SHRM®
Human Resource Outsourcing

SURVEY REPORT
A study by the Society for Human Resource Management
Human Resource Outsourcing Survey Report

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About This Report
In February 2004, the Society for Human Resource Management (SHRM) conducted the Human Resource Outsourcing Survey to better understand the impact of human resource outsourcing on today's organizations.

The HR functions that organizations are currently outsourcing as well as projections about future areas were explored to gain insight on how outsourcing may transform the HR profession. Findings are discussed in the survey results sections, and interpretations about future trends in outsourcing are presented at the end of the report in the section titled “A Look Ahead.” Statistically significant findings of the results by organization staff size and profit status are also integrated in the survey report, when applicable.

About SHRM
The Society for Human Resource Management is the world's largest association devoted to human resource management. Representing more than 185,000 individual members, the Society's mission is to serve the needs of HR professionals by providing the most essential and comprehensive resources available. As an influential voice, the Society's mission is also to advance the human resource profession to ensure that HR is recognized as an essential partner in developing and executing organizational strategy. Founded in 1948, SHRM currently has more than 500 affiliated chapters and members in more than 100 countries. Visit SHRM Online at www.shrm.org.

About the Author
Evren Esen is a Survey Analyst for SHRM. Her responsibilities include designing, conducting and analyzing surveys on HR-related topics, and assisting in larger survey projects. She has a graduate certificate in survey design and data analysis from George Washington University in Washington, D.C.

Acknowledgments
This report is the culmination of a team effort. Steve Williams, SHRM Director of Research, provided valuable expertise adding to the content of the survey report. Jennifer Schramm, SHRM Manager of Workplace Trends and Forecasting, also contributed by providing insight on future developments in human resource outsourcing.
Outsourcing typically involves transferring one or more of an organization’s business processes to an outside service provider or vendor. For the purposes of this survey, HR professionals were asked to specifically think about outsourcing in terms of how it relates to the contracting out of specific functions traditionally performed by an organization’s human resource department. The report does not address the outsourcing of entire HR departments within organizations, although HR professionals are asked about the likelihood. Outsourcing in this context should not be confused with offshoring, which, although sometimes used interchangeably, refers specifically to the exporting of jobs from developed countries such as the United States to countries where labor and other costs are lower. Generally, less than 3% of human resource outsourcing involves offshoring.1

Human resource outsourcing is not a new phenomenon. Organizations have been outsourcing various components of human resource functions, such as payroll and benefits administration, for years. So why is there so much discussion about outsourcing now? There are several reasons. Although the outsourcing of some HR functions is fairly common, more organizations, especially the giants like global Fortune 500 companies, have elected to outsource their entire HR function. This is a relatively uncommon practice, yet it has fueled the debate about outsourcing in general. The number of vendors in HR business process outsourcing who are capable of handling large scale operations has also increased. Though the numbers vary, HR outsourcing is a billion-dollar industry and sources consistently show that in the last five years the U.S. market for HR outsourcing has nearly doubled.

In recent years, the HR profession has experienced a shift. There is an increased focus on HR functions that promote business strategy and human capital, and these roles require a considerable amount of time. Another factor is cost reduction. As organizations attempted to reduce operating costs during the most recent recession, bottom-line factors played a role in companies searching for lower cost alternatives. In fact, according to this study, one of the most common reasons for outsourcing cited by organizations that currently outsource one or more HR functions is to decrease costs.

Lastly, the outsourcing of jobs overseas, also known as offshoring, has become a hot button for political candidates and the media alike, impacting public sentiment on the issue. As vendors have access to global economies of scale, HR outsourcing may become a viable option for organizations.

This research examines how companies are dealing with HR outsourcing, explores the views of HR professionals toward outsourcing and determines its impact on the profession in general. The outsourcing of one or more HR functions is the main focus of this report, not the outsourcing of the entire HR function or department within an organization. In fact, as will be seen later on, very few organizations report plans to completely outsource their entire HR department. Other areas discussed are reasons organizations elect to outsource, the types of HR functions outsourced, as well as the rationale behind an organization’s decision not to outsource.

The survey instrument was developed by the SHRM Survey Program. An internal committee of SHRM staff with HR expertise also provided valuable insight and recommendations for the instrument.

