Human Resource

Business Process Outsourcing

Marc Starfield

A research project submitted to the Gordon Institute of Business Science,

University of Pretoria, in partial fulfilment of the requirements for the degree

of Master of Business Administration

November 2006

ABSTRACT

This research was undertaken to explore the potential application of Human Resource (HR) Business Process Outsourcing (BPO) as an appropriate service delivery mechanism. The investigation included the identification of the primary internal drivers and external factors affecting HR departments, to craft the framework within which to consider HR BPO. Then the processes that could be delivered by HR BPO were identified. The study concluded with the identification of the critical success factors for implementing HR BPO and the expected benefits.

The research was conducted by means of 26 in-depth, semi-structured interviews with senior HR managers and HR professionals. The respondents represented various industries and sectors and included leading South African organisations and a range of global organisations.

The resulting findings first introduce the bridge principle, to ensure that HR transformation is not at the expense of line management. Secondly a decision model, which incorporates benefit realisation principles, was developed to assess the applicability of HR BPO for processes. The findings conclude with a success factor condition table that highlights the critical success factors and their dependencies.

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

14 November 2006

_____

Marc Starfield

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to:

Sarah Starfield, my wife, for all her love, encouragement, advice and support while I completed the research report and the other elements of the MBA.

Annette Starfield, my mother, for giving up so much to provide me with opportunities and for her never ending support.

Professor Neil Duffy, my supervisor, for clear direction, encouragement and for being able to benefit from his vast experience and insight. His attention to detail and line by line feedback was invaluable and significantly more than was expected of him.

All the respondents who participated in the interview process, for their time, honesty and for the enlightening conversations we had around the research topic.

My family and friends, for providing me with the support and motivation needed to complete my MBA.

Dewald Lemmer, my personal and professional mentor, for not only being my IBM sponsor for the MBA, but also for his honest and sincere concern for my development.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1:   **INTRODUCTION**

1.1. DESCRIPTION OF THE PROBLEM AND BACKGROUND

The Human Resource (HR) function is expected to play a more strategic role and become a business partner that provides transformational services and not only performs transactional administrative functions (Christensen, 2006). Lawler, Ulrich, Fitz-enz and Madden (2004) believe that the transactional work performed by HR departments is becoming a commodity; Christensen (2006) suggests that the administrative function will not be delivered by HR in the future. The role and function of the HR department has evolved significantly in the last decade, from being seen as a purely administrative function to the expectation that the HR department advance into a strategic partner. Lawler *et al* (2004) indicate that the HR function has no choice but to change, given the significant changes in the business environment. The services and products that HR provides to the organisation need not only to change, but new services need to be provided, because the organisational and support requirements have changed significantly as organisations have adapted to the rapidly changing business environment.

It is important to understand the link between the transactional, administrative element of HR's traditional role and the strategic challenges facing HR professionals. The HR department will not be considered or be afforded the opportunity to play a more strategic, partnering role if the administrative element of HR service delivery is not executed in an efficient and cost effective manner.

Ulrich and Brockbank (_____ als focus on how they are going to deliver value. Ulrich (1997, p.48) urges the HR professional to "define business partner in terms of value created for the business".

The question that flows from the understanding that the HR functional role needs to change is: how can HR departments be transformed and how should HR professionals respond (Lawler *et al,* 2004*)*?

Tompkins (2005) argues that organisations no longer need to question whether to outsource, but should rather focus on which functions and processes to outsource. He sees outsourcing as a business imperative. Collis and Montgomery (2005, p. 28) indicate that all organisational functions need to contribute to a "new and better competitive advantage".

It is clear from the above that the HR department not only needs to change both its strategy and focus; it needs to identify an appropriate mechanism to effectively deliver the baseline transactional services. Ulrich (1998) warns that if HR does not deal with this challenge it risks being disbanded. This highlights the need to explore the potential application of Business Process Outsourcing (BPO) to create the appropriate environment from which the HR department can migrate to playing a more strategic, value creating role while still actively contributing to the competitive position of the organisation.

The applicability of [logo] ed without a thorough understanding of which HR process could be delivered more efficiently and cost effectively by an HR BPO service provider.

Osheroff (2005) indicates that the most important step in analysing Business Process Outsourcing (BPO) is the identification and validation of the processes and functions that would represent an attractive value proposition. Tornbohm (2005) challenges this further by suggesting that innovative value propositions need to be developed.

The relevant processes and functions can only be accurately evaluated by identifying and analysing the internal drivers directing HR departments and HR professionals and the external forces affecting this group; Lawler *et al* (2004) use the heading: Forces for Change.

While assessing the applicability of HR BPO and the identification of the suitable processes are the primary focus of this research, fundamental to its applicability is the relevance of this for South Africa. Grobler, Warnich, Carrell, Elbert and Hatfield (2006) indicate that the competitive pressures on South African organisations are the highest in South Africa's history and in order to continue to be competitive in the global economy the HR function needs to contribute towards and enhance the competitive position of South African organisations. The South African HR department specifically needs to retain, develop and nurture the human capital of an organisation, given South Africa's unique history and the moral and legislative challenges of ensuring that the imbalances of the past are

redressed, while at th ~~[logo]~~ g the cost of HR service delivery to ensure that this function not only contributes to the competitive position, but also creates a competitive advantage.

Besides the requirement to create and sustain a competitive advantage for an organisation at a micro economic level, a range of organisations, including the central government of South Africa, believe that the development of a South African BPO industry has the potential to stimulate economic growth, facilitate regional stability and very specifically create much needed employment opportunities. Kganyago (2004), then Director General of the National Treasury, in his speech at the Reuters Economist of the Year Award ceremony, identified the development of a South African global hub for financial BPO as one of the six pillars for achieving a Financial Centre for Africa (FCA). He argued that the FCA was a prerequisite to Africa achieving the New Partnership for Africa's Development (NEPAD)'s goal of 5-6 per cent sustainable growth.

The current Minister of Finance, Trevor Manuel, reaffirmed the importance of BPO during his 2006 budget speech. "Business services have experienced strong global growth in recent years. The [BPO] industry is a priority for government given its considerable job creation potential" (Mochiko, 2006, p.1).

Mochiko (2006, p.1) writes that the South African Government plans to make South Africa a global hub for BPO by 2008. In the same article Mochiko mentions that Deputy President Phumzile Mlambo-Ngcuka believes that BPO has the potential to create up to a 100 000 jobs.

This study is undertaken to provide insights into the potential application of HR BPO for South Africa. To satisfy this objective this study will address the following research questions:

1. What are the principal factors affecting South African HR departments? To ensure that recommendations relating to the application of HR BPO are considered value adding, they have to address the challenges facing, and be aligned to the strategic directions adopted by, HR departments and HR professionals.

2. What HR processes and functions could be delivered by a third party HR BPO provider? Which HR processes and functions should HR departments consider outsourcing and which should be considered core HR activities and therefore not outsourced?

3. What benefits would HR departments and HR professionals expect to derive from HR BPO? The extent to which the expected benefits would address the challenges identified in research question one will assist in identifying the appropriate HR process and offer a probable explanation for various authors' and organisations' views that BPO has not lived up to its promise.

4. What are the critical success factors to effectively implement HR BPO? This information will ensure that the requirements for successfully implementing HR BPO are understood, in order to realistically assess the potential application of HR BPO.

The ever changing business environment will necessitate that all departments of all organisations ensure that they contribute to the competitive position of the organisation, not only for internal sustainability but also in light of the significant impact globalisation will have on most organisations and countries. Loots (2001) argues that globalisation is the crucial development of our time. Desai (2001) warns that one of the consequences of globalisation will be an increase in the marginalisation of specifically Sub Saharan African economies. This research is particularly relevant for South Africa to ensure that we not only understand the potential of HR BPO to shield South African organisations from global competition, it also represents an exceptional opportunity for South Africa to benefit from globalisation.

CHAPTER 2:   LITERATURE REVIEW

2.1. HOW DOES BPO DIFFER FROM OUTSOURCING?

Kruse and Berry (2004, p. 37) see the level of integration as the key differentiator "the integration of the outsource partner into the client business is key" and state that BPO providers need to "ensure the total integration between outsourced business process and in-house processes". BPO encompasses the entire business process, end-to-end and not just a step or task in the process (Avagliano, 2004). BPO is seen as part of the business; both parties are responsible for the outsourcing strategy and implementation thereof, to ensure that the BPO solution seamlessly integrates into all the organisation's processes. Patel and Aran (2005) indicate that the traditional outsourcing tasks, for example data and transactional tasks, have migrated to include decision making and more multifaceted processes.

2.2. CHALLENGES FACING HUMAN RESOURCE MANAGEMENT

2.2.1.   STRATEGIC CONTRIBUTOR EXPECTATION

"The old is dying, the new struggles to be born, and in the interregnum there are many morbid symptoms." (Antonio Gramsci, 1930).

Ulrich (1998) synthesises the comments of 48 HR thought leaders in the article: The Future Calls for Change, and highlights that the HR function has to

perform its transac[...]rerequisite to performing strategic roles and that this dual requirement will be a continuous challenge. Crucially, he highlights the various arguments in relation to HR's future role; from those that believe that those involved in HR should become influential strategic consultants, to those that believe the entire HR department should be outsourced. To ensure a balanced view in relation to HR's future role he used focus groups of traditional line managers to talk about HR's role. They homogeneously stated that in HR's quest to become strategic partners they are transferring the transactional, administrative functions to the line managers and obviously they do not want this additional burden. There are some who believe that HR should not change and that it should continue performing the function it has traditionally performed.

Boninelli and Meyer (2004) use the table below to illustrate the role that will be required from HR in the future.

Today	Tomorrow
Strategy 5%	Strategy 30%
Performance enhancement 25 %	Performance enhancement 40 %
Transactions 30%	Transactions 15%
Administration 40%	Administration 15%

Table 1 - HR's Changing Role

While it is clear that ̶ ̶ ̶ ̶ ̶ ̶ ̶ ̶ ̶ suggests that HR needs to perform a partnering role, Ulrich and Brockbank (2005) suggest that HR professionals need to be able to fulfil an expert functional role. This does not only link into the need to perform the basic HR functional activities well, before being considered for a strategic role, it is also a proviso to the HR professional's credibility as a strategic partner. Schulman, Harmer, Dunleavy and Lusk (1999) state that a focused technical expertise is not required to successfully implement an alternative service delivery mechanism; they emphasise that the crucial skill is the ability to solve business problems through an enhanced understanding of the business.

Leading academics, authors and HR professionals are all calling for HR to perform a strategic role and actively contribute to the competitive position of the organisation; it is however clear that the transactional functions still need to be delivered in an efficient and cost effective manner. Transferring the responsibility for this to line management, however disguised, is not a desirable or sustainable alternative, as line managers need to focus on their core business, just as HR needs to. Boninelli and Meyer (2004) argue that HR practitioners need to free themselves of the administrative and transactional elements of their work to create the capacity to start delivering more value adding services. This leads to the question, can HR BPO create the capacity for HR to become strategic partners in an efficient, cost effective manner that ensures that other functions can focus on their principal responsibilities?

Ulrich and Brockbank (2005) urge HR professionals to grasp and master the concept of value in terms of the value that the receiver of HR services perceives.   HR will need to focus on managing knowledge, workers and successfully leveraging human capital to achieve profitable growth (Ulrich, 1998). As early as the 1970's Likert (1978) argued that the uncoordinated and piecemeal nature of HR interventions was at the heart of HR's inefficiencies.

Boninelli and Meyer (2004) advocate that HR needs to be repositioned as a customer centric occupation, that ensures that performance management is aligned to the organisation's strategy through an enabling culture and people-friendly systems.

A challenge for any HR department is to ensure that the company culture is assimilated by all new employees; this is specifically relevant for South African organisations as the employee base is increasingly becoming more diverse. Grobler *et al* (2006, p. 206) refer to this process as "acculturation" and Ulrich (1998) suggests that essential cultural changes will affect almost all organisations. Contrary to popular belief, the investment in acculturation returns benefits that are significantly more than the investment that is required for these programmes (Grobler *et al,* 2006). The challenge for the HR department is to quantify these mostly intangible benefits to such a degree that the rest of the organisation acknowledges the importance of employing resources on acculturation as opposed to transaction type functions.

A noteworthy change to the value proposition of HR is the need to keep up with the pace of change required throughout the organisation. Boninelli and Meyer (2004) suggest that leading change in organisations will become HR's greatest contribution.

Ulrich (1998) indicates that HR no longer has the luxury of designing and implementing the 'perfect' programme or initiative. HR needs to learn to act on limited information with agility and confidence. Ulrich and Brockbank (2005) quote Moore's Law to indicate that everything seems to be moving more rapidly and that HR professionals need to acknowledge that this has already affected their functions and that they need to become "rapid deployment specialists" (Ulrich and Brockbank, 2005, p.212).

Christensen (2006, p.47) suggests 5 principles for strategic HR that effectively sums up the value elements that HR needs to focus on:

1. "Talent is the engine behind the creation of all value.
2. Every business issue (problem and opportunity) is a symptom of deeper human or organizational issues.
3. Talent will be the resource of scarcity in the future.
4. All human resource work must be directly connected to the business strategy and customer needs.
5. Line management is responsible for human resources work in the organization."

