



# HR is going from in-house to out-of-house

By *Brooke Smith*

**What are the benefits and challenges of outsourcing?**

As the old sports chant goes: This is our house. And it was true for HR departments, too...once upon a time.

A 2008 Society for Human Resource Management (SHRM) survey showed that, of more than 4,500 SHRM members polled, 43% voiced preference for developing expertise in-house, instead of outsourcing. Another 54% wanted to maintain face-to-face contact with employees, and 42% didn't want to lose control of their HR functions.

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**72%** strongly agree and 18% agree that HR professionals are facing an increasing workload  
Source: 2015 ADP Canada survey

Fast-forward to 2015. More and more companies are emptying their houses, outsourcing transactional HR tasks to focus on activities they deem more important: like acquiring talent.

“We’re seeing organizations that are undergoing a substantial change, such as rapid growth or a merger,” says Virginia Brailey, vice-president, marketing and strategy, with ADP Canada. “That puts pressure on the managers and their HR teams. Outsourcing is a good way to shift the administrative burden to a third party.”

It’s the transactional tasks—such as pension administration, benefits, revising workplace policies—that HR professionals spend the most time on. PwC’s 2011 *HR Outsourcing 2.0* report showed that more than 75% of HR work hours are spent on these tasks.

It’s these tasks HR professionals want to get rid of—and it’s typically done through outsourcing. Almost three-quarters (73%) of respondents said their main goal of outsourcing was to reduce administrative clutter, according to a 2009 Towers Watson study.

And, Deloitte’s 2014 *Global Outsourcing and Insourcing Survey* shows 30% of companies outsource payroll time administration, with 36% of firms that don’t currently do so saying they plan to outsource that function. The survey also finds 13% currently outsource HR administration, and 38% say they plan to.

## Decision Drivers

Why, exactly, do companies outsource? Jeff Williams, executive vice-president, outsourcing, with Aon Hewitt, says companies evaluate several factors when deciding whether or not to outsource.

One is technology. An upgrade of an old system likely costs a lot of money, he says. So a company will look for ways to discontinue investing in technology, having staff to support it and being responsible for fixing it.

For example, CIBC outsourced in the late 1990s to enhance service delivery and fix technology issues. “We had reorganized CIBC into one organization, yet we were managing it as basically three organizations,” says Phil Wilson, chief human resources officer with DST Consulting Engineers Inc. (Prior to the outsourcing decision, he was senior vice-president, shared services, human resources division, with CIBC.)

Each division—commercial banking, world markets and the corporate group—used its own technology process, he says, and it was difficult to pull information and track analytics with the plethora of HR systems.

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“We were trying to bring the HR department and CIBC into a position where they’d have one system to manage all people services.”

After considering several options—including creating an interface between existing systems and replacing those systems with something brand new—CIBC settled on a third-party vendor to take on all aspects of operational service delivery. “We would have very clear service level agreements in place. But the risk was we wouldn’t be managing the system anymore,” Wilson says, adding that CIBC managers were concerned about the level of service they’d experience from a third party. “We were looking at a system supporting 40,000-plus employees, plus another 10,000 pensioners.”

CIBC signed a seven-year deal with EDS Canada for \$227 million, effective March 2001, which outsourced 30 HR systems: call-centre operations, manager support, technology, payroll, benefits, pension administration and even employee relations. (To Wilson’s understanding, the contract was extended for another three years.)

CIBC’s case was slightly different. The outsourcing agreement let the bank transfer 200 of its employees

to comparable jobs at EDS. “That was an important thing for us because there were no lost jobs and a real continuity of service,” Wilson says.

Wilson says this is rare, but CIBC was able to get them to agree, in part, because EDS was looking to expand into the HR process outsourcing business.

Other HR drivers include departures of people who traditionally took care of HR staff, and the hiring of new workers who had positive experiences with outsourced HR at their other jobs.

