

# Outsourcing HR in France: Theory and Practice

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## Introduction

Supercompetition, globalisation and information technology generalization go together with new organizational forms, firms in network and desegregation of the traditional enterprise (Pichault, Rorive. 2003). The streamline on the core business leads to outsourcing several activities. Since 1980, the firms have abandoned peripheral activities (cleaning, catering). Computing, logistic applications and more complete process (for example Business Process Outsourcing BPO) have been externalized.

Numerous researches on the theme of IT externalization exist (Lacity, Willocks 2001, Meissonier 2006, Fimbel 2003, Barthelemy 2004). More recent articles about function or operational process externalization (Quélin, Duhamel 2003), and customer relationship management and call centers (Ueltschy, Ryans, Herremans 2006), financial services (Jennings 1996), human resources (Lawler, Ulrich, Fitz-Enz, Madden 2004, Beaman 2004) have been concerned.

This article will deal with the central theme of the externalisation of HR. Many authors have worked on the evolution of HR function “under pressure”. HR function must prove its efficiency (Human Resource Management vol36, n°1). Some people conjure up the death of the HR function (Kanter 2003). Others are more optimistic (Schmidt, Guéry, Mercier, Mottay 2004).

Two factors are supposed to liberate the function : the information technology and the externalisation of administrative activities (Spencer 1995, Schrivastava 2003, Kalika 2002, 2003, 2006). The development of mega externalisation contracts (example between P&G and IBM ) gives birth to E-HR and the interface between IS and HRM. Does the phenomenon mean reengineering HR function?

The present chapter will present a definition of externalisation and different forms of HR outsourcing and the strategic role of the HR function. The following questions will also be analyzed: « Is BPO<sup>1</sup> a solution for the so much considering transformation of the HR function ? » and “Does internet technology contribute to BPO?”.

## 1. Definition and Different forms of HR outsourcing

### 1. 1 Externalisation and IT

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HR- BPO, ASO Administrative Service Organization or BSP Business Service Provider could also be used in the literature

The externalisation term could be used as well as « outsourcing ». This last word is tied with in or out « sourcing ». In other terms it means answering the needs of the firm with an internal structure (in) or an external structure (out). If subcontracting was connoted with short term perspective, externalisation entails a strong link between the firm and its provider and it is tied with strategic alliance. The French economic and social council's report (2005 pII20) proposes the following definition :

– Externalization could be defined as a resort to an external provider, for an activity so far realized inside the firm.

– It often goes with material and/or human resources transfers;

– It requires a contractual framework defining remits, deliveries, mutual obligations in a larger way than subcontracting. ;

– Outsourcing is consistent with long term commitment between the enterprise and its service provider.

More specifically, practitioners subsidize HR externalization in different categories : ASP, Application outsourcing, BPO.

*The ASP Application Service Provider* corresponds to the opening of an online service (for example the « best of breed » of Cegid CCMX). This provision is payable at each transaction or is taxed by an estimated income. This kind of HR service is notably used by SME.

*The external hosting of an HR application* : the firm's application is "taken" and is hosted by the service provider

*The Third party application management* is tied with the maintenance of a software application and the signature of specific service level agreements.

*Application outsourcing* is the management and the operation of computing resources (materials and networks ) which can be localized on the provider's premises.

For a firm, the *HR processing services* consists in entrusting a whole HR process to the provider (legal monitoring, social reporting, functional aid, computation...). The vendor's resources are mutualized among several clients. The vendor commits himself to obtain results.