Globalisation will require organisations to focus on and act beyond local boundaries (Ulrich, 1998). Grobler *et al* (2006) indicate that the number of South African organisations that operate in the global economy will grow significantly and they believe that this will represent one of the most important changes to our economy. This represents various opportunities and will direct HR departments to ensure that South African employees' productivity, skills and motivation enhance and, to some degree, protect the competitive advantage of South African organisations.

"The increasingly global nature of the world's economies and workforces requires HR professionals to develop strategies that will prove effective across geographical and cultural borders while uniting a dispersed workforce" (Boninelli and Meyer, 2004, p. 103).

In his book; The Collapse of Globalism, Saul (2005) suggests that globalisation is dead, but importantly indicates that economics and not politics will shape human events.

Irrespective of one's view on globalisation, it represents both challenges and opportunities for HR. Key challenges are to ensure that the HR practices and functions actively contribute to the competitive advantage of South African organisations and finding creative ways to retain scarce skills in an increasingly global labour market. HR BPO as a delivery mechanism represents a significant opportunity for South African BPO service providers and for

organisations to cr[...]ver more strategic value adding services.

2.3. WHAT HR PROCESS AND FUNCTIONS COULD BE DELIVERED BY A HR BPO PROVIDER?

2.3.1. ELEMENTS OF AN HR BPO

Organisations must make the critical decision as to which processes and functions they need to perform internally and which processes can be outsourced (Tompkins, 2005). Osheroff (2005) states that this is most important step in analysing BPO.

Core competency matrix

	Primary focus	Secondary focus
Core process	Things that differentiate your organization in the marketplace. The reasons customers come to you	Things that need to be done well but are not visible to the customer
Non-core process	Things that if not done well can have a negative impact on your customer relationship	Things that need to be done but do not have any significant impact on the success of the business

Figure 1 : Core Competency Matrix

Tompkins (2005, p.9) developed the Core Competency Matrix to assist organisations in the processes of identifying the core processes. In his view core

processes are those t[...] this business all about?"

He further differentiates the processes by testing how these processes affect the customer relationship. He believes that BPO should only be considered for secondary core and primary non-core processes. Patel and Aran (2005) contradict this to a degree as they suggest that the line between what can be outsourced and what cannot is becoming increasingly blurred as BPO evolves and matures.

Kruse and Berry (2004) suggest an alternative process driven approach. They suggest that each process is allocated two values: the first relates to the overall cost of the process and the second value describes the significance of the process in relation to customer satisfaction. They then calculate a ratio by dividing the cost value by the significance value and the processes with the highest ratio values should be considered for outsourcing. They are wary of suggesting that this approach should be used as is, but rightly point out that this provides a sound base from which to start the discussions and process analysis.

Kruse and Berry (2004) point out that various organisations are starting to challenge their own paradigms in terms of what should be considered as critical competencies, and they use the example of how many organisations are no longer viewing manufacturing as a core competence and that customer service has for many become a critical competence.

Bellinger (2005) believes that the HR processes that will be delivered by BPO will grow from the operational processes like payroll and benefit administration, to marginal areas that are time consuming, but add limited business value, for

example travel exper data management and compensation planning.

There is no doubt that HR professionals would like to discard various of their current metaphors like policy watchdogs, bureaucrats, administrators or regulators as Ulrich (1998) calls them; this however begs the question whether all or some of these functions could be performed by a third party or any other function in the organisation. It is understandable that not all HR functions can or should be outsourced; this however necessitates the need to identify which functions and processes are BPO candidates. Ulrich (1998, p. 5) accurately captures the essence of this question given the debate regarding HR's future role: "Much of the past will be found in the future, but learning what of the past to keep and what to change may be an ongoing governance issue.".

It is clear that there is no one singular model or framework that will identify what the core competencies of an HR department is for all organisations. This necessitates the need to research what in general South African organisations view as non core processes for HR departments, to provide an indication of the role that HR BPO can play as a service delivery mechanism.

2.3.2. MATURITY OF THE HR BPO MARKET

De Koker (2003) states that understanding the maturity and adoption rate of BPO service offerings provides insights into potential growth areas and the strategies that need to be adopted for successful BPO value propositions.

The International Data Corporation (IDC) predict that worldwide HR BPO spending will have an annual compounded growth rate of 16.2% between 2004 and 2009, with a predicted worldwide HR BPO spending of $ 23.9 billion in 2009 (Gibson 2005). An article in Managing Business Support Services (2005) suggests that the compound annual growth rate for HR BPO will be lower at about 8.6 percent, based on a statistical analysis undertaken by research firm Gartner in 2005. Martorelli (2006, p.2) in a recent Forrester report documented that there is a "thriving market for HR BPO services and an accelerating pattern of customer engagements". "The overall BPO market is growing at a significant rate and we continue to be extremely bullish," states Kevin Cambell, Accenture Global BPO Managing Director, as quoted in an article by Gibson (2006).

Martorelli (2006) identifies two key factors for continued HR BPO growth:

- Current HR BPO clients are looking for HR BPO service providers that can offer more HR functions and processes and not just payroll, and to a lesser extent, benefit administration.

- Multinational organisations are looking for ways to optimise and standardise their global HR processes and platforms.

One measure to understand the maturity of the HR BPO market would be the availability of a stable set of providers. Martorelli (2006) suggests that there are a set of relatively stable service providers, which are made up of established HR BPO providers and consulting firms, like Accenture, Convergys, EDS and IBM.

No HR BPO service provider dominates in the South African market, although most of the consulting firms have offices in South Africa.

2.4. WHAT BENEFI... EXPECT TO DERIVE FROM HR BPO?

2.4.1. PRIMARY BENEFITS

Gibson (2006) quotes an IDC analyst, Romala Ravi who believes minimizing costs is becoming the primary benefit that organisations are requiring from BPO agreements. Lawler *et al* (2004) suggest that HR administrative cost savings of 20 % or more are achievable. Cohen and Young (2006) believe organisations have been able to control costs due to the cost savings and efficiencies associated with BPO.

Human Resource Management Department - Management Report (2004) quotes a successful implementation, where major cost benefits were realised, including a 30% reduction in the number of HR practitioners. A less obvious benefit was the significant accuracy improvement in benefit administration, up from 65% to 99% within just two weeks.

Thompkins (2005) disagrees that the primary reason for outsourcing should be cost reduction; he argues that the primary reason for outsourcing is to ensure that management can focus on the core competencies and core processes. Kruse and Berry (2004, p. 36) use the term "business simplification" to describe the process of outsourcing to ensure that managers can focus on delivering customer and shareholder value.

Metty (2006) belie̶̶̶̶̶te to the organisation's competitive advantage, for it to be successful. For her a significant benefit is realised when a BPO agreement ensures that organisations have access to the early adoption of new technology and this process is facilitated. Pearson and Lyons (2003) believe a key benefit that should be sought from any form of outsourcing is that all aspects of the value chain are globally competitive as a result of the outsourcing.

Aldisert (2002) suggests that outsourcing enables companies to focus their development initiatives on developing employees in the organisation's core competencies, leading to the growth in the competencies that are critical to the organisation's competitive position.

Patel and Aran (2005) believe that flexibility is one of the drivers for outsourcing. Lawler *et al* (2004) extend this to include scalability and the ability of the HR administrative systems to expand and contract as the organisation's strategy changes. Kruse and Berry (2004) point out that flexibility is not necessarily a benefit of BPO, as various organisations have found that it is complicated and sometimes very costly to get out of BPO agreements when the organisation needs to fundamentally change its business, due to changing market conditions or merger and acquisition activities.

Boninelli and Meyer (2004, p. 378-379) effectively summarise the benefits organisations would expect from outsourcing HR processes as follows:

- "Providing access to greater expertise

- Improving qu

- Automating administrative tasks

- Gaining access to the latest technology

- Reducing costs

- Focus on core activity"

2.4.2. WHY ORGANISATIONS HAVE ADOPTED BPO

Tompkins (2005) argues that the organisations no longer need to question whether to outsource, but rather to focus on which functions and processes to outsource; he sees outsourcing as a business imperative. Kimball (2003) however warns that even if BPO is part of a good strategy, it should not be seen as a substitute for strategy, it is merely an operational approach.

Ulrich (1998) suggests that one of the most important drivers for change, is the need to create capacity for HR practitioners to react to the ever-changing business environment and to offer value adding HR services as opposed to performing transactional activities.

Human Resource Management Department - Management Report (2004b) quotes an HR BPO expert stating that the main reason why organisations have implemented HR BPO is cost containment, as opposed to just cutting costs. In the same article Deepjot (2004), vice president of Human Resource Management (HRMS) at Oracle, is quoted as saying that organisations are outsourcing for the wrong reasons, such as reducing cost, while he argues that data control and

technological changes ~~~~~~~~~~~~~~~~~~~~~~~~~~ R BPO implementations. Ron Hansen, senior programme director at META Group ascribes the growth in HR BPO to Chief Executives who are receiving unsolicited HR BPO proposals and feel compelled to act on these.

Patel and Aran (2005) identify various drivers and inhibitors of BPO and trace the business imperative for BPO back to a paper: The Nature of the Firm, presented by Ronald H. Coase in 1937.

Stone (2005) quotes Gartner research indicating that improving service levels is one of the main reasons companies are outsourcing business processes.

Kruse and Berry (2004) mention that some organisations have outsourced to effect change that the organisation knows it cannot bring about by employing its own resources. The reasons that the organisation cannot effect this change themselves vary from not having sufficient skills or resources, to employing external BPO providers to mitigate internal resistance to change. Kimball (2003) however warns that without internal commitment and understanding, BPO will not achieve the desired outcomes.

Kruse and Berry (2004) indicate that some organisations outsource to reduce fixed costs and capitalisation. In addition they believe that many organisations outsourced in the past to mitigate the quandary of trying to keep up to date with the rapid changes in technology. Metty (2006) supports this argument and believes that this is one of the key benefits of outsourcing.

Ramachandran and V[...]almost impossible for any one organization to build competitiveness on all the value links" and that competitive pressures will drive organisations to use all available networks and delivery options to remain competitive in this ever changing environment.

2.4.3. HAS BPO LIVED UP TO ITS PROMISE?

Hatfield (2005) asks why more companies are not outsourcing. Debt Cubed (2005) refers to Gartner research that indicates that 80% of outsourcing agreements fail to reduce cost. Various authors offer advice on how to avoid the mistakes others have made; more sceptical authors view BPO as the 'next' management consultant buzz word for a slightly different form of outsourcing.

In a report by the Institute of Management & Administration (2005), they indicate that only 5% of the delegates were considering HR BPO, compared with 16% the previous year.

Lawler *et al* (2004) present various cases where HR BPO has delivered significant benefits.

Organisation	Number of employees contracted	Key benefits
BP	56 000	**Operating cost savings** **Improved HR strategic focus** **Capital expenditure avoidance** **HR service delivery efficiencies** **Improved employee satisfaction**
Bank of America	145 000	**Delivered on agreed cost savings** **Improved cost-to-serve ratios** **Process efficiencies** **Created capacity for HR to focus on the bank's core business**
International Paper	53 000 & 60 000 (retirees)	**Significant reduction in HR practitioners per employee – from 80 to 133 employees** **Significant cost savings - $ 24 million per year**
Prudential	31 000	**Cost reduction** **Flexibility** **Capacity for HR managers to play strategic roles**

Table 2 - Organisations where HR BPO has delivered

"Know thyself", which appeared above the entrance to the Oracle at Delphi, suggests that a vital precondition to successfully implementing BPO is to understand clearly the organisation's costs; the various inputs, dependencies and outputs and how their multiple relationships affect the overall operations of the organisation (Kimball, 2003). Stone (2005) agrees with Kimball and suggests that to effectively evaluate BPO opportunities, companies need to have a clear understanding of the current cost base; this will ensure that the relevant opportunities are identified. Gibson (2006) suggests that performance benchmarks need to be added to the list suggested by Kimball. Khanna and New (2005) take this further by suggesting that HR professionals adopt best practice before, during and after the initial HR BPO implementation. Metty (2006) advises that organisations first need to consider what benefits they want to derive from BPO before deciding what processes to outsource.

Ramachandran and Voleti (2004) call attention to the need for stout processes skills as it is only through successfully identifying the value elements of processes, that a BPO provider can construct a process that creates value for both the organisation and the BPO service provider. Linked to identifying the value elements, Rosenthal (2005) argues that Service Level Agreements (SLA's) need not only to be based on the potential cost saving, but should also include the value that can be delivered by the third party service provider.

Kimball (2003, p.13 [illegible] f any function, other than Information Technology (IT), there must be " strong internal consensus" for it to be described as a suitable delivery mechanism, since functions such as HR have a much greater impact on and affect more stakeholders. Human Resource Management Department - Management Report (2004) supports this and highlights that ongoing top management support is a critical success factor.

Kimball (2003) further indicates that the sourcing of experienced and capable advisers, for example lawyers and consultants, is essential for successful negotiations and forms the foundation of a successful, mutually beneficial partnership.

