatisfied with their outsourcing provider. This is another result that should promote confidence among those considering outsourcing services. The vast majority of respondents indicated they are receiving above average results that are leading to reasonable satisfaction scores.

**FIGURE 9**

**Satisfaction with Outsourcing Provider**

*Using a scale from 1 to 5 where 1= "very dissatisfied" and 5= "very satisfied", please rate your overall satisfaction with your outsourcing provider.*



Source: IDC, 2008

***Choosing the Right Partner***

The criteria used to judge outsourcing providers has also changed over time as a reflection of the changes in the objectives and priorities of buyers. The reality is that buyers have become increasingly sophisticated in their use of outsourcers and, at the same time, outsourcers have increased the maturity level of their offerings and their ability to provide high quality services for a number of complementary service offerings and business functions.

- Quality and reliability rose to the top position in 2006, capturing 32% of responses, up from 28% and second place in 2004. Coupled with the reduction in the responses for 'understand my business' and 'proven track record', it is increasingly important

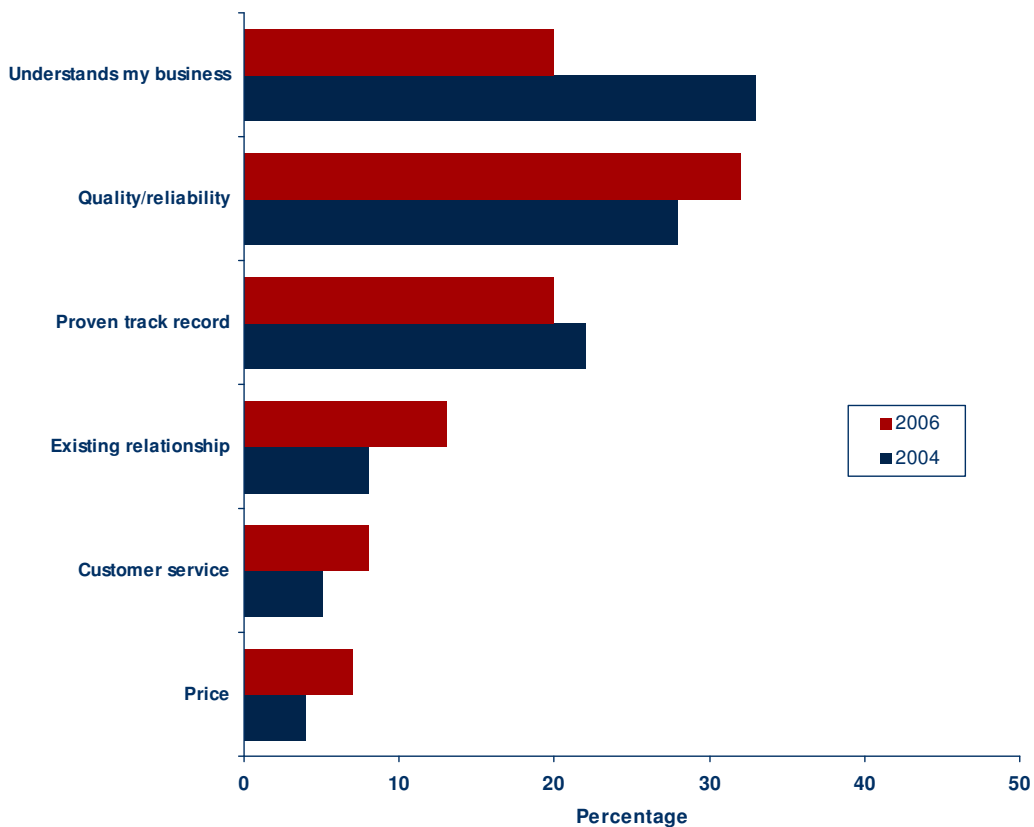
for outsourcers to optimize the quality and reliability of their offerings. See Figure 10.

- Although of lesser importance, having an existing relationship (13%) and customer service (8%) have also increased in importance between 2004 and 2006.
- Interestingly, price is at the bottom of the list with 7% of responses in the 2006 survey of Canadian executives. While expense and cost reduction, as seen earlier, was a strategic priority, it becomes table stakes for providers, and other attributes, as illustrated in Figure 8, become increasingly important, particularly delivering high quality results and having a solid understanding of the business and its operations.

**FIGURE 10**

### Most Important Factor When Choosing Vendor

*Which of the following do you consider to be the most important factor when choosing a primary vendor for IT/Business products or services?*



Source: IDC, 2008

## **CONCLUSION**

Outsourcing is a business practice that can provide significant value to customers through the use of experienced practitioners and optimized business processes and technologies. This IDC executive brief has mined the data of Canadian business executives with outsourcing decision-making authority to demonstrate the tangible value of enterprise-wide and selective outsourcing.

There are a variety of different ways that businesses can address operational issues and problems and outsourcing should not be overlooked as one of the best ways to address areas of concern. Business problems won't just resolve themselves and outsourcing is not a prescription for transferring problems to an external vendor. Meaningful outsourcing requires a partnership between the buyer organization and the supplier organization working together to achieve common business objectives.

Of significant importance is the take-away that Canadian companies are finding value in outsourcing multiple business processes in partnership with a single provider that can meet the full range of their needs over time and deliver economies of scale, scope and specialization.

## **CASE STUDY**

This executive brief is supplemented (in Part II) by a case study of SmartCentres, a Canadian commercial real estate property development and management company. SmartCentres has been a customer of Ceridian's for more than a decade and has benefited from a number of different human resources product and service offerings. The case study of SmartCentres is an example of the issues presented in the executive brief as they come to life and it provides a clear illustration of how outsourcing is effectively addressing key business issues and providing numerous benefits to the buyer.

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