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Inside Outsourcing™



Inside with: Gary Budzinski President, Aon HRO

Special points of interest:

Larry Janis' interview
with:

Gary Budzinski
President, Aon HRO

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Outsourcing HR

Aon Corporation (www.aon.com) is a leading provider of risk management services, insurance and reinsurance brokerage, human capital and management consulting, and specialty insurance underwriting. The company employs approximately 51,000 professionals in its 600 offices in more than 120 countries. Backed by broad resources, industry knowledge and technical expertise, Aon professionals help a wide range of clients develop effective risk management and workforce productivity solutions.

Aon Consulting is among the top global human resources consulting firms, with 2003 revenues of \$1.185 billion and 7,500 professionals in 140 offices throughout the world. Aon Consulting delivers integrated consulting solutions to help clients with employee benefits, human resources outsourcing, compensation, communication and management consulting.

From the Editor.

Welcome to our current
issue!

Inside Outsourcing's goal is to provide you with articles of interest and with a forum for the exchange of information in this rapidly evolving industry.

LJ: What do you see as the necessities to be successful in HR BPO?

GB: HR outsourcing enables organizations to realize significant cost savings and operational efficiencies. However, outsourcing's greatest value lies in its ability to create a more effective, engaged and dynamic workforce. To create that paradigm, careful planning and understanding of the process is required, not only in the beginning of the process, but during each phase and after implementation.

It is essential that any company considering HRO conduct a thorough business case analysis to ensure that it is the right choice for helping the company achieve its strategic goals in the most efficient and effective way possible. Additionally, the vendor selection process must be comprehensive, and involve the key executives who will be most affected by the decision to outsource. Finally, employees play an important role in any outsourcing initiative. For this reason, once the decision is made to outsource part or all of the HR function, the organization should communicate the reasons behind this decision to employees, and help them understand how outsourcing will affect them and their jobs.

In the end, plans should be established to measure the effectiveness of the HRO project, and a clear strategy should be developed to take full advantage of the new HR environment that will result from outsourcing



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LJ: What are the changes taking place in HR strategy and how do you see this emerging in the future?

GB: As business strategy becomes increasingly critical to organizations competing in a global marketplace, more and more of these organizations will seek not only improve to the efficiency and effectiveness of HR functions, but to take advantage of HR outsourcing experts who can help optimize the power of their greatest asset – their people. In the future, those involved in HR strategy will embrace the concept that effective human capital is the one essential ingredient to achieving competitive advantage. This is evidenced by capable, committed employees who learn faster, produce more, satisfy more customers, adjust to change and contribute to innovation. This is also evidenced by proficient managers who manage people and resources effectively, and leaders with the vision, talent and ability to motivate people to embrace and execute change. The understanding of these key concepts will emerge in the future as a deciding factor between the success and failure of an organization's HR strategy

LJ: How does offshore outsourcing emerge as part of the BPO offering? Is it just labor arbitrage or are there intrinsic values?



GB: Offshore outsourcing has emerged in the outsourcing industry because certain transactions and processes can be well defined and documented, and therefore can be easily packaged and shipped overseas. This approach is perceived to help lower labor costs, which is how outsourcers make their money.

However, it is not always prudent for companies to follow this approach purely on the basis of labor arbitrage. Moving a human resource function 9,000 miles away adds costs of its own. These include management time and effort to oversee the process from a distance; infrastructure costs related to conducting the process overseas; inherent instability of geopolitical environments; image and reputation risks on the home front brought on by outsourcing jobs; and finally, accessibility issues. For example, is it easier for employees to gather time-sensitive and often private information about their health coverage from a call center in the United States as compared to one in India? The answer is yes.

In light of this, companies considering offshore outsourcing should examine their total costs before making their move.

The AON logo, consisting of the letters 'AON' in a bold, red, sans-serif font. The 'A' and 'O' are connected, and the 'N' is separate.