Wright, Snell and Jacobsen (2004) provide an approach that is intended to help HR professionals to progress to an HR strategy that is more business focused than it is HR focused. The first step in this process is to ensure that the HR strategy takes into consideration and is aligned to the wider organisation's strategy; by implication this requires a change in the knowledge and attitude of HR professionals. Christensen (2006) warns that not all HR professionals will have the ability or awareness to change from the traditional role they have always performed. It is clear that different skills and attitudes are required to implement and benefit from the outsourcing of HR processes.

Kimball (2003) states that a crucial element for the successful implementation of a BPO solution is the need to identify and mobilize the team, which will be required to analyse the processes and then implement the BPO solution, early.

Kimball (2003) suggests that two external providers and one internal solution need to compete for the delivery of the processes, as this will facilitate the negotiation of the best possible contract terms and service levels, both of which form the foundation of a successful implementation. Avagliano (2004) suggests that organisations visit and compare vendors, as experience is gained from each vendor. Kruse and Berry (2004) suggest that in addition to this, the bids should be compared to case studies and the evaluation process should include a benchmarked assessment of the current process efficiencies and costs.

Hogan (2004) states that one of the two most frequent reasons that BPO fails to deliver is that organisations do not fully understand what is needed to outsource successfully. It is therefore imperative to identify the critical success factors required to implement HR BPO in South Africa.

CHAPTER 3:   PROPOSITIONS

3.1. PROPOSITION 1 – MAJOR HR MANAGEMENT CHALLENGES

The four major challenges facing Human Resource management are:

- HR professionals are expected to become business partners who fulfil an expert functional role, whilst still ensuring that administrative functions are delivered in an efficient and cost effective manner.

- HR BPO could create the capacity for HR professionals to become strategic partners.

- The attraction and retention of talent is a significant challenge facing all organisations in South Africa and a focus area for HR.

- Organisations expect that HR activities directly contribute to the overall business strategy of the organisation.

3.2. PROPOSITION 2 – HR BPO PROCESSES

All HR processes that are transactional in nature can be outsourced.

3.3. PROPOSITION 3 – PRIMARY BENEFITS

The three primary benefits organisations would expect to realise from HR BPO are:

- Reduced HR operational costs

- Improved HR efficiency

- Create capacity for HR professional to become strategic partners

3.4. PROPOSITIONS AND CRITICAL SUCCESS FACTORS

The three critical success factors to successfully implementing HR BPO are:

- Detailed understanding of the organisation, the HR process and the underlying cost structures

- Performance benchmarks and access to best practice data to evaluate the potential HR BPO value propositions

- Strong internal consensus and ongoing top management support

CHAPTER 4:   RESEARCH METHODOLOGY

4.1. RESEARCH METHODOLOGY

The primary research method comprised semi-structured interviews and this information was supplemented with secondary inductive research as described by Welman and Kruger (2001).

4.2. POPULATION OF RELEVANCE

The population of relevance encompassed all South African organisations that currently outsource processes or have seriously considered outsourcing HR business processes. The second requirement was that the organisations had an HR strategy that included the following two dimensions of strategic human resource management (HRM) as defined by Anthony, Kacmar and Perrewé (2002):

- The HR department participates in the formulation of the organisation's overall strategic plan and is drawn into strategic decision making.
- The HR department is responsible for and coordinates all HR processes and functions, for all employee groups and types.

This population represented organisations where the HR function was recognised as a strategic contributor and not just as an enabling function. This

acknowledgment creat could objectively be
considered as an HR service delivery strategy for all HR processes and functions.

4.3. SAMPLING

Non-probability purposive sampling was used for the identification of a
representative population (Welman and Kruger 2001). The aim of the study was to
identify the potential HR BPO processes and the factors affecting HR departments
across various industries and organisations, and not to be an exhaustive study of
all organisations. The sampling was suitable given the research objectives, the
researchers' experience and the scope of the research. Punch (2000) indicates
that the sample needs to be a function of the research aim and practical
limitations.

To minimise the potential subjectivity in this method of sampling and to improve
the confidence with which the findings can be applied to the defined population,
various organisations and HR professionals, which represented diverse industries
and sectors, were approached.

4.4. DATA COLLECTION

Primarily data was collected during semi-structured interviews with 26 senior HR
managers and HR professionals (please see Appendix C for the list of
respondents). The interviews lasted between forty-five and ninety minutes and

included two parts. Firs [obscured by logo] nplete a process questionnaire, (please see appendix A for a copy of the questionnaire). The questionnaire was piloted with two senior HR managers to ensure the validity. Thereafter the interviewees were asked a series of open-ended questions designed to extract from respondents their interpretation of the internal and external influences on South African HR departments. What the primary benefits and disadvantages of outsourcing HR processes would be and generally the potential applicability of BPO for their organisations' HR processes. (Please see appendix B for a copy of the interview guide). The interviews were recorded to facilitate the analysis and comparison of the various contributions.

The following HR value chain was used to structure both the process questionnaires and the interview guides.

Planning and Policy

Source and Select | **Develop and Counsel** | **Reward and Retain** | **Redeploy and Retire**

Manage Information

Source: PriceWaterhouseCoopers (2001) Adapted from Society for Human Resources

Figure 2 : HR Value Chain

Czaja and Blair (2005) indicate that the quality of the responses from interviews carries a distinct advantage and that interviews allow for the gathering of more complex data, for example an individual's interpretation of internal and external

forces affecting HR de[...]dividuals experience their life-world" (Welman and Kruger, 2001, p.188). Gillham (2005) notes that the main benefits of semi-structured interviews are that they provide for a balance between structure and openness and facilitate controlled data analysis.

4.5. RELIABILITY AND VALIDITY

4.5.1. RELIABILITY

Reliability is defined as the degree to which a comparable approach to the research would produce similar results (Leedy and Ormrod, 2001). To ensure consistency all the interviews were conducted personally, all interviews followed the interview guide structure and all the interviews were recorded.

4.5.2. INTERNAL VALIDITY

Leedy and Ormrod (2001, p.103) describe internal validity as the degree to which the researcher is able to draw "accurate conclusions" from the information obtained from the respondents. To limit the influence of the researcher's biases and improve internal validity; respondents were requested to complete the process questionnaire without any information from the researcher, and the interview guide was used to structure all interviews.

External validity relates to the degree to which the conclusions in the research could be extrapolated to other organisations (Leedy and Ormrod, 2001). Due to the size and nature of the sample, the findings have limited external validity. General findings and conclusions are however possible as the sample represented various sectors and industries that represented organisations of different sizes.

4.6. DATA ANALYSIS

The analytic technique used was the constant comparative method and the level of analysis was category construction as described by Merriam (1998). The constant comparative technique suggests that each interview is compared with the preceding interview to identify recurring themes, comments or observations. These themes or groupings of words that have something in common were then used to develop provisional categories of data, which formed the basis for analysing each recorded interview. The benefits of this approach was that it allowed for the simultaneous recording of data and the refinement of the units of data or categories that attempted to provide answers to the research problems.

The categories need to be "abstractions derived from the data, not the data themselves" Merriam (1998, p.181) and the number of categories need to be limited to ensure the correct level of construct development, as this will facilitate the effective communication of the findings.

After the categories we[...]iews were analysed a final time. This analysis was then used to interpret the data and to link the theoretical elements in a meaningful way.

4.7. RESEARCH LIMITATIONS

The results of the research cannot be extrapolated to all HR departments and functions as the population is limited to "experimentally accessible population" Welman and Kruger (2001, p.119).

The sampling method does not support an evaluation of how representative the sample is of the population, as different researchers may identify a dissimilar representative sample (Welman and Kruger 2001).

CHAPTER 5:   PRESENTATION OF RESULTS

5.1. INTRODUCTION

This chapter presents the results of the qualitative research conducted. This chapter does not aim to interpret or comment on the results and does not represent the views or opinions of the researcher.

5.2. MAJOR HR MANAGEMENT CHALLENGES

Respondents were asked to identify both the internal forces and external factors that affected their HR departments. The results will firstly be presented by the main HR value elements and thereafter a summary of all the challenges collectively will be presented, to indicate the relative position of the various challenges faced by HR departments. This section will conclude with a representation of the respondent's views relating to the strategic role HR plays in their organisations and the challenges associated with their perceived position in the organisation.

The principal challenges identified in relation to recruitment are listed in the table below.

Challenge	Frequency of occurrence	% of occurrence
War for talent	25	96%
Skills shortage	21	81%
Employment equity	15	58%
Long recruitment turn around times	14	54%

Table 3 - Recruitment Challenges

The key points highlighted during the interviews were as follows:

- All but one respondent, indicated that they had significant challenges sourcing and attracting the right skills.

- There is definitely a general shortage of skills.

- There is a definite shortage of employment equity candidates with the required skills.

- The pressure to comply with employment equity legislation has significantly contributed to the skills shortage.

- The shortage of skills and the war for talent have put significant pressures on remuneration packages, which some argued were unsustainable in the long run.

- The regulatory e [...] s contributed to the lengthening of the recruitment cycles.

- The labour laws contributed to the lengthening of the recruitment cycles, given the challenges of terminating an employee's services when the incorrect placement was made.

- The internal pressure and trade union pressure to promote from within has limited the pool of applicants that are considered for vacancies.

- HR departments do not have useful instruments to measure the effectiveness of the various elements within the recruitment function.

5.2.2. DEVELOP AND COUNSEL

The principal challenges in relation to training and development are listed in the table below.

Challenge	Frequency of occurrence	% of occurrence
Linking training to tangible benefits	17	65%
Ensuring legislative compliance in relation to the Skills Development Act and National Qualification Framework and ensuring that training initiatives add value to the organisation	4	15%
Defining and objectively measuring competencies	4	15%
Implement effective management and leadership development programmes	3	12%

Table 4 - Training and Development Challenges

The key points highlighted during the interviews were as follows:

- The challenge of brokering time for employees to attend training initiatives was consistently mentioned.

- The cost of training, given the significant pressures on all resources, was highlighted as a principle criticism that line managers would hold against HR departments.

- HR departments ~~~~~~~~~ on investment for the resources used to deliver training.

- HR departments do not have effective methods or tools to measure the impact of training, specifically in relation to productivity or behaviour changes.

- The legislative and administrative burden has progressively increased, to the point were resources need to be directed away from actual training delivery to administrative functions to ensure legislative compliance.

5.2.3. REWARD AND RETAIN

The principal challenges in relation to rewarding and retaining employees are listed in the table below.

Challenge	Frequency of occurrence	% of occurrence
Creating a culture and climate that encourages employee retention	14	54%
Retaining employees	12	46%
Effective change management	5	19%
Creating and maintaining an emotional contract with employees	2	8%

Table 5 - Reward and Retain Challenges

The key points highlighted are as follows:

- The identification of effective retention strategies is a challenge.

- One size fits all retention strategies are not effective, given the unique drivers for various categories of employees.

- Overall cost of employment has significantly increased due to the skills shortage and war for talent.

- It is important to ensure that employees understand the employer's entire value proposition and not only make comparisons on salary values.

- Linking more of total remuneration to performance has been met with resistance.

- The substantial levels of change organisations have experienced and continue to experience, creates uncertainty and has adverse effects on retention efforts.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Relative position of key themes
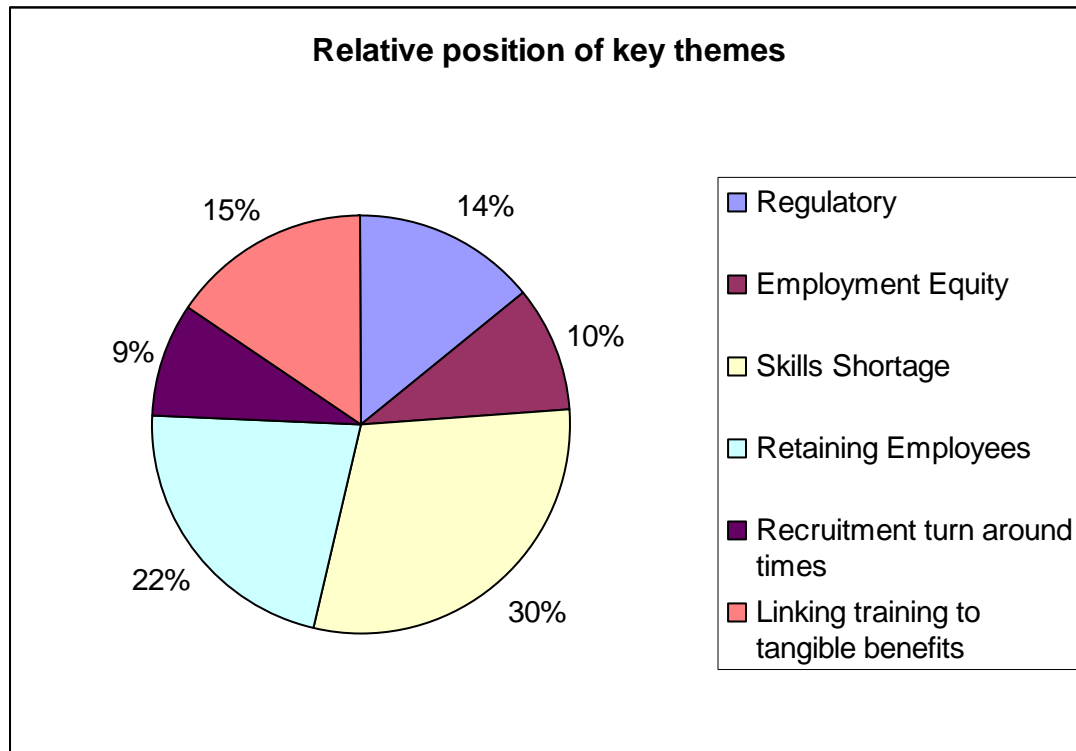
Figure 3: Relative Position of Key Themes

The key points in relation to the relative position of the challenges were:

- The challenges covering the recruitment function accounted for 61% of all the challenges and themes identified.