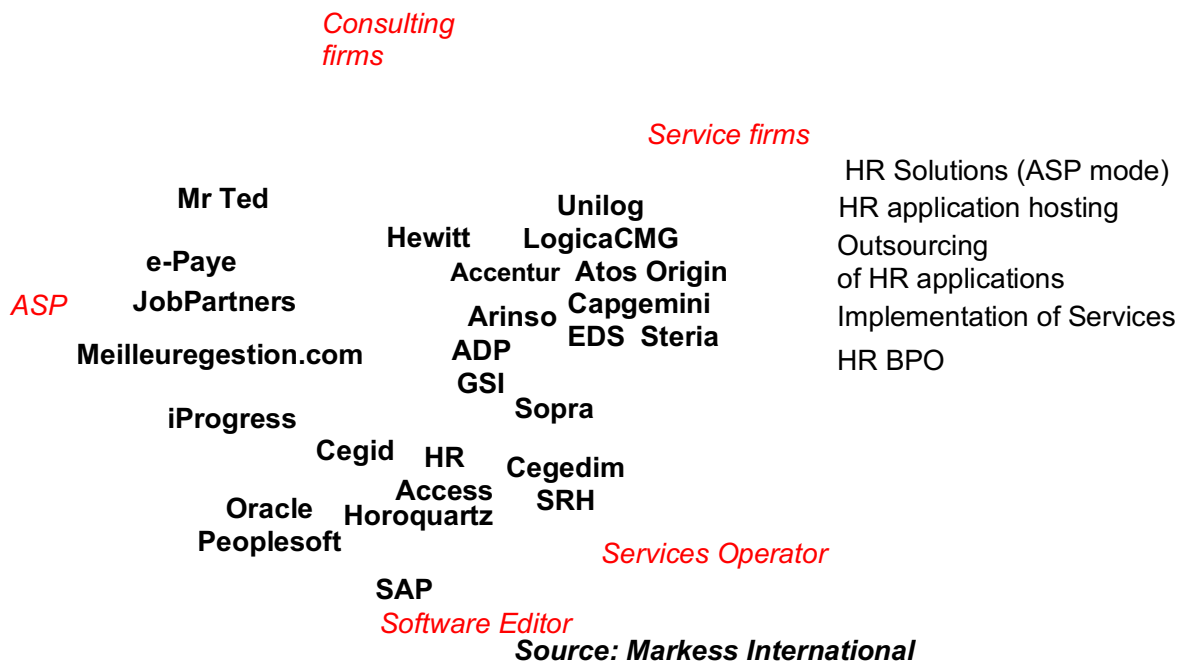
The *BPO Business Process outsourcing* consists in entrusting the whole business process to the provider (for example externalization of the administrative business of the HR function on IBM, Accenture, ADP GSI). The firm keeps its managerial and strategic decisions. The move on rationalization of key business leads some US firms to go further in externalising working contract, recruitment, remuneration with the *PEO « Professional Employer Organization »*. (<http://www.napeo.org/>). But this is only set for small firms and is only running in the USA (Klaas, Gainey, McClendon, Yang 2005)

## 1.2 HR Outsourcing in France

An updated overview of HR outsourcing has been developed by Markess International in 2006.

It identifies four types of vendors. The *service companies* (Accenture, IBM) are global HR service partner offering outsourcing solutions and technology integration services to the world's largest employers. The *HR services operators* (ADP GSI, Cegedim SRH) provide management of certain HR domains and support them with their own software solution. Software *editors* are positioned on the ERP markets (SAP), or on HR applications (Horoquartz). They can also propose hosting solution based on their software (CEGID). The *Application Service Providers ASP* develop HR "best of breed" application that they provide through an internet access for: payroll (e-paye), recruitment (Monster)... Examples of *consulting firms* are Hewitt associates, Pricewaterhouse coopers.

Figure 1  
Human resources outsourcing vendor marketplace



Concerning the outsourcing of Human resources, different contractual forms exist. The study is based on a survey of 194 companies in France. The most identified outsourcing approach is HR processing service.. Then the use of ASP to manage HR applications has been retained by 34% of organizations. Surveyed HR application Hosting has been chosen by 29%.

Figure 2  
Contractual forms

As far as the outsourced applications (Figure 3), the payroll processing has been the first domain concerned with outsourcing. This trend will continue in 2007 and 2008. The second field is the externalization of the training process. The French legal environment with the training law for the employees “[DIF Droit individuel à la formation (in French)]” has

boosted the resort to outsourcing. The employees' administration has been well developed as well. Firm wants to entrust the legal compliance to the outsourcer.