Still another driver is a company’s desire to focus on its core business.

“Many organizations are going through some sort of HR transformation,” Williams says. “Companies are evaluating what their core is and trying to get their HR departments focused on the talent agenda. No senior HR leader ever got promoted for delivering quiet payroll cycles,” he continues, adding that HR transactional activities are best handled

### TOP REASONS for companies to consider outsourcing the HR function

- stabilize costs - **39%**
- lower risk - **28%**
- increase employee productivity - **27%**

Source: 2011 ADP Research Institute study

## Great-West Life appointment notice

Great-West Life is pleased to welcome Christine van Staden to the role of Vice-President, National Accounts, Group Retirement Services Distribution.

Christine has extensive industry experience both in the U.S. and Canada. She recently worked for a large Canadian group retirement record keeper and has also held positions with major consulting organizations. Christine has been actively involved with CPBI (Canadian Pension & Benefits Institute) as well as ACPM (Association of Canadian Pension Management).



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**Jeff Daley, CFA**  
to Vice President

Jeff joined Burgundy in 2009. As an Investment Analyst with the U.S. small- and mid-cap equity team, Jeff has contributed significantly to the discipline of the Burgundy

investment process and the strength of Burgundy's Canadian and U.S. foundation and endowment business. Before joining the firm, Jeff worked with Wellington West Capital Markets as an Equity Research Associate.

Jeff earned his B.Comm. in Finance and Economics from the Sobey School of Business at Saint Mary's University.



**Anne Maggisano, CFA**  
to Vice President

Since joining Burgundy in 2008, Anne has built and maintained relationships with Canadian private clients and U.S. foundations and endowments. She spearheaded the

launch of the Women of Burgundy community in 2014, and was named Head of Marketing & Communications in 2015. Prior to joining Burgundy, Anne spent two years with a boutique investment firm in Toronto.

Anne earned her B.Sc. in Basic Medical Sciences and her BA in History of Art & Cinema Studies from the University of Toronto. She serves on the Board of Directors of the Canadian Opera Company and the Toronto Public Library Foundation, the Advisory Committees for the COC Ensemble Circle, Girls e-Mentorship Innovation (GEM) and the Planned Giving Committee for Providence Healthcare, and is an artsScene Ambassador in support of Business for the Arts.

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through outsourcing, in many cases, allowing HR to focus on strategic areas such as leadership and developing talent.

### Anyone Can Outsource

A company doesn't need 40,000-plus employees to benefit from outsourcing.

Take Techtronic Industries Canada Inc. The marketer and seller of power tools, outdoor equipment and floor-care appliances started out with 50 employees in 2007. Over the last seven years, it has grown to more than 200.

"Rather than invest in a system internally, we went to [an outsourcing firm] that already had the knowledge that could handle our data requirements," says finance director Marco Moreal. "It made sense for us to outsource because we didn't have the knowledge, and it allowed us to manage our employees better and have the data in one spot."

Outsourcing also made sense from a data backup perspective, particularly with payroll, because the manager had no backup, says Moreal. Before the outsourcing and even now, the company's HR department consists of just two employees. "From a stability point of view, if she's very sick or goes on vacation, the payroll still gets done."

Another outsourced area is timekeeping and vacation. The outsourced system lets Techtronic track vacation requests online. "With the new system, [an employee] can also approve items on [a] smartphone," he says. "I found that's been very helpful because you don't have to wait until you're at a computer to look at it—it's instantaneous."

Even Techtronic's annual performance reviews are outsourced. "Previously, we had it in a manual paper format. We're not completed yet, but we're working toward it.

"It makes for better recordkeeping and better sharing of information through managers—rather than having it all on paper copies," he says. "Having it automated and through a system makes it easier to distribute."

Handing off these transactional activities has freed up the two-person HR team to focus on the “value-add activities,” as Moreal puts it. “Recruitment is one of the big things,” he explains. “They can spend more time recruiting quality individuals.”