- The single biggest challenge identified was the skills shortage.

- Linked to the skills shortage and war for talent, the second highest challenge identified was the challenge to create and maintain a culture that ensured employee retention.

- The highest non recruitment related challenge identified, was linking training to tangible benefits, given the significant costs and the time, away from work, required to attend training initiatives. Linked to this challenge was ensuring that

training was not un[...]ning or to ensure that the correct number of employees were trained.

- The second highest non recruitment related challenge identified, was the additional pressure and challenge to keep up with all the regulatory requirements that have been introduced, specifically the Skills Development Act.

5.2.5. STRATEGIC CONTRIBUTOR

The principal challenges in relation to HR's strategic role in organisations are listed in the table below.

Challenge	Frequency of occurrence	% of occurrence
HR is not seen as a value adding function, it is too transactional and administratively focused	16	62%
HR needs to clearly contribute and demonstrate how it contributes, to the achievement of the overall business strategy	15	58%
HR needs to play a business partner / trusted advisor role	10	38%
HR needs to ensure that the HR strategy is aligned to and enables the overall business strategy	7	27%
HR needs to reduce the cost of HR service delivery, whilst improving service delivery	7	27%
HR resources lack overall business acumen	3	12%

Table 6 - HR Strategic Role Challenges

The key points highligh̶ ̶ ̶ ̶ollows:

- HR is still primarily viewed as an administrative function; the one exception relates to industrial relations services.

- HR is not often a primary consideration in the strategic planning process.

- HR is still considered more of an enabler of the overall business strategy than an active participant in defining the strategy.

- A significant challenge for HR is to illustrate how it contributes to the overall business success in a tangible way.

- Overall, very little of the HR function's contribution is measured in a structured, methodical way.

- HR is expected to play a more strategic, business partnering role even though the rest of the business still views them primarily as administrators and expects HR to perform administrative task for them.

- HR's role and position within the organisation is improving; HR is consulted more often and trusted more.

5.3.1. INTRODUCTION

As part of the 26 in-depth interviews respondents were asked to complete a process questionnaire, (please see appendix A for a copy of the questionnaire) and 23 agreed to complete the questionnaire. Respondents were asked to rate the appropriateness of HR BPO as a delivery mechanism for processes, by the process groups as depicted in the HR value chain. The following is a representation of the key findings:

Legend
Rating
Very Appropriate - **1**
Appropriate - **2**
Neutral - **3**
Inappropriate - **4**
Entirely Inappropriate - **5**
Process Groups
Planning and Policy - **A**
Source and Select - **B**
Develop and Counsel - **C**
Reward and Retain - **D**
Redeploy and Retire - **E**
Manage Information - **F**

Average response by group:	
Planning and Policy - A	3.1498
Source and Select - B	2.9441
Develop and Counsel - C	2.78261
Reward and Retain - D	2.1594
Redeploy and Retire - E	2.71014
Manage Information - F	2.71498

Table 7 - Averages by Group

Average by question within most appropriate group (D)	Question	Average
To what extent would BPO be an appropriate delivery mechanism to perform formal job evaluations and job descriptions?	33	2.26087
To what extent would BPO be an appropriate delivery mechanism to perform all payroll and benefit administration?	34	1.78261
To what extent would BPO be an appropriate delivery mechanism to perform all payroll processing and third party payments?	35	1.6522
To what extent would BPO be an appropriate delivery mechanism to generate all statutory and regulatory reporting requirements, including IRP 5 and employment equity income differential reporting?	36	1.6522
To what extent would BPO be an appropriate delivery mechanism to administer and manage all time and attendance records and processes?	37	2.3913
To what extent would BPO be an appropriate delivery mechanism to develop and implement an employee retention strategy?	38	3.2174

Table 8 - Average of the Reward and Retain Questions

Average by question within the least appropriate group (A)	Question	Average
To what extent would BPO be an appropriate delivery mechanism to plan, implement and review organisational and cultural change programs?	1	3.304347826
To what extent would BPO be an appropriate delivery mechanism for organisation design studies and projects?	2	2.826086957
To what extent would BPO be an appropriate delivery mechanism for remuneration / compensation management services?	3	2.304347826
To what extent would BPO be an appropriate delivery mechanism to develop standard policies and procedures?	4	3
To what extent would BPO be an appropriate delivery mechanism to communicate standard policies and procedures?	5	3.391304348
To what extent would BPO be an appropriate delivery mechanism to monitor, forecast and control workforce costs?	6	2.782608696
To what extent would BPO be an appropriate delivery mechanism to manage the ongoing relations with trade unions and other employee representatives?	7	3.869565217
To what extent would BPO be an appropriate delivery mechanism to identify employees with development potential?	8	3.52173913
To what extent would BPO be an appropriate delivery mechanism to support the professional and personal development of employees?	9	3.347826087

Table 9 - Average of the Planning and Policy Questions

5.3.3. INDIVIDUAL PROCESS AVERAGES

The single process with the highest average related to the appropriateness of HR

BPO to the administration and payment processing for retirees.

5.3.4. STANDARD DEVIATION

Standard Deviation of Data Set:		1.28394
Standard Deviation by Group:	A	1.28916
	B	1.3613
	C	1.23373
	D	1.2097
	E	1.27413
	F	1.20715

Table 10 - Standard Deviation by Group

5.3.5. RANKINGS

Group	Question #		Average
E	44	To what extent would BPO be an appropriate delivery mechanism to provide administrative and payment processes for retirees?	1.5217391
D	35	To what extent would BPO be an appropriate delivery mechanism to perform all payroll processing and third party payments?	1.6521739
D	36	To what extent would BPO be an appropriate delivery mechanism to generate all statutory and regulatory reporting requirements, including IRP 5 and employment equity income differential reporting?	1.6521739
B	11	To what extent would BPO be an appropriate delivery mechanism to capture the initial data of all applicants, including the generation of standard applicant correspondence?	1.7391304
D	34	To what extent would BPO be an appropriate delivery mechanism to perform all payroll and benefit administration?	1.7826087
C	28	To what extent would BPO be an appropriate delivery mechanism to collect and collate all post training assessments?	1.8695652
C	29	To what extent would BPO be an appropriate delivery mechanism to measure the effectiveness of training interventions?	2.0434783

Table 11 - Top Seven Most Appropriate HR BPO Processes

Group	Question #		Average
C	20	To what extent would BPO be an appropriate delivery mechanism to administer career develop - and succession plans?	3.6956522
C	32	To what extent would BPO be an appropriate delivery mechanism to record and manage the organisations disciplinary processes?	3.6956522
A	7	To what extent would BPO be an appropriate delivery mechanism to manage the ongoing relations with trade unions and other employee representatives	3.8695652
E	39	To what extent would BPO be an appropriate delivery mechanism to develop job rotation programmes?	3.9130435
C	19	To what extent would BPO be an appropriate delivery mechanism to develop career develop - and succession plans?	4
B	15	To what extent would BPO be an appropriate delivery mechanism to identify appropriate internal candidates for vacancies based on personal career development plans and / or succession plans?	4.0434783
B	14	To what extent would BPO be an appropriate delivery mechanism to perform the final interviews?	4.5217391

Table 12 - Seven Least Appropriate HR BPO Processes

5.3.6.   CORRELATIONS

	No correlation
	High correlation
	Extremely high correlation

		A_AVG	B_AVG	C_AVG	D_AVG	E_AVG	F_AVG
A_AVG	Correlation Coefficient		23%	37%	27%	18%	9%
	Sig. (2-tailed)		29.05%	8.20%	21.56%	40.88%	68.60%
B_AVG	Correlation Coefficient	23%		51%	45%	28%	49%
	Sig. (2-tailed)	29.05%		1.30%	3.19%	19.49%	1.64%
C_AVG	Correlation Coefficient	37%	51%		68%	48%	49%
	Sig. (2-tailed)	8.20%	1.30%		0.04%	2.05%	1.67%
D_AVG	Correlation Coefficient	27%	45%	68%		54%	59%
	Sig. (2-tailed)	21.56%	3.19%	0.04%		0.83%	0.29%
E_AVG	Correlation Coefficient	18%	28%	48%	54%		52%
	Sig. (2-tailed)	40.88%	19.49%	2.05%	0.83%		1.03%
F_AVG	Correlation Coefficient	9%	49%	49%	59%	52%	
	Sig. (2-tailed)	68.60%	1.64%	1.67%	0.29%	1.03%	

Table 13 - Spearman's Rho Correlations

5.3.7.   QUESTION SIGNIFICANCE

Question Group D - Significant Drivers						
	R	R Square				
	87%	76%				
	Predictors: (Constant) C24, E41, F51					
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	0.26494364	26%		1.032615	31%
	C24	0.28899367	6%	0.5542753	4.925194	0%
	E41	0.2395023	7%	0.4244814	3.526063	0%
	F51	0.19445154	8%	0.2971514	2.476222	2%

Table 14 - Reward and Retain Significant Drivers

The primary benefits that respondents expected from a HR BPO are listed in the table below.

Expected Benefits	Frequency of occurrence	% of occurrence
Reduced HR service delivery costs	17	65%
HR BPO will create the capacity for HR to play a more strategic, partnering role	14	54%
Improved customer service to HR's customers	13	50%
Improved HR operational efficiency	10	38%
More effective HR service delivery	8	31%
Improved HR service quality and quality of data	7	27%
Access to specialist skills and expertise	5	19%
HR BPO will drive and improve standardisation	2	8%
Access to improved HR technology	2	8%

Table 15 - HR BPO Expected Benefits

The respondents identi[fied the following disadvan]tages of implementing

HR BPO.

Primary Disadvantages	Frequency of occurrence	% of occurrence
Losing touch with employees and the negative impact on the emotional contract between employee and employer	19	73%
Losing control over HR function	14	54%
Lose of flexibility	6	23%
Divulging confidential data	5	19%
Lose of context and rich information that cannot just be gleaned from data	3	12%
Additional management burden to manage BPO service provider and service level agreements	3	12%
Initial implementation and transferral costs	2	8%

Table 16 - HR BPO Disadvantages

5.5. CRITICAL SUCCESS FACTORS

The critical factors that respondents identified to successfully outsource an entire

HR process are ranked in order of importance in the table below.

Critical Success Factors	Frequency of occurrence	% of occurrence
Clearly defined service level agreements	19	73%
The organisation needs to be clear on what the desired outcome of a process is, what data needs to be in place and how it will be measured	17	65%
Clear understanding of which processes are core to both HR and the organisation	10	38%
The entire organisation and specifically the HR department needs to be committed and motivated to the BPO implementation	9	35%
The potential BPO provider needs to understand the organisation's industry	7	27%
Good account management for both parties, to ensure effective issue resolution.	6	23%
The spirit and letter of the agreement needs to ensure a true partnership	6	23%

The BPO provider needs to have demonstrated the right level of experience and expertise	5	19%
There needs to be cultural fit between the BPO provider and the organisation	5	19%
There needs to be a clearly defined financial business case that includes baseline performance values	3	12%
A clear and very well structured contract that will ensure that both the services and the relationship are legally compliant in all aspects	3	12%
The organisation and processes need to be well developed and stable before transferring to a HR BPO service provider	3	12%
The relationship between the organisation and HR BPO provider needs to be based on trust and integrity	3	12%
Both parties need to benefit from the HR BPO arrangement	2	8%

Table 17 - Critical Success Factors

The key points highlighted as follows:

- Service Level Agreement's (SLA) form the basis of the relationship between the various parties, including HR's clients.

- The SLA's create the expectations and therefore are critical to successful implementation and adoption of the service delivery mechanism.

- Accurate reporting capabilities to measure the achievement of SLA's and identification of trends and issues; this needs to include confirming HR's client reporting requirements.

- Critical to the success of HR BPO is that the organisation understands which processes to outsource and which are core and must remain within the organisation.

- That the transformation and process standardisation needs to be completed before transferring to a HR BPO provider.

- Effective change management needs to ensure that the wider organisation understands the benefits and the HR BPO delivery mechanism.

- The current HR department must be involved and motivated to actively support HR BPO as a delivery method.

- The HR BPO service provider must have the appropriate skills and experience within the organisation's industry.