Figure 3  
Applications concerned by outsourcing

After these general statistics, the next paragraphs explain how the HR outsourcing strategy leads the firm towards a new HR Model. Does BPO fit with the new Human Resource Management model ?

### 1.3. Towards a new HR model ?

Ulrich (1996) describes four management roles for the HR function: « Strategic Partner », « Administrative Expert », « Employee Champion », « Change Agent ». The author positions them on a matrix with two axes: process versus people; strategic focus versus day to day operational focus. In each mission, HR role must reinforce the creation of value for the employees, investors and customers of the firm. These four profiles permit to evaluate the performance of HR.

*Administrative expert* orientates his action towards operational tasks. He manages working contracts, payroll and administrative processes. Different types of software support his work.

*Employee champion* answers the employees' needs. He improves the levels of commitment and competence.

*Change agent* is a sort of catalyst encouraging innovation and contributing to the organisation transformations.

*Strategic partner* helps the firm to target its strategic aims and to align HRM practices to the firm strategic orientations. Becker and Huselid and Ulrich (2001) encourage the use of « HR Scorecard » to position the HR function as a business partner.

The LENTIC research center associates the administrative expert as well as employee champion as a type of HRM named « *mecanic HR* ». This latter takes into account activities

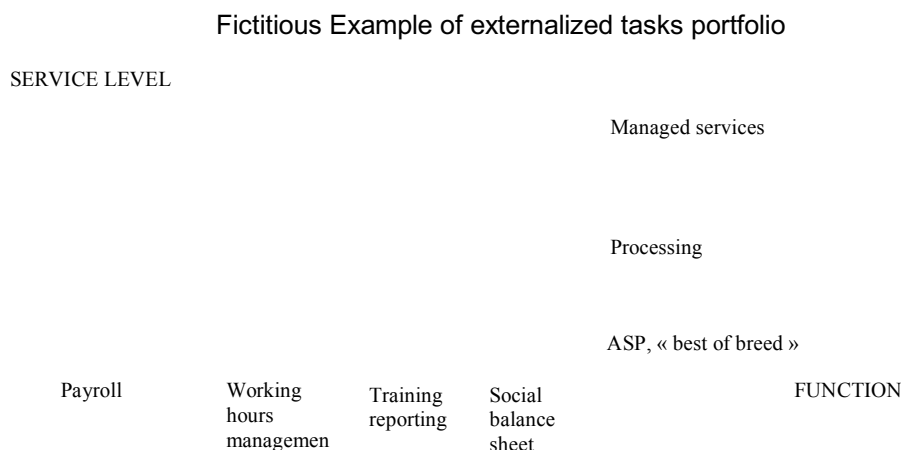
that the hierarchy does not want to assume (example payroll) , whilst the change agent and the « human resource partner » participate to an “*organic HRM*”. Developing and institutionalising the strategic role of the HR will permit the function to become a stake holder in the firm creation of value (Becker, Huselid, Pickus, Spratt (1997).

Beysseyre des Horts (2005) indicates that the academic literature often shows the introduction of ITC as a value creation approach for all the stake holders. However a few empirical research exists on the theme. Within the scope of the problematic, different exploratory interviews have been led toward service providers to understand if HR externalisation could help the function in its new strategic role.

## 2. Can BPO solve the tensions between traditional administrative role of HR function and its new strategic role?

Nowadays in France, HR externalization copes more with the HR process than the HR function per si. Our interlocutors quote the ‘DIF’ legislation (individual training law 5/5/04) as an externalisation process stimuli. The “industrialisation » of DIF makes the HRIS more complex and requires additional internal resources. The histogram below gives an example of HR externalisation decomposition.

Figure 4.



Genuine BPO is still not much used in France compared with the Anglo-Saxon countries. An impetus is given by multinational searching harmonization and coordination of the HR policies.