Moreal adds HR can also focus on retaining existing staff, and ensuring the morale and motivation of employees is where it should be.

### Challenges of Outsourcing

While outsourcing can help to free up much more of the HR department’s time, it can also remove that personal touch and flexibility. For example, in a company that manages its own employee vacation days, the HR professional can allow an employee to use his or her next year’s leave early. In an automated, outsourced system, this kind of accommodation for an employee may not be possible.

Similarly, employees can quickly get frustrated with an automated system, or if a third party doesn’t pay attention. “Where satisfaction gets low, and gets low in a hurry, is where I put my problem into this unit and don’t get called and [the problem] doesn’t get resolved and I don’t know who to talk to,” says Williams. “Those are the real dissatisfaction drivers: taking too much time, not following up, even completing without following up.”

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## THE TROUBLE WITH OUTSOURCING

Outsourcing can free up time for HR professionals to focus on a company’s more important initiatives, but its perception has been negative.

KPMG International Research found 52% of respondents said outsourcing providers lack knowledge, 47% said providers are non-responsive and 35% said providers have low performance standards.

Whether respondents based their answers on experience or perception, sentiment doesn’t differ from past research, which has shown outsourcing has its problems.

### CONSIDER THESE ISSUES.

**Hidden costs** - Research from Robinson and Kalakota in 2004 showed outsourcing may come with hidden costs.

**Remaining employees** - A research project by Kessler et al. in 1999 showed companies should not neglect their remaining HR employees, once they’ve outsourced. Research by Kakabadse and Kakabadse a year later showed these neglected employees can have a negative effect on company culture. The researchers suggest the remaining in-house HR employees may suffer from the following: job insecurity; decreased productivity, morale and loyalty; and increased absenteeism and employee turnover.

**Information loss** - Research from Grauman and Paul in 2005 showed that, during a changeover to a third party, confidential information such as audit trails and personal data could be lost in the transition.



## APPOINTMENT NOTICE ERIK LAROSE

### REGIONAL VICE-PRESIDENT, BUSINESS DEVELOPMENT GROUP AND BUSINESS INSURANCE (QUEBEC AND ATLANTIC REGION)

Erik Larose has returned to the Desjardins Insurance team as Regional Vice-President of Business Development, Group and Business Insurance (Quebec and Atlantic Region).

François Joseph Poirier, Vice-President of Business Development, Group and Business Insurance, is pleased to announce the arrival of this business development leader, who will be responsible for the strategic growth of our block of business in Eastern Quebec and the Atlantic provinces. His expertise and boundless energy will strengthen ties with our distribution partners while helping to establish new business opportunities.

Mr. Larose has a Bachelor’s Degree in Economics and brings over 25 years of experience in group insurance to the position. The leadership role he has played with insurers, and brokerage and consulting firms is marked by integrity, respect and cooperation.

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Ela Karahasanoglu, MBA, CFA, CAIA  
Vice President, Currency & Asset Allocation

### Appointment Notice

Kerry Stirton, Managing Director of *CIBC Asset Management - Institutional* is pleased to announce the appointment of **Ela Karahasanoglu** as **Vice President, Currency & Asset Allocation**.

In this role, Ela works with the portfolio management team responsible for currency management, asset allocation, and absolute return strategies. Delivering intellectual capital, Ela provides advisory services to our institutional investor community.

Ela joins one of the largest currency managers in Canada. With over 15 years of industry experience, Ela was previously Principal & Senior Manager Researcher at *Mercer’s Alternatives Boutique*, Manager of Research & Trading for a quantitative macro CTA, a currency & bond trader, and worked at *Merrill Lynch Credit Derivatives* in NY.

*CIBC Asset Management* is one of the largest asset managers in Canada with \$112B under management (as of 6/30/15). With a 40 year history of active management, we build innovative investment solutions across a spectrum of asset classes, tailored for institutional investors worldwide.