- The HR BPO services must represent and introduce HR best practice into the organisation

- The organisation needs to have the ability to change the HR BPO provider or bring the process back into the organisation.

CHAPTER 6:   DISCUSSION OF THE RESULTS

6.1. INTRODUCTION

This chapter discusses the results of the research that was conducted in conjunction with the literature review in an attempt to support and validate the research propositions.

6.2. MAJOR HR MANAGEMENT CHALLENGES

6.2.1.   INTRODUCTION

The research proposition stated that the four major challenges facing Human Resource management were as follows:

- HR professionals are expected to become business partners who fulfil an expert functional role, whilst still ensuring that administrative functions are delivered in an efficient and cost effective manner.
- HR BPO could create the capacity for HR professionals to become strategic partners.

- The attractio[n]... [signi]ficant challenge facing all organisations in South Africa and a focus area for HR.

- Organisations expect that HR activities directly contribute to the overall business strategy of the organisation.

The interpretation of the findings will be structured by the main HR process groups and the key themes identified, for example strategic contributor.

6.2.2. SOURCE AND SELECT

This represented, by a very significant margin, the most important challenge identified by the respondents. The single biggest reason for this was the shortage of skills. This shortage of skills has to some degree created a war for talent, and even a government organisation has drawn attention to this; General Veldtman highlighted this during the interview as one of the South African National Defence Force's biggest HR challenges. This war for talent has lead to various retention strategies and approaches. It is clear that the traditional approaches to retention are less effective in the current labour market. Most respondents mentioned various approaches and indicated varying degrees of success, clearly indicating that organisations are trying to adapt and are desperate for any alternative to improve retention.

An important point noted by respondents was that the various industry charters, like the Financial Services Charter and legislation like the Employment Equity Act, to some degree fuel the war for talent. All organisations are under pressure to

meet these targets whi [UNIVERSITEIT VAN PRETORIA / UNIVERSITY OF PRETORIA / YUNIBESITHI YA PRETORIA] tinues to demand a more diverse pool of suitably qualified individuals.

The most important point in relation to HR BPO is that any process that could adversely affect the retention of employees or slow down the recruitment process should not be considered. This highlights the need of any HR BPO solution to fully appreciate and consider the potential impact on the employee / employer relationship.

6.2.3. DEVELOP AND COUNSEL

In develop and counsel the most significant challenge identified was the ability to link training initiative to tangible benefits or outcomes. This to a large degree is attributable to HR's focus on the administrative and legislative side of training. The National Qualifications Framework (NQF) and the Skills Development Act require organisations to invest considerable resources in administration and reporting of training initiatives. This has resulted in many line managers believing that training is often done for the sake of training and that it is not needs based. This has led to cynical views that development initiatives are undertaken to ensure that the work place skills plans, paint the right picture.

A consequence of the war for talent is that almost all respondents indicated that they invested significant resources in training and development, which to some degree explains the focus it received from most respondents. It also reinforced the

view expressed by ma~~...~~re was too much training and that training was done for the sake of training.

All the resources and attention are focused on developing the skills that are required and little time or resources are available to assess the effectiveness of the training that is provided.

The key points relative to HR BPO are that organisations need to put in place appropriate measures in relation to training and development. These measures will provide crucial information with regard to the effectiveness of training interventions. More importantly, these measures will provide the information that is required to identify the baseline SLA and which processes can be outsourced. The administration, development and production of the various legislative compliance processes and reports represent a significant opportunity for HR BPO. A clear opportunity also exists for HR BPO providers to develop industry value propositions that are aligned to the State Education and Training Authority (SETA). If the HR BPO value propositions are aligned to the SETA's, economies of scales could be achieved more rapidly and the start-up cost could be significantly reduced. The various SETA's have different reporting standards and reporting requirements. In addition the SETA's have varying levels of maturity with regard to the definition of unit standards and outcomes. It would be very difficult to develop one overarching BPO value proposition for all the SETA's but there is certainly an opportunity to develop an HR BPO value proposition per SETA.

The key theme highlighted by most respondents related to the challenge organisations were faced with in terms of creating and sustaining a culture that actively contributed to the retention of employees. Linked to this was the need to develop and communicate unique and appealing employee value propositions. Respondents believed that a significant group of employees did not fully understand the organisation's value proposition and were making comparison on a selective set of factors.

The underlying challenge was to effectively and clearly communicate to employees, and by its very nature this does not lend itself to a third party performing this function.

6.2.5.   RELATIVE POSITION OF KEY THEMES

This section highlighted the domination of the most prevalent recurring theme, that recruiting and retaining employees was a challenge all organisations encountered. The second main theme, the challenges associated with ensuring that the organisations comply with the ever-increasing legislative reporting requirements, dominates the remainder of the themes.

This reinforces the potential for HR BPO to provide a cost effective and efficient mechanism to administrate and manage the legislative and compliance reporting.

The challenges most often mentioned related more to operational issues than they did to the strategic question of how HR becomes a strategic partner.

In source & select and reward & retain the attraction and retention of employees was by far the most significant challenge identified; this was also the most significant challenge identified overall. The fact that more than half the respondents believed that recruitment turn around times were a significant challenge; emphasised that the focus in recruitment is still very much of an operational nature.

HR professionals felt under pressure to both perform the growing administrative and legislative requirements, whilst trying to play a more strategic, partnering role.

It is obvious that for HR to start playing a more strategic role, they need the capacity to do so. Just as obvious is that no organisation can afford to simply increase the number of HR professionals. The challenge is to find a way to create the required capacity without increasing the cost. Various respondents alluded to how they have employed technology to reduce the administrative load. Employee and manager self service have successfully been employed to reduce the administrative burden. Unfortunately the regulatory administration and reporting has mostly replaced the administrative work that these technologies have taken away. The net effect is that now HR only has more time to perform other administrative functions and it has not created additional capacity.

Respondents and thy highlighted that HR employees will not be respected as business partners if the administrative, transactional work is not performed effectively.

A key theme was that HR is still seen as an administrative, transactional function. It is clear from the data that a primary reason for this view is HR's inability to show how it contributes to the achievement of the overall business strategy. This has led to what could be described as a crisis of credibility. Because HR does not have the measures and tools to show the impact it makes on the achievement of the overall business strategy, the rest of the business assumes that HR only makes an enabling contribution. Due to this perception HR is then at worst not consulted or at best not really taken seriously in strategic planning sessions. This however was not true for all organisations; there was a small group of organisations where the HR function played a significant role in strategic planning and achieving the overall business objectives.

The importance in relation to HR BPO is that in all the organisations where HR was taken seriously, two important conditions existed:

1. The transactional / administrative function was benchmarked against best in class. The HR department could prove it was as committed to delivery excellence.

2. The leadership team viewed employees as a source of competitive advantage.

Importantly most respo ▨ ring an increasingly more active role in strategic planning and that HR is being consulted more now than ever before.

6.2.7. CONCLUSION

The findings clearly indicate that this proposition is supported.

6.3. HR BPO PROCESSES

6.3.1. INTRODUCTION

The research proposition stated that all HR processes that are transactional in nature can be outsourced.

The interpretation will be structured by the key heading identified in the process questionnaire statistical analysis.

6.3.2. AVERAGES

The data clearly indicates that transactional and administrative HR processes similar to payroll administration and payroll processing, lend themselves most to being provided by a BPO service provider. HR BPO was deemed least appropriate for HR planning and policy process group; this group basically represents the

strategic planning func [UNIVERSITEIT VAN PRETORIA / UNIVERSITY OF PRETORIA / YUNIBESITHI YA PRETORIA] ppropriate processes in this group were remuneration and compensation management services, reinforcing the view that most of the payroll function could be delivered by an HR BPO provider.

In all the process groups HR BPO was considered an inappropriate mechanism to develop or implement the strategy for that group. Firstly this highlights the fact that HR BPO should not be considered for the development and implementation of any strategic elements. Secondly HR BPO should not even be considered for the strategic elements of those process groups that by their nature lend themselves to HR BPO, for example payroll. Even in the most appropriate grouping, reward and retain, the most inappropriate process was the development and implementation of strategy.

6.3.3.   INDIVIDUAL PROCESS AVERAGES

The fact that the individual process that was viewed as most appropriate for HR BPO was the payment and administration of retirees, reinforces the central themes:

- Transactional processes in relation to payroll administration and processing are well suited to HR BPO.
- Processes that affect the employee and employer relationship are not well suited to HR BPO, hence the zeal in relation to retirees, who will generally not be viewed as employees and will no longer be considered core to HR or the organisation.

6.3.4. STANDARD DEVIATIONS

The standard deviation for the entire data set was relatively low, indicating that respondents held similar opinions. Importantly, the respondents held the most similar opinions in relation to group D - Reward and Retain. It is important to note that this group was ranked the most appropriate to be delivered by HR BPO. Crucially, most respondents agreed on this by a significant margin, and the standard deviation of this group was significantly lower than the average for the entire data set.

This clearly indicates that most respondents agreed that payroll and payroll related services were best suited to HR BPO.

6.3.5. RANKINGS

Of the top seven most appropriate processes identified, the first six relate to transactional administrative functions. It is clear form the ranking that all processes that are high volume transactional in nature should be considered as HR BPO candidates. In addition the ranking indicates that for work that requires little or no interpretation, for example the capturing of basic applicant data, HR BPO should be considered as a delivery mechanism. The more interpretation required, the less appropriate HR BPO becomes.

The two process least suited to HR BPO relate to decisions that are taken on an applicant's applicability. Of the seven processes least suited to HR BPO, five

related to judgement of for a current or future role. This supports the view that the more interpretation required, the less applicable HR BPO becomes. Importantly this also highlights that not all HR processes necessarily have precise measures and outputs. Respondents ranked the recruitment process group least appropriate after planning and policy. Recruitment has various administrative processes, but was still considered inappropriate for HR BPO. This speaks to the emotive, individual element of HR and clearly indicates that this cannot be outsourced.

6.3.6.   CORRELATIONS

The correlation coefficient looks at the relationship between groups of questions and significance of the results being related. Noteworthy is the very strong correlation between Develop and Counsel (C) and Reward and Retain (D). This indicates that respondents who believed that HR BPO was an appropriate delivery mechanism for the transactional elements of payroll (group D), also believed that HR BPO was an appropriate delivery mechanism for the transactional elements of training administration (group C). Importantly the 68% correlation between the two groups is over 99% statistically significant.

The trend indicates that respondents who believed that HR BPO was an appropriate delivery mechanism for the transactional elements of payroll (group D), also believed that HR BPO was an appropriate delivery mechanism for the

transactional elements and Policy (A) and

Source and Select (B).

6.3.7. QUESTION SIGNIFICANCE

This section indicates that if respondents believed HR BPO were an appropriate delivery mechanism for questions 24, 41 and 51 they would strongly indicate that HR BPO would be an appropriate delivery mechanism for the Reward and Retain (D) group. Questions 24, 41 and 51 all relate to specialised expert processes like the implementation of employee self service, manager self service and management of relocation services. This indicates that HR BPO is an appropriate delivery mechanism for specialised strategic services that are not traditionally services and competencies the HR function would have, for example the implementation and management of self service functionality. In addition this indicates that organisations that understand what services and products they need to source externally, in other words understand their own skills and competencies, have a higher propensity for HR BPO as a delivery mechanism. The R squared value, which basically indicates the statistical significance of this relationship, is quite high at 76%. This reinforces the view expressed in the literature review that HR functions need to know themselves.

6.3.8. CONCLUSION

This proposition is only partially supported.

The literature reviewed and research conducted has not confirmed that all processes that are transactional in nature can be outsourced. This proposition has therefore only been partially supported.

Both the respondents and the literature reviewed indicated that it was essential that the right processes were outsourced. There is consensus on the importance of identifying the correct processes. It is clear that transactional processes, which have limited impact on the employee / employer relationship, could potentially be outsourced, as they could be considered non-core for the HR function. There are fewer consensuses on an appropriate mechanism to distinguish core processes from non-core processes.

From the interviews it was clear that the more the organisation valued the HR function and the more the employees were viewed as a source of competitive advantage, the less appetite the organisation had for outsourcing HR processes.