The next insert explains the HR BPO contract between IBM and P&G (noting that it follows an agreement of 3 billions of \$ with HP for its outsourcing IS infrastructure )

*Procter & Gamble transforms employee services with IBM e-business on demand*  
*Procter & Gamble chose IBM Business Consulting Services when they decided to outsource several business processes, resulting in reduced costs and improved employee services.*

*Procter & Gamble has embarked on a major business transformation to enable it to adapt to and compete more effectively in the ever-changing consumer goods market. A key element of this transformation is outsourcing of some critical, but non-core business processes to improve flexibility and focus on core competencies.*

*One major area that the company sought to outsource was its employee services, or human resources (HR), functions. It needed a strong outsourcing partner with experience and*

*a global presence to support its nearly 98,000 employees worldwide, located in close to 80 countries.*

*The company chose IBM Business Consulting Services for Employee Services Business Transformation Outsourcing (BTO). It will outsource its payroll, benefits, travel and other human resource services to IBM. IBM will provide process transformation and technology integration in managing these HR functions for its employees worldwide.*

*Procter & Gamble will receive employee services in a more real-time, flexible manner. The solution resulted in reduced HR costs, including variable pricing based on projected transaction volumes. The company can now concentrate on its core competencies while further improving employee services. The solution improves decision making by providing management real-time access to employee reporting information that is consistent, accurate and standardized.*

<http://www-306.ibm.com/software/success/cssdb.nsf/CS/GJON-67WRR9?OpenDocument&Site=corp>

Some important actors such as IBM, Accenture, forge the link between BPO and the concept of « shared service centre or SSC».

Historically these centres were internalised in the firm. These are operational independent entities. Their vocation is to centralise the various support functions that have multiple tasks in various geographical establishments. Instead of having independent « back-offices » integrated at each operational entities (subsidiaries, plants, factories), support resources are must be gathered together. Unlike an administrative centralisation, these centres are responsible for the cost management and the services quality level. The SSC has a proper budget and defines its service proxy on a contractual basis with its internal clients who fix the performance standards in terms of cost, delay and quality. The SCC regularly compares the different costs relatively to the frame of reference issued from the best firms. The SCC constitutes an excellence centre and a real profit centre. The SSC is in interface with third parties such as “social security governmental services”...

The SSC which was formally run inside the firm, can nowadays be externalised (personnel transfer) or can be treated by a new service provider (competence transfer) (Horan, Vernon 2003). IBM owns several big international centres: in Pacific Asia (Philippine 300 persons\*<sup>2</sup> China 100 persons\*), one in Europe (500 persons\* in Budapest) and in the USA (Costa Rica 500 persons\* and Hortolândia Brasil 300 persons\* ). SSC are often « offshorised ». Geographical areas are selected according to the country attractiveness (infrastructure, political, monetary, financial, fiscal, legal<sup>3</sup> environments etc) and resources attractiveness (salary costs, real estates costs, quality, competence, spoken languages, employment situation etc).

- *In the case of personnel transfer*, the provider undertakes to take back some of the employees of the principal. Thus in the scope of the world externalisation of the administrative HR of P&G, IBM has taken back approximately 800 P&G people as well as three of its multinational SSC. New forms of organization, more specially externalization phenomenon, weigh heavily on the application of the employment law (Morin 2005). The externalisation development of the functional domains goes with the professionalization of the legal and fiscal frameworks surrounding these operations. In France, with the famous *L122-12 article* of the labour legislation<sup>4</sup>, the

<sup>2</sup> Number of persons dedicated HR because other teams could be oriented CRM or finance (this reinforces the *mutualisation phenomenon* (multi-clients or multi-tower BPO contracts) for the holders of offshore platforms).

<sup>3</sup> For example nominative information outside Europe transfer requires a CNIL specific procedure <http://www.cnil.fr/>.

