



Outsourcing Human Resources Management

In spring of 2004 the Conference Board released the first comprehensive look at outsourcing human resource activities by government agencies. “HR Outsourcing in Government Organizations” provides an excellent overview of the subject and is chock full of valuable information for government officials or others looking into outsourcing HR functions.



The report examines who is outsourcing HR and why it is happening, along with how-to tips, lessons learned, answers to concerns about outsourcing, case studies, and more. You can get the full report at (<http://www.conference-board.org/publications/describe.cfm?id=830>), but meanwhile here are some highlights.

Who is Outsourcing?

The Conference Board report highlights the case studies of government who are blazing the trail in HR outsourcing (see box) and states that “industry experts estimate that another 10 to 15 states are currently actively exploring HR outsourcing—that is, these entities are developing a business case and preparing for any necessary legislative approval needed to make the move.”

In addition, the federal Office of Personnel Management has been examining competitive sourcing of some HR functions. Right now it appears that larger scale outsourcings are the most attractive, so most of the action is at the federal and state level.

Why Outsource HR?

The motives for governments outsourcing HR are not much different from what we have seen driving the large HR outsourcing trend in the private sector. The Conference Board identifies three basic financial drivers behind HR outsourcing:

- Save money (ongoing expenditures);
- Avoid capital outlay (often a more important consideration than direct cost savings); and
- Turn a fixed cost into a variable one (thus, if the workforce shrinks, HR costs can be reduced accordingly).

The strongest motive in governments is often to avoid capital outlays as they replace very old mainframe systems and upgrade software. Outsourcing inevitably brings new, up-to-date hardware and software, and upgraded services for customers and HR administrators that run the gamut from checking the status of a



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paycheck to filing an insurance claim online for customers and from automated payroll and online performance reviews for administrators.

Why Outsource Now?

The timing for the surge in HR outsourcing by governments in the last few years is the result of several factors working together. Many governments have very old IT systems for managing HR, systems that need to be replaced before they collapse. But capital outlays to replace systems for a state can often approach \$100 million, and financing such upgrades often moves slower than the pace of technology changes, dooming a new system to be behind before it is even up and running. State government budget shortfalls in recent years have exacerbated the problem of financing needed upgrades to HR systems.

Finally, the Conference Board argues that “a cadre of business-minded government bureaucrats has emerged.” The broader trends in government outsourcing and privatization coupled with rising expectations of more efficient government services has created interest and willingness among government managers and political leaders to explore HR outsourcing.

HR Outsourcing Case Studies

The Conference Board report provides a detailed examination of the following case studies:

HR Outsourcing Case Studies

U.S. Transportation Security Administration

- Employees: 55,600 passenger and baggage screeners hired by December 2002. Since December 2003, TSA has had 45,000 full-time equivalent screeners, as directed by Congress.
- Budget: \$5.3 billion requested by President Bush for FY 2005.
- Outsourcing began: 2001
- HR functions outsourced: Total
- Estimated cost savings through outsourcing: 20–25 percent

Texas Health and Human Services Commission

- Employees: Approximately 46,000
- Budget: \$20 billion annually
- Outsourcing began: 2004
- HR functions outsourced: Total (excluding policy and planning)
- Targeted cost savings: \$1 billion for reorganization within first two years of implementation, \$63 million in HR savings over five years

State of Florida, Department of Management Services

- Employees: 118,000 (with university system employees, 189,000)
- Budget: \$400 million (administration), \$1.1 billion (benefits)
- Outsourcing began: August 2002 (Expected completion date September–October 2004)
- HR functions outsourced: Total
- Targeted cost savings: \$173 million over seven-year contract



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Detroit Public Schools

- Employees: 26,000 (largest employer in Detroit)
- Outsourcing began: February 2001 (Implementation completed January 2002)
- HR functions outsourced: Medical benefits administration
- Direct savings realized: \$5 million initially; \$1 million per year

State of Victoria, Australia

- Employees: 1,100 initially (two agencies); 1,800–2,000 today (three agencies)
- Outsourcing: began 1996
- HR functions outsourced: Payroll, HR information systems and reporting, HR policy
- Cost savings realized: 30 percent

City of Copenhagen, Denmark

- Employees: 60,000
- Outsourcing began: 2003
- HR functions outsourced: Payroll, HR information systems (HRIS), online employee data, and benefit plan information
- Targeted cost savings: \$8.5 million over first five years

Lessons Learned

The report points out that “although public-sector HR outsourcing is still evolving, the pioneers already have many lessons to share.” Here are the lessons learned highlighted in the report.

Get support from the top for the effort: executives, legislators, and the governor.

Develop a communications program for employees, the public, and the press about the benefits outsourcing can bring—not just internally but for taxpayers. Publicize the efforts under way to take care of affected workers.

Work within the government budget process. Because budgeting is different (generally, annual) in government organizations, it helps to have proposals completed and ready for review in time for regular budget appropriations. Also, contracts must often be renewed and re-approved every year, so a multiyear contract provides stability. The renewal process affords the vendor the chance to boost service quality if it has slipped.

Establish clear-cut, rigorous procedures for the vendor selection process to ensure fair consideration and avoid even the appearance of impropriety.

Seek a vendor with experience in the public sector. Policy guidelines and union agreement requirements make for strict processes and procedures.



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Negotiate and concur on service-level agreements that contain useful performance expectations and metrics, for example, using a metric on providing a satisfactory response to a caller within 24 hours instead of answering calls to the call center on the third ring.

Ensure adequate staffing throughout the effort on both sides. Involve IT personnel, not just HR personnel, from the outset.

Allow for flexibility. Certain services initially contracted may prove unnecessary over time; others overlooked at first may later seem attractive or vital. However, delivery dates and penalties should be built into the contract.

Consider requesting legislation to streamline procedures before implementation. Doing so can make data entry and IT work vastly easier—and save considerably.

If workforce reductions will be significant, **create early job placement assistance** with the vendor that taps the resources of job placement agencies and programs. Explore with vendors what job opportunities they may be able to offer displaced employees.

Engage the appropriate unions early by communicating the benefits of outsourcing, offering to help transfer union employees, and helping them retain their union status.

Avoid an overly aggressive implementation timetable. Delays cost dearly, not only in dollars and public support, but also in the goodwill of the employees who must operate with reduced head counts before the new services come online.