This can graphically be
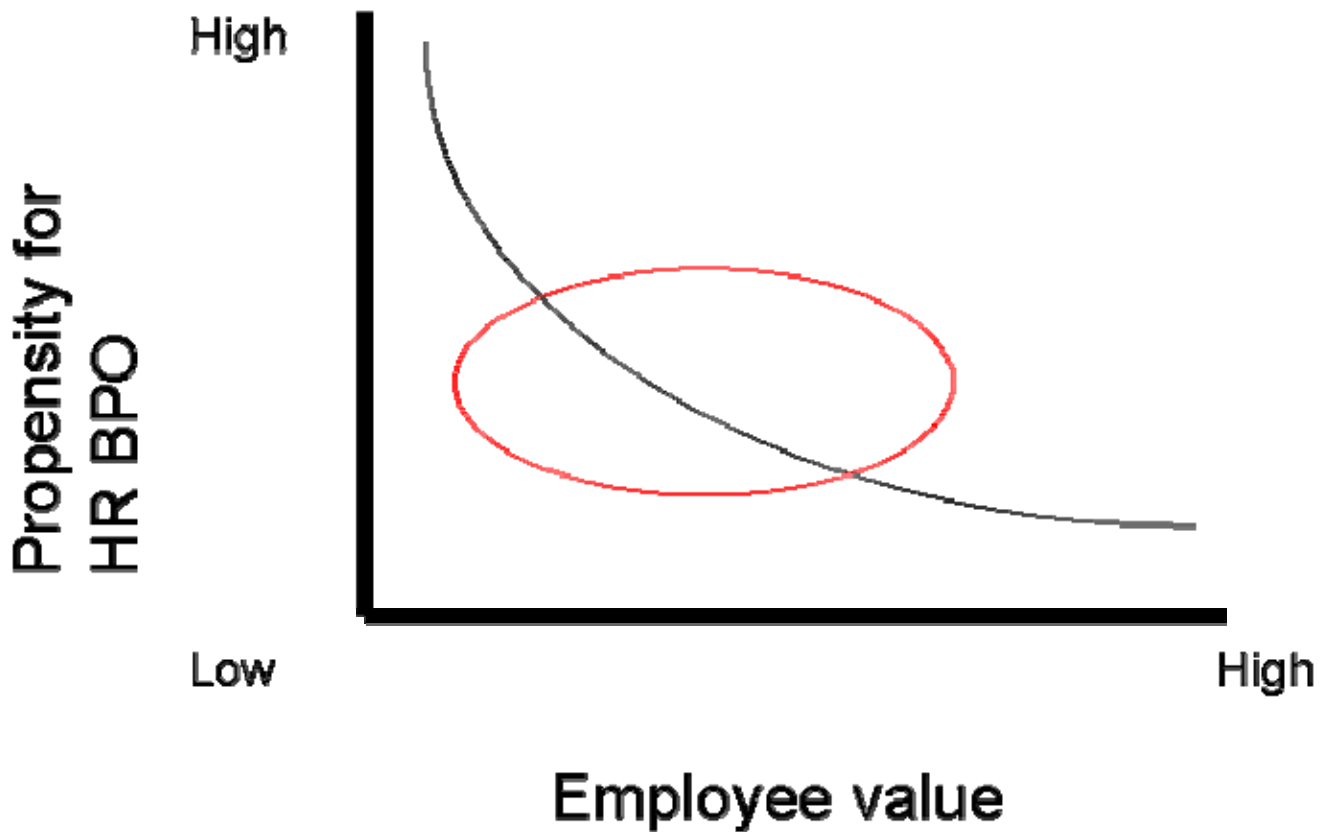
Figure 4: Propensity for HR BPO

Most of the organisations are represented by the red area. The most noticeable exceptions were organisations where all elements of the HR function were seen as core as they directly affected employees. One organisation requires line managers to write competency tests on HR policies and procedures, as line managers are expected to play a significant role in employee wellbeing, and employees are seen as the only source of competitive advantage. Based on this view and the importance they placed on the employee / employer relationship they believed very little HR processes could be outsourced. At the other extreme an organisation that employed mainly unskilled and semi-skilled employees believed that more

HR processes could be ment and line managers viewed HR as an administrative function.

On balance most organisations believed that the transactional high volume elements of the HR function could be outsourced, but not necessarily the communication and engagement with employees. Ricardo Rossa captured the essence of this when he said, "you can outsource the content, not the context" and "nothing in the trust boundary can be outsourced". This leads to a very important distinction between outsourcing other processes and outsourcing HR processes. Understanding which HR processes are core and which are non-core is not enough. The question to some degree moves away form defining what processes are core, to how does this process affect the way employees will relate to the organisation.

6.4. PRIMARY BENEFITS

6.4.1. INTRODUCTION

The research proposition stated that the three primary benefits organisations would expect to realise from HR BPO are:

- reduced HR operational costs;
- improved HR efficiency; and
- capacity for HR professional to become strategic partners.

To successfully identify ~~~~~~~~~~~s would expect to receive from an HR BPO the benefits need to be balanced against the potential disadvantages of HR BPO, which provide an insight into why BPO has not always lived up to its promise.

6.4.2. BENEFITS ORGANISATIONS WOULD EXPECT FROM HR BPO

The three benefits that were ranked highest by the respondents were:

- cost reduction;

- the ability of HR BPO to create the capacity for HR to perform a more strategic partnering role; and

- improved customer service.

The first two benefits highlighted by the literature review were:

- cost reduction and

- capacity for HR to focus on core value adding activities.

What is clear from the respondents and the literature review is that these benefits will only be realised when the correct processes have been outsourced. The main disadvantage will provide the background to understanding where benefits could potentially not be realised.

The most frequently mentioned disadvantage was losing touch with the organisation's employees. This disadvantage was mentioned more than the highest ranking benefit. The literature reviewed indicates that HR professionals are less likely to outsource HR processes than they were in the past, often due to the potential negative impact HR BPO could have on the employee / employer relationship.

An important point raised by the literature reviewed was that HR functions need to really know themselves. This requires that HR functions understand the value elements of the process and are able to document the delivery of these. This is essential for benefits tracking. In relation to this, most respondents indicated that they had none or very little baseline values that measured the effectiveness of HR processes. The lack of understanding and lack of appropriate tools to measure the effectiveness of processes will seriously hamper the measurement and realisation of benefits.

6.4.4. CONCLUSION

The findings clearly indicate that this proposition is supported.

6.5. CRITICAL SUC

6.5.1. INTRODUCTION

The research proposition stated that the three critical success factors to successfully implementing HR BPO were as follows:

- Detailed understanding of the organisation, the HR process and the underlying cost structures

- Performance benchmarks and access to best practice data to evaluate the potential HR BPO value propositions

- Strong internal consensus and ongoing top management support

The four critical success factors that respondents ranked the most important to successfully implementing HR BPO were:

1. clearly defined Service Level Agreements (SLA);

2. the organisation needs to be clear on what the desired outcome of a process is, what data needs to be in place and how it will be measured;

3. clear understanding of which processes are core to both HR and the organisation; and

4. the entire organisational and specifically the HR department needs to be committed and motivated to the BPO implementation.

The findings will be pre[...] : emerged from the interviews and the literature review.

6.5.2. BUSINESS PROCESSES AND SERVICE LEVEL AGREEMENTS

The first factor identified by the respondents, clearly defined service levels, relates to the second factor identified in the literature review. The performance benchmarks represent the values that will be used in tracking the service levels.

The first factor identified in the literature review relates to the factor ranked second highest by the respondents and describes the need for organisations to be precise in their understanding of the value elements of each process. This implies that organisations need to really understand what the data inputs and expected outputs for each step in the process are. Once organisations understand the value elements and their relationships they will have the ability to identify appropriate SLA and more importantly, will understand what data and interaction is required to ensure that the process is aptly performed. This identifies the important principle that the organisation needs to have well defined, effective processes before they consider outsourcing them. Bertie Loods, director consulting at Deloitte's, described it perfectly during the interview when he used the catch phrase "your mess for less" to describe organisations that expected to realise benefits by outsourcing their problems and inefficient processes. Therefore one can deduce that the successful implementation of HR BPO and measurement of SLA requires

that organisations com [UNIVERSITEIT VAN PRETORIA / UNIVERSITY OF PRETORIA / YUNIBESITHI YA PRETORIA] efore they consider

outsourcing a business process.

Both respondents and the literature review identify the need for effective measurement of the processes that are outsourced. To measure business processes effectively and objectively evaluate if the process is improving the following two inputs are required:

1. Appropriate measurement instruments, methods or tools
2. Baseline performance measures

It is clear from the interviews that a very limited number of organisations measure the effectiveness of HR processes and those that do measure HR processes, often rely on subjective observations or statements. It can therefore be deduced that a critical success factor should be added that reads that organisations need to have vigorous performance measures in place, before outsourcing a HR process. This will facilitate tracking the potential improvements and ensure that appropriate SLA are drawn up.

6.5.3. SPONSORSHIP AND OWNERSHIP OF HR BPO

Both the literature review and the respondents identified the need for executive sponsorship and internal buy in as critical success factors. The sponsorship relates to two important elements:

1. General support for the implementation and the change programmes around the implementation

2. Support for the new service delivery mechanism

It is clear that the second element is the key to successfully implementing HR BPO. The change brought about by HR BPO to the HR service delivery mechanism will be significant. HR BPO will change the nature and physical process of HR service delivery for all stakeholders. Importantly it will also change the way the organisation as a whole relates and procures HR services. Line managers need to be clear on the objectives, benefits and how the change will affect their day to day activities. This message needs to be a consistent one that ensures all in the organisation acknowledge the executive approval for implementing HR BPO.

The internal HR buy-in and motivation was high on most respondents list of critical success factors. This relates to the inherent change that HR BPO and other initiatives, like becoming business partners, will have on HR professionals. HR BPO will require that HR professionals move away from the transactional work they currently perform to either focusing on outsourcing management or playing a

more strategic role. It is [text obscured by logo] s will comfortably make

the transition. It is therefore critical that effective change management

programmes and initiatives are put in place to ensure that specifically HR

professionals are motivated and understand how their roles will change. This

needs to include clear guidance on the opportunities that exist for them within the

new service delivery methodology.

6.5.4.   CONCLUSION

The findings clearly indicate that this proposition is supported.

CHAPTER 7:   CONCLUSION AND RECOMMENDATIONS

7.1. MAJOR HR MANAGEMENT CHALLENGES

The research objectives were to firstly identify the principal factors affecting South African HR departments and secondly relate this to HR BPO. The research objectives have been met and the following represents the key points and the application thereof for HR BPO, including a suggested approach to HR transformation.

To ensure that HR continues to play a more strategic role, organisations need firstly to ensure that the transactional, administrative function is performed exceptionally well. This needs to drive the exploration of HR BPO as a delivery method. If the HR BPO solution cannot convince the rest of the organisation that HR can manage its own processes and deliver best in class performance, an alternative delivery mechanism should be sought.

A crucial point to note is that whilst the technology exists to electronically forward more and more administrative HR requests and functions to line managers, via manager self service, the line managers are increasingly indicating that they cannot be the vehicle to create capacity for HR, as they too have to focus on their core business.

Most respondents beli... ...re outsourced, this could be an appropriate mechanism to create capacity for HR and line managers. The literature and industry articles reviewed indicate that HR BPO service providers can cost-effectively perform these services. This therefore clearly indicates that HR BPO can and to some degree should be the mechanism to create capacity for HR professionals to become strategic partners.

This represents an important opportunity for HR BPO. A service provider that can develop a value proposition that cost-effectively reduces the administrative and legislative burden on HR professionals, could very well create the capacity desperately needed for HR to become business partners.

The key to the acceptance and adoption of a new delivery mechanism could be described as the bridge principle. HR BPO needs to be the bridge between HR and line managers. This bridge spans the divide between HR administration, and line managers desire not to become a proxy for HR. The bridge needs to facilitate value-adding interaction and communication between the two functions, where the administrative divide does not consume all the energy and interaction. HR professionals can now focus on bridging the strategic gap and not have to focus on administrative work. Line managers will respond positively to this as they can focus on their core business, get the best from the HR professionals and the BPO service provider can focus on the transactional work.

It is clear that HR professionals want to and are expected to play a more strategic partnering role. At the same time the administrative burden, specifically related to

new and continuously [ ] uirements, detracts even more from their becoming business partners. Any HR BPO solution or value proposition needs first to improve the service levels to employees and line managers. Secondly it needs to reduce the cost of delivery. This can then act as an appropriate platform from which to transform HR's contribution from that of administrator to strategic partner. The following adaptation of an IBM model graphically illustrates the new role, but importantly indicates that effective systems, delivery mechanisms like BPO and process re-design, needs to enable this transition.