<sup>4</sup> See the equivalents of the L122-12 en Europe « Business transfers across Europe » [www.lovells.com/Lovells/Publications/](http://www.lovells.com/Lovells/Publications/)

staff transfer is automatic, providing that, the transfer relies on a self governing economic entity. The theme of the social responsibility is obviously inherent in these kinds of restructuration (Morin 2005, Rorive 2005). The creation of Joint-Ventures between the contractors and the providers allows to smoothly treat BPO. The vocation of these juridical structures is not to endure : they accommodate employees « *in I22-12 status*» when the arrangement notes employees' transfer and houses employees in “*temporary assignment status*”, when the principal wants in fact to reorganize and redeploy them in the firm. The interviews show that the first reluctance is the social risk (strikes, protest movement ). The provider use the JV settlement to manage the transition on a longer duration.

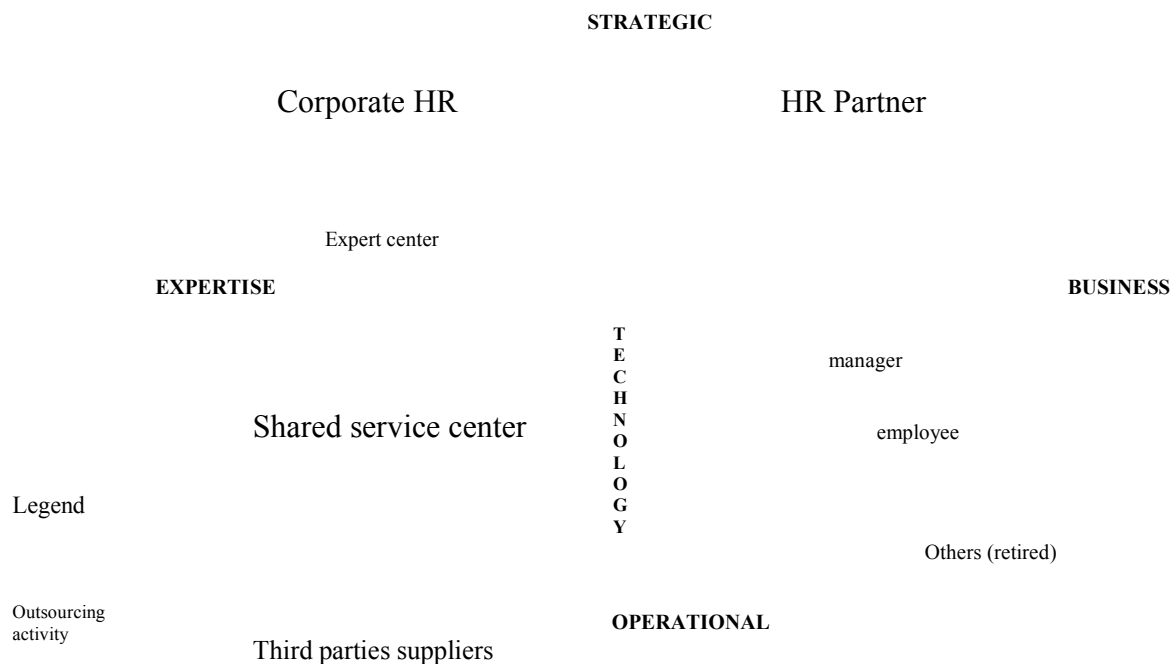
- *In the case of competence transfer*, the provider does not take back some principal employees.

The risks and the limits of the enterprise on the way of externalisation of its services can be legitimately questioned. Could the increasing cuts in human resources mean the regression of the HR function?

The exploratory interviews within providers show that they defend a strategic vision of HR and not only an economic logic with costs reductions. BPO could help to transform the HR function, by resolving the tensions between its administrative traditional role and its new strategic role.

Figure 5.

Links between BPO and human resources



The chart can be so interpreted: BPO could liberate the HR function so that it could be more oriented on strategic missions. Providers take into account the SSC (*general RH* in interface with each country) and place an HR internet portal at the employees disposal (technological bloc in the diagram). The HR partners work with the business units. In the development stage, priority is given on recruitments, motivation development etc ... In the stabilisation level, the role is to fit HR and the competences with the business firm . Finally in the recession stage, crisis management is involved. The corporate HR elaborates the institutional strategy. It is in interface with the expert centre (*process HR specialist*).