LJ: What are the most common misconceptions regarding BPO?

GB: "Once a process is outsourced, I can forget about it." In actuality, the roles and responsibilities have simply changed, and instead of being a provider of a service you are now a manager of a vendor.

"Outsourcing is widespread." In fact, outsourcing is in its infancy and has still not yet undergone a significant evolution. There are mergers, acquisitions, partnerships and alliances going on every day, because everyone is still looking for a niche. (continued on next page)



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“Because I have been outsourcing some functions, I am capable of outsourcing HR.” The outsourcing of human resources is unique and should be viewed in a comprehensive and integrated way, with the guidance of a professional service provider dedicated to HRO.

LJ: How does Aon differentiate itself in the HR BPO marketplace?

GB: Aon HRO provides clients with comprehensive outsourced health and welfare services, defined benefit and defined contribution solutions, performance measurement and improvement services, hiring and training expertise, leadership, learning and human resources best practices and strategic consulting.

What makes us different and better than our competitors is our ability to focus on the bigger, more value-adding vision of HR BPO. We understand that HR BPO can help transform the HR department from a cost center to a strategic resource. How does this happen? First, HR executives who are freed from administering day-to-day functions, such as administering policies and procedures, can concentrate on how best to allocate workforce resources, which, in turn, can lead to higher sales, better customer service and more efficient operations. These HR executives will be able to create HR programs that are more closely aligned with the long-term goals of the organization. We help them achieve those goals.

Also, the Aon HRO perspective is that, because HR maintains and manages nearly the organization's entire employee data, including job functions, expertise, backgrounds, skills, preferences and compensation, the department is in a better position than any other corporate function to understand the factors that determine and influence employee productivity. Organizations can achieve the most value and competitive advantage when they have a more effective workforce. We help our clients truly optimize their workforces.



LJ: What are the top qualities an organization should look for in a BPO partner?

GB: A best-in-class BPO provider will understand the important differences between a “shallow” and “deep” outsourcing approach.

Deep outsourcing is designed to increase productivity from workforce investments, dramatically increasing strategic and sustainable competitive advantage. While shallow outsourcing contracts are limited to costs associated with direct HR-controlled administrative spending, the scope of deep outsourcing may allow employers to more closely manage HR-related employee costs outside the boundaries of the HR department. Employee training services, for example, represent costs that may be better managed, and consequently deliver greater value, if provided by a BPO professional specializing in integrated, comprehensive services.



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Outsource HR, Save Money by Demir Barlas, Line56

The human resources (HR) function, while a central part of the enterprise, is also a cost center whose outsourcing can bring benefits that scale with the size of a company, notes new research from Yankee Group.

The research advances the case for HR business process outsourcing (BPO), which can be broken up into three parts: volume processing services (think payroll, benefits, recruitment, training, etc.), consulting services (including HR transformation, compliance, and expertise management), and BPO services (which incorporates much of the first two functions while adding business process transformation, employee portal management, and other higher value-added services).

Volume processing is the most popular segment of HR BPO, simply because it is the easiest. Engaging in consulting and services requires finding a partner who can both understand and transform your enterprise's HR complexity, which is a harder proposition than finding someone to handle the simpler issues around volume processing.

However, tacking HR BPO at the highest level provides unmistakable rewards, with Yankee Group analyst Phil Fersht noting that an enterprise with 20,000 employees could save \$1 billion. This figure derives from a model in which an HR BPO partner could reduce workforce costs by 15 percent and increase revenue by 5 percent, and it scales by company size.

It's this kind of proposition that is driving a lot of business for HR BPO pure-plays like Hewitt and Aon as well as for larger outsourcing companies like IBM and Accenture.

Of course, the more complex your existing HR processes, the more you stand to save; an enterprise lucky enough to have an extremely efficient and dialed in HR organization would save less, although it could still save something in the realm of volume processing.



“We make a living by what we get, we make a life by what we give.”

Sir Winston Churchill