HR as Business Partner — **New role**

10
Strategic support

Role Transformation

Strategic support
25

30
Customer service

Process Re-design

Customer service
55

60
Administration

Integrated Systems / BPO

Administration
20

Old paradigm   *New paradigm*

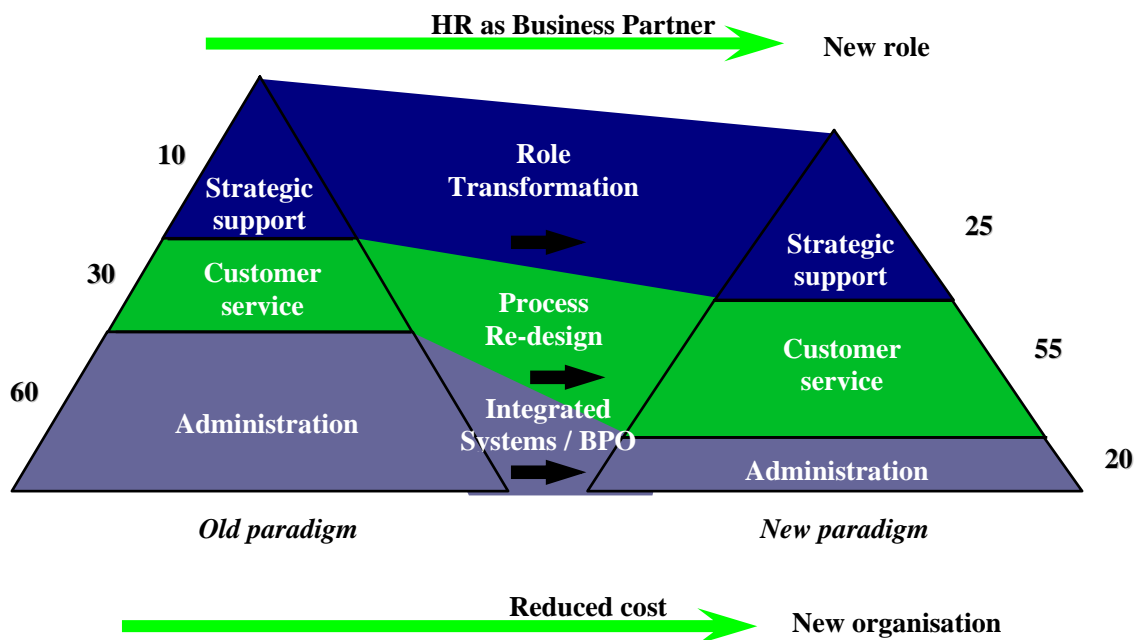**Reduced cost** — **New organisation**

Figure 5 : HR's Changing Role

7.2. HR BPO PROCESSES

The research objectives were to identify the HR processes and functions that could be delivered by a third party HR BPO provider. The research objectives have been met and the following represents the strategic differentiators between processes that should be considered for HR BPO, and those that should not be considered.

The average rating for all the process groups, except Planning and Policy (A) indicates that respondents believe that HR BPO is an appropriate delivery mechanism or at the least that it is a delivery method that should be explored. The high degree of correlation between the groups also supports this view.

The elements of processes that require limited interpretation are best suited to HR BPO. Therefore processes should be engineered to ensure the transactional elements can be combined and outsourced. The analytical elements can then be performed on the outcome of the data returned for the HR BPO provider or on the value-adding parts of the process. The most appropriate processes to outsource are payroll and payroll processing. Payroll related processes and services around payroll were clearly most appropriately rated. The payroll process group's standard deviation was lowest, illustrating that most respondents agreed.

The personal experience and understanding of the organisation's culture that HR needs to develop cannot be outsourced to a third party. Even if the competencies

and requirements are v____ ___ ____ ____ HR professionals still need to make a judgment call as to whether an applicant could be successful in the organisation. The emotive, cultural element of the HR function will limit the number of processes that could successfully be outsourced.

The development and implementation of HR strategic elements should not be outsourced to a third party, unless they are specialised expert strategic initiatives; for example, the implementation of employee self service and manager self service functionality, which do not adversely affect the employee / employer relationship. The important distinction is, how does this process touch the lives of employees in the interview Ricardo Rossa stated it aptly, "You cannot outsource high touch".

7.3. PRIMARY BENEFITS

The research objective was to identify the primary benefits that organisations could expect from HR BPO. The primary benefits have been identified, but more importantly a decision process has been developed to ensure that the right benefits are realised. This process takes into account the findings from the other research propositions and is a recommended structure to evaluate the appropriateness of HR BPO as a delivery mechanism for HR processes.

While it is clear that efficiency and operational effectiveness are benefits that organisations can expect from HR BPO, these benefits will only be realised if the

appropriate processes ... efits from outsourcing a process will largely be negated if a process is outsourced that adversely affects the relational context of the employment.

The course of action to identify appropriate processes and the associated delivery mechanism needs to start by answering how this will affect the employee's relationship with the employer; thereafter the impact on customer service of this process being outsourced, and only then should the transactional nature and other criteria be applied.

The following process can be used to evaluate non-core processes' BPO applicability:
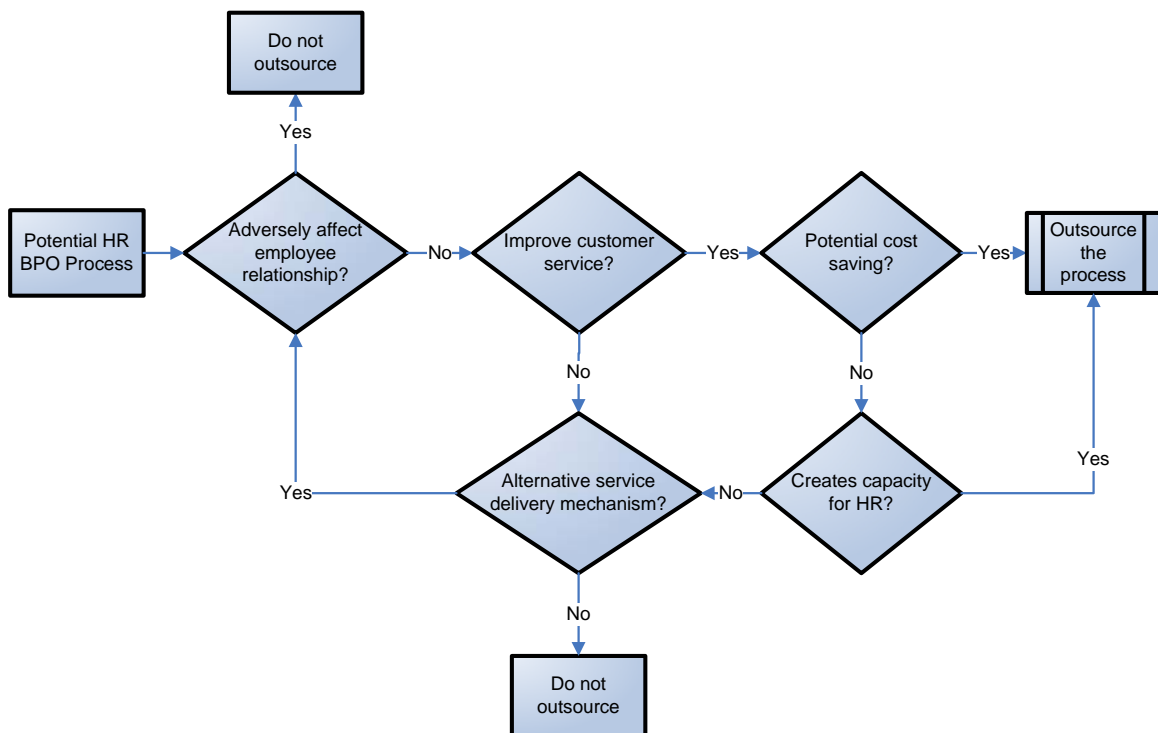
Figure 6: HR BPO Decision Process

This decision matrix co ndings to offer a model

that can be used to evaluate the appropriateness of HR BPO for processes and

simultaneously test the benefits case.

7.4. CRITICAL SUCCESS FACTORS

The research objective was to identify the significant critical success factor to

ensure that HR BPO is implemented successfully and the right benefits are

realised. The research objective was met and the key conditions and requirements

in relation to these critical success factors have been summarised in the table

below.

For each of the three ̲ ̲ ̲ ̲ ̲ ̲ following conditions need to be met to facilitate the successful implementation of HR BPO:

Critical Success Factor	Factor condition
Service Level Agreements	**Steps required:** 1. **Business Process Re-engineering needs to be completed.** 2. **Measurement instruments and measured need to be identified.** 3. **Baseline measurements documented to track progress.**
Identifying the right processes	**Two parts:** • **Identifying non core transactional processes only first step.** • **Must evaluate the role of the process in the employee / employer relationship.**
Change management	**Two levels of engagement:** • **Wider business on the benefits and line manager's role in new service delivery mechanism.** • **HR professional's potential roles and responsibilities aligned to new service deliver mechanism**

Table 18 - Success Factor Conditions

- More HR processes will be outsourced as the pressure increases on HR professionals to improve services and reduce service delivery costs.

- Early HR BPO adopters will bring processes back into the organisation, re-engineer, re-baseline and then re-negotiate BPO contracts before outsourcing again.

- The number of niche HR BPO service providers will grow, specifically those associated with compliance and the SETA's.

- Organisations will place more emphasis on employee relationship management.

7.6. FUTURE RESEARCH OPPORTUNITIES

- Research to quantify the .potential benefits of HR BPO for South African organisations.

- The development of a HR core / non core matrix / methodology to assist organisations to accurately identify what the core, value-adding processes or process elements are.

- The identification of effective methodologies and tools to measure HR process effectiveness.

REFERENCES

Aldisert, L.M. (2002) *Valuing People.* Chicago: Dearborn Trade Publishing.

Anthony, W.P., Kacmar, K.M. & Perrewé, P.L. (2002) *Human Resource Management: a Strategic Approach.* Orlando : Harcourt College Publishers.

Avagliano, T. (2004) What you should know about BPO. *Outsourcing Essentials,* Vol.2 No.1 Spring / 2004.

Bellinger, A. (2005) Outsourcing Needs a Training Element. *ITTraining.* 9547940. p. 12.

Boninelli, I. & Meyer, T.N.A. (eds.) (2004) *Building Human Capital.* Randburg : Knowres Publishers.

Christensen, R. (2006) *Roadmap to Strategic HR.* New York : Amacom.

Collis, D.J. & Montgomery, C.A. (2005) *Corporate Strategy.* New York : McGraw-Hill / Irwin.

Czaja, R. & Blair, J. (2005) *Designing Surveys.* California : Sage Publications, Inc.

Davies, R. *Globalisation: The Challenge facing South Africa.* South Africa.
Available from:
http://www.anc.org.za/ancdocs/pubs/umrabulo/articles/globalisation.html
(accessed 21/07/2006).

Debt Cubed. (2005) *Outsourcing: Are Customers Leaving and Costs Rising?*

De Koker, D. (2003) *Analysis and Forecast of Business Process Outsourcing Trends.* Johannesburg: Gordon Institute of Business Science: University of Pretoria.

Desai, Professor Lord M. (2000) *Globalisation: Neither Ideology nor Utopia.*
www.ise.ac.uk/collection/globalDimentions/research.

Gibson, S. (2005) BPO: The Next Frontier. *eWEEK.* 23(12). p. 54.

Gibson, S. (2006) BPO: The Next Frontier. *eWEEK.* Available from:
http://www.eweek.com/article2/0,1759,1937613,00.asp (accessed 17/07/2006).

Grobler, P., Warnich, S., Carrel, M.R., Elbert, N.F. & Hatfield, R.D. (2006) *Human
Resource Management in South Africa.* London : Thomson.

Gillham, B. (2005) *Research Interviewing, the Range of Techniques.* Berkshire :
Open University Press.

Hatfield, P. (2005) BPO: Career Maker or Breaker?. *TechDecisions.* December
2005. p. 28-29.

Hogan, J. (2004) Managing Strategic Outsourcing. *Medical Devise Technology.*
December 2004. p. 12-13.

HR Outsourcing – Borden Chemicals Finds That Yes, HR BPO works for Midsize
Companies. (2004a) *Human Resource Management Department - Management
Report.* Issue 04-02.

HR Total Outsourcing – Quick Fix or Fixture: What Does the Future Hold?.
(2004b) *Human Resource Management Department - Management Report.* Issue
04-05.

Independent Online, 2006 : *Teaching firms plan for long-term challenges.* South
Africa. Available from:
http://www.ioljobs.co.za/article_view.php?fArticleId=3202997 (accessed
22/05/2006).

Institute of Management & Administration. (2005) *What Role Will HRIS Be Playing This Year?* New York : Institute of Management & Administration, Inc. January 2005.

Khanna, S. & New, R.J. (2005). An HR Planning Model for Outsourcing. *Human Resource Planning,* 28.4 p 37-43.

Kganyago, L. 2004. *South Africa as a financial centre for Africa.* Pretoria: National Treasury.

Kimball, G. (2003). Outsourcing Business Processes: Building Successful Contracts. *The Licensing Journal.* March 2003. p. 13-16.

Kruse, G. & Berry, C. (2004). Outsourcing : The "How-To" Guide. *IEE Manufacturing Engineer.* August / September 2004. p. 36-39.

Lawler, E., Ulrich, D., Friz-enz, J. & Madden, J. (2004) *Human Resources Business Process Outsourcing.* San Francisco : Jossey-Bass Inc.

Leedy, P. D. & Ormrod, J. E. (2001*) Practical Research: Planning and Design.* Upper Saddle River, N.J. : Merrill Prentice Hall.

Likert, R. (1978). An Improvement Cycle for Human Resource Development. *Training and Development Journal.* July 1978. p. 16-18.

Loots, E. (2001). *Globalisation, Emerging Markets and the South African Economy. Paper presented at* The International Jubilee Conference of the Economic Society of South Africa, Johannesburg 14 September 2001.

Managing Business Support Services. (2005). Chapter 2.7: Human Resources. 2005. *Managing Business Support Services.* 2005. p. 80-83.

Martorelli, W. (2006). *The Forrester Wave: HR BPO Providers, Q1 2006.* Forrester Research, Inc. 35862.

Merriam, S.B. (1998). *Qualitative Research and Case Study Applications in Education.* San Francisco : Jossey-Bass Inc.