The different squares of the diagram are interdependent and look curiously like Ulrich's model. According to Ulrich's terms, several questions can be asked: "Is this BPO framework concerns *the next HR agenda for adding value and delivering results?*" and "How does IT affect BPO?"

### **3. How IT could affect positively BPO?**

Few studies exist between the theme of HRM creating value and BPO. Examples of « *Backsourcing* » operations in the IT outsourcing domain could frighten some managers. In 2002, JP Morgan externalized its IS infrastructure on IBM with a contract of 5 \$ billions on 7 years. But, after its merging with Bank One, in 2004, JP Morgan reneged on its contract with IBM and decided to reinternalise its IS function. Even if the reversibility clause is now systematic in the BPO contracts, re-internalisation of activities is not without a cost for the firm. Few empirical evidence scientifically legitimate the HR externalisation and when they exist they are also conflicting. Shi & Chiang and Hsu (2005) collecting data in 153 large Taiwanese companies, discovered that HR Function's involvement in the company's strategic process was found to negatively moderate the relationship between HR outsourcing and perceived effectiveness. Analysing the Flemish PASO data base (Panel Survey of Organizations), Delmotte & Sels prove that HR outsourcing is not only an instrument of costs reduction, it's also a more strategic vision of HR. They observe that internalisation (delegation of power to hierarchic lines) and externalisation are strongly correlated, yet without emptying the HR attributions department. Combining Internalisation and externalisation allows the HR function to move towards a role of «strategic business partner».

Completing these results stemmed from quantitative methods, several critical case-studies also exist. The Cook's articles (2005, 2006) are relevant. The author reminds us that Ulrich does not really discuss the process of interaction by which the distribution of work between in house HR professionals and outsourced HR staff is determined. When they have outsourcing decisions, firms need to look beyond the resource-based view that helps them to identify their competitive advantage, more specially on the complex institutional context (decision makers' norms and values, corporate history, organizational culture and politics, public and regulatory pressures, and industry wide norms). Our interviews confirm this point of view. The French government imminent elections, the current social movements do not boost the mega outsourcing contracts. BPO is considered as strategic. It is usually more decided by C.E.O than the HR departments...

Shen (2005) reminds us that a good management to the externalisation relationship is *a vital* condition for the success of the collaboration and also to develop organizational learning. In that way, Schlosser, Templer, Chanam (2006) suggest that managers can possibly influence the relationship between outsourcing and social capital through marketing tactics and enriched psychological contracts.

Even though we possess limited knowledge about the effectiveness of outsourcing and HR duties, we can realize how IT could affect BPO. Advance Internet technology furthers a seamless relationship between external vendors and client companies. That's why, investment and innovations in an integrated HR information technology are often a selling point of the HR specialised service providers. This could enhance "cross fertilization" between the two firms and perhaps by-pass the resistance to change syndrome existing in-house. Companies may learn latest techniques and benefit from benchmarking. They may capitalize on other's expertise and raise organizational memory with IT. When BPO is well driven our interviews underline the implementation of HR score card, better HR reporting and development of e-HR.



## Conclusion

In this article, HR outsourcing is not presented only as a cost reduction instrument but also as a transformational outsourcing and as a process of the organizational and strategic change. As BPO and SSC redefine the shapes of the firm, the effective management of human resource outsourcing hardly lies on managing a good relationship with the providers. Personal transfer or competence transfer has not the same impact on social risk, which is the greatest damp for French BPO.

No real scientific evidence sustain the cost reduction, the better services and the creation of value brought by BPO (Conklin 2005, Belcourt 2006). Human resource outsourcing leads to significant change in the firm and need to be well managed. This article tries to analyse how IT could go with BPO and what kind of assets IT supplies. There is an important theoretical literature demonstrating that information technology mechanisms provide great insight into a successful management interorganizational coordination in a global supply chain.

Future research on IT / HR outsourcing and inter/intra supply chain dynamics could help to manage the best of "BPO spirit"...

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