Metty, T. (2006). How to Outsource Your Way to Competitive Advantage. *Purchasing.* January 2006. p. 66.

Mochiko, T. (2006). *BPO gets R70m injection.* Business Report. Johannesburg: IOL. Available from:
http://www.busrep.co.za/index.php?fSectionId=&fArticleId=3115251 (accessed 19/05/2006).

Osheroff, M. (2005) Outsourcing Successfully. *Strategic Finance.* December 2005. p. 23.

Patel, A.B. & Aran, H. (2005) *Outsourcing Success – The Management Imperative.* Hampshire : Palgrave Macmillan.

Pearson, I. & Lyons, M. (2003) *Business 2010 – Mapping the New Commercial Landscape.* London : Spiro Press.

Punch, K.F. (2000) *Developing Effective Research Proposals.* London : Sage Publications Ltd.

Ramachandran, K. & Voleti, S. (2004) Business Process Outsourcing (BPO) : Emerging Scenario and Strategic Options for IT-enabled Services. *Vikalpa.* 29 (1) p.49-62.

Rosenthal, B.E. (2005) 15 Trends That Will Shake Up BPO in 2006. *Outsourcing-Journal.* November 2005.

Saul, J.R. (2005) *The Collapse of Globalism*. London : Atlantic Books.

Schulman, D.N., Harmer, M.J., Dunleavy, J.R. & Lusk, J.S. (1999) *Shared Services - Adding Value to the Business Unit.* New York : John Wiley & Sons, Inc.

Stone, L. (2005) *Take BPO-Specific Factors Into Account When Evaluating Outsourcing Relationships.* Gartner. G00127639.

Tornbohm, C. (2005) How to Sell Business Outsourcing in Europe. *Gartner*, G00129542.

Tompkins, J.A. (2005) The Business Imperative of Outsourcing. *Industrial Management.* November / December 2005. p. 8-13.

Ulrich, D. (1997) *The Changing Nature of Human Resources, a Model for Multiple Roles.* Boston : Harvard Business School Press.

Ulrich, D. (1998) The Future Calls for Change. *Workforce.* 77. p. 87-91.

Ulrich, D. & Brockbank, W. (2005) *The HR Value Proposition.* Boston : Harvard Business School Press.

Welman, J.C. & Kruger, S.J. (2001) *Research Methodology.* Cape Town: Oxford University Press.

Wright, P.M., Snell, S.A & Jacobsen, P.H.H. (2004) Current Approaches to HR Strategies: Inside-Out Versus Outside-In. *Human Resource Planning.* 27(4). p. 36-46.

APPENDIX A: BLANK PROCESS QUESTIONNAIRE

	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
Planning and Policy					
To what extent would BPO be an appropriate delivery mechanism to plan, implement and review organisational and cultural change programs?					
To what extent would BPO be an appropriate delivery mechanism for organisation design studies and projects (job designs, reporting structures, roles & responsibilities)?					
To what extent would BPO be an appropriate delivery mechanism for remuneration / compensation management services? (Compensation strategy, survey data collection and submission. Interpretation / comparison of survey data including mapping / paring to organisation jobs).					
To what extent would BPO be an appropriate delivery mechanism to develop standard policies and procedures?					
To what extent would BPO be an appropriate delivery mechanism to communicate standard policies and procedures?					

	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
To what extent would BPO be an appropriate delivery mechanism to monitor, forecast and control workforce costs?					
To what extent would BPO be an appropriate delivery mechanism to manage the ongoing relations with trade unions and other employee representatives (Ongoing communication, dispute resolution, negotiations)?					
To what extent would BPO be an appropriate delivery mechanism to identify employees with development potential?					
To what extent would BPO be an appropriate delivery mechanism to support the professional and personal development of employees?					

Source and Select	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
To what extent would BPO be an appropriate delivery mechanism to create and publish advertisements, both internally and externally?					
To what extent would BPO be an appropriate delivery mechanism to capture the initial data of all applicants, including the generation of standard applicant correspondence?					
To what extent would BPO be an appropriate delivery mechanism to perform the first screening interview?					
To what extent would BPO be an appropriate delivery mechanism to assess applicant skills and competencies?					
To what extent would BPO be an appropriate delivery mechanism to perform the final interviews?					
To what extent would BPO be an appropriate delivery mechanism to identify appropriate internal candidates for vacancies based on personal career development plans and / or succession plans?					
To what extent would BPO be an appropriate delivery mechanism to deliver an induction process for new employees?					

Develop and Counsel	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
To what extent would BPO be an appropriate delivery mechanism to design and develop company specific performance management process?					
To what extent would BPO be an appropriate delivery mechanism to administer and record the results of the performance management process? (Record the objectives and assessments against the objectives).					
To what extent would BPO be an appropriate delivery mechanism to develop career develop - and succession plans?					
To what extent would BPO be an appropriate delivery mechanism to administer career develop - and succession plans?					
To what extent would BPO be an appropriate delivery mechanism to develop a competency framework?					
To what extent would BPO be an appropriate delivery mechanism to assess and record individual employee competencies?					
To what extent would BPO be an appropriate delivery mechanism to report on the organisational competency deficits and link these to development plans?					

	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
To what extent would BPO be an appropriate delivery mechanism to develop a training and development strategy?					
To what extent would BPO be an appropriate delivery mechanism to administer and manage all training interventions, including workplace skills plan reporting and other training related reporting?					
To what extent would BPO be an appropriate delivery mechanism to develop a training catalogue and administer employee self enrolments?					
To what extent would BPO be an appropriate delivery mechanism to develop training interventions and deliver the training?					
To what extent would BPO be an appropriate delivery mechanism to collect and collate all post training assessments?					
To what extent would BPO be an appropriate delivery mechanism to measure the effectiveness of training interventions?					
To what extent would BPO be an appropriate delivery mechanism to administer employee assistance programs, such as an employee call centre for queries and policy advice?					
To what extent would BPO be an appropriate delivery mechanism to record and manage the organisations grievance processes?					
To what extent would BPO be an appropriate delivery mechanism to record and manage the organisations disciplinary processes?					

Reward and Retain	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
To what extent would BPO be an appropriate delivery mechanism to perform formal job evaluations and job descriptions?					
To what extent would BPO be an appropriate delivery mechanism to perform all payroll and benefit administration?					
To what extent would BPO be an appropriate delivery mechanism to perform all payroll processing and third party payments?					
To what extent would BPO be an appropriate delivery mechanism to generate all statutory and regulatory reporting requirements, including IRP 5 and employment equity income differential reporting?					
To what extent would BPO be an appropriate delivery mechanism to administer and manage all time and attendance records and processes?					
To what extent would BPO be an appropriate delivery mechanism to develop and implement an employee retention strategy?					

Redeploy and Retire	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
To what extent would BPO be an appropriate delivery mechanism to develop job rotation programmes?					
To what extent would BPO be an appropriate delivery mechanism to administrate job rotation programmes?					
To what extent would BPO be an appropriate delivery mechanism to administer and manage relocation services?					
To what extent would BPO be an appropriate delivery mechanism to manage all aspects of employee termination administration?					
To what extent would BPO be an appropriate delivery mechanism to conduct exit interviews?					
To what extent would BPO be an appropriate delivery mechanism to provide administrative and payment processes for retirees?					

Manage Information	Very Appropriate	Appropriate	Neutral	Inappropriate	Entirely Inappropriate
To what extent would BPO be an appropriate delivery mechanism to provide all standard monthly management reports?					
To what extent would BPO be an appropriate delivery mechanism to provide all new, standard and ad-hoc reports?					
To what extent would BPO be an appropriate delivery mechanism to develop and maintain all out- and in- coming interfaces? (Technical interfaces)					
To what extent would BPO be an appropriate delivery mechanism to manage all internal and external Service Level Agreements?					
To what extent would BPO be an appropriate delivery mechanism to implement and develop the HR information system?					
To what extent would BPO be an appropriate delivery mechanism to maintain the HR information system?					
To what extent would BPO be an appropriate delivery mechanism to develop and maintain both employee - and manager self service functionality.					
To what extent would BPO be an appropriate delivery mechanism to develop (based on organisational brief) and distribute all internal communications?					
To what extent would BPO be an appropriate delivery mechanism to hold and manage all current and historical HR data records?					

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Introduction

Interviewee name:

Organisation:

Position:

Date:

Time:

Number of employees in the organisation:

Section 1

Planning and Policy

1. Does your HR function contribute to the overall strategic planning and direction setting for the organisation?
   a. What are the strategic topics HR contributes towards?

2. Does your HR department work together with Business Managers to integrate human resource solutions in the corporate and business unit strategies and plans?
   a. How is this achieved?
3. Is the HR function's contribution measured?
   a. If yes, how is
      i. Service delivery measured, e.g. against Service Level Agreements (SLA's) or peer reviews?
      ii. Strategic value add?

1. What are the main internal pressures experienced relating to recruitment?
   a. What are the concerns line managers have with the support the HR function provides in relation to the recruitment process?
   b. How would you like to adapt / change the current recruitment processes?
2. What are the main external pressures affecting the HR recruitment function?
   a. Employment equity?
   b. Applicant correspondence?
   c. Applicant rights?
3. On average how many applications are received per annum?
   a. Solicited
   b. Unsolicited
4. What performance measures are used to manage and measure the recruitment process?
   a. Examples of performance measures are fill ratio, cost per new hire, turn over of new joiners.
   b. Are various recruitment instruments and methods compared to each other?
5. Do you have a view of the yearly costs of all recruitment activities?
   a. Cost per applicant – by source
   b. Cost per new employee – by source

Develop and Counsel

1. What are the main internal pressures experienced relating to the development of employees?
    a. Does the rest of the organisation agree that training contributes to enhanced productivity and improved outputs?
    b. How do you measure the impact of training initiatives?
2. What are the main external pressures affecting training and development in your organisation?
    a. National Qualification Framework (NQF)?
    b. Skills Development Act?

Reward and Retain

1. What are the main internal pressures experienced relating to the retention of employees?
    a. What retention strategies are employed?
    b. Do you have a top talent programme?
2. What are the main external pressures affecting payroll and benefit administration?
    a. Increased regulatory requirements?
    b. Increased compliance requirements and costs?

Redeploy and Retire

1. What are the main internal and / or external factors leading to employee terminations?
2. What job rotation programs are employed in the organisation?
    a. Are these part of development / succession plans?
    b. Is job rotation an option for all employee groups / types?
3. Does the organisation administer a pension / provident fund?
    a. Does the organisation administer the pension / provident fund payments to retirees?

1. Do you currently have one source of all employee data?
2. How are reports delivered to managers?
   a. HR prints and sends out?
   b. Managers prints the reports for themselves
   c. Manager access a portal, where they can 'pull' information / reports and data can be pushed to them?
3. How do you currently store HR data to conform to the regulatory requirements relating to HR data?

Section 2

1. Do you currently or have you outsource(d) any HR processes or functions?
   a. Which processes
   b. Reasons for the decision to outsource these processes or functions.
2. What do you believe are the main benefits of implementing HR BPO?
3. What do you believe are the main disadvantages of implementing HR BPO?
4. What in your opinion will be the critical success factors for implementing HR BPO?
5. Would you consider HR BPO as a service delivery mechanism in the next year?
6. Would you consider HR BPO as a service delivery mechanism in the next 5 years?

APPENDIX C: LIST OF RESPONDENTS

Organisation	Name	Position
Pick 'n Pay	Kevin Wynne	**HR Director Compensation and Development**
South African Breweries	Samantha Rockey	**Learning and Development Manager**
South African National Defence Force	Gen. Veldtman	**Divisional General : Director Career Management**
Investec	Tracey Rowe	**Head of Human Resources**
ABSA	Kobus van Wyk	**Director Change Management**
ABSA	Ilse Costalia	**HR Projects Manager**
Standard Bank	Wally Fisher	**HR Manager : Business operations**
Standard Bank	Ricardo Rossa	**HR Manager**
Nedbank	Dennis Ritter	**Head of HR Shared Service Centre**
Nedbank	Leela Ramdhani	**Head of HR Strategy and Delivery**
First National Bank	Gert Kriel	**Head of Organisation Design : Retail**
Hollard Insurance	Brent Wyborn	**Group Organisation Design Manager**
Mutual & Federal	Colette Patience	**HR Manager**
SAPPI	Dawie Hattingh	**HR Projects Manager and HR Business Process Manager**
Netcare	Barry Bedford	**Head of HR Strategy**

PPC		Head of HR
Deloitte	Bertie Loods	Director Consulting
DeBeers	Shantelle Dlamini	HR Business Partner
IBM	James Delaport	Human Capital Management : Lead
IBM	Arno Els	Human Capital Management : Managing Consultant
Plessey	Hana Rooke	HR Manager
DHL / Excel	Derrick Leeman	HR Director, Africa
IQ Business Group	Nadine Kirsten	HR Manager
Strategic Solutions	Rod Jones	Managing Director
Foodcorp Milling and Baking	Mamie McCabe	General Manager : Human Resources
Metcash	Victoria Dube	HR Manager