A sample of HR professionals was randomly selected from SHRM’s membership database, which included approximately 180,000 individual members at the time the survey was conducted. Only members who had not participated in an SHRM survey or poll in the last six months were included in the sampling frame. Members who are students, consultants, academics, located internationally and who have no e-mail address on file were excluded from the sampling frame. In late February 2004, an e-mail that included a link to the SHRM Human Resource Outsourcing Survey was sent to 2,000 randomly selected SHRM members. Of these, 1,619 e-mails were successfully delivered to respondents, and 298 HR professionals responded, yielding a response rate of 18%. The survey was accessible for a period of two weeks, and two e-mail reminders were sent to nonrespondents in an effort to increase response rates.

The sample of 298 HR professionals was, for the most part, similar to the SHRM membership population, especially with respect to industry. There were slight differences in organization staff size: more HR professionals from small- and medium-staff-sized organizations are represented in the sample than the SHRM membership population.
HR outsourcing, in the form of moving one or more HR functions from in-house to an outside provider, is a practice used by almost six out of 10 organizations. One-third of organizations do not currently outsource any HR functions, and only a few plan to outsource in the next three years. HR functions are usually either partially outsourced or completely outsourced. The difference is that when functions are partially outsourced, the organization co-manages the function with the vendor; when it is completely outsourced, the vendor takes full responsibility.

More than one-half of HR professionals indicated that their organizations partially outsourced an HR function and fewer outsourced completely. Administration of health care benefits, pension benefits and payroll were functions most commonly cited as partially outsourced. The top three functions that were outsourced completely were background checks, employee assistance programs (EAPs) and administration of flexible spending accounts (FSAs).

Some of the most frequently named drivers for outsourcing were reducing operating costs and controlling for legal risk by improving compliance. However, large-staff-sized organizations, compared with small organizations, were twice as likely to indicate that their reason for outsourcing was an attempt to free up the time of their HR staff to focus more on organizational strategy.

When asked about future outsourcing, about two-thirds of HR professionals predicted that their level of outsourcing would remain the same within the next five years and nearly one-third expected outsourcing at their organizations to increase.

Outsourcing seems to be favored to a greater extent in large-staff-sized organizations. Almost twice as many HR professionals from these organizations, compared with medium organizations, indicated that HR outsourcing is likely to increase in the next five years. Only 2% of HR professionals predicted that their organizations would outsource their entire HR department within five years.

About one-half of HR professionals believed that outsourcing has decreased job opportunities for HR professionals, while about one-quarter perceived an increase in job opportunities. HR professionals from large-staff-sized organizations, however, appear to be more concerned than those from small and medium organizations that outsourcing leads to reductions in HR staff.

When asked about the benefits of outsourcing, the majority of HR professionals indicated that outsourcing allows HR professionals the chance to concentrate their efforts on core business functions such as organizational strategy development and execution. Correspondingly, nearly three-quarters of HR professionals agreed that the role of HR professionals becomes more strategic with the outsourcing of certain, specifically transactional, HR functions.
Correlation—The degree of connectedness or association between two variables. Is there a relationship between x and y? Correlation does not necessarily indicate causality.

Average—The mathematical average of all of the data points or observations in a set, calculated by adding the data and dividing the resulting sum by the number of data points. A mean may be affected by extreme data values.

Random sample—A representative sample of a population where each member of the population has an equal chance to be chosen for the research. A random sample can be generated in a variety of ways. If the population is very small, names could be drawn from a hat. Typically, however, random samples are generated by statistical software.

Sample (represented by n)—A subset of a population that represents the population to be studied. For example, consider that a researcher wants to study the U.S. population. It would be impractical to study every U.S. resident, so the researcher chooses a part of it (a sample) representing the entire population. The sample must have the same characteristics as the entire population. Similarly, it is not prudent to study all SHRM members in a single study; therefore, usually a smaller, representative sample is drawn.

Standard deviation (SD)—The dispersion of values around the mean. A small standard deviation indicates low variability and relatively high consensus among responses. A large standard deviation indicates high variability and a relative lack of consensus among responses.

Statistical significance—A condition occurring when the researcher can show (through specific tests for significance) that the likelihood is small that the results occurred by chance. For example, if a researcher claims that the results are statistically significant at p<.05, the likelihood (probability) of these results occurring by chance only is less than 5%.
Survey Results

Throughout this report, conventional statistical methods were used to determine if observed differences were statistically significant (i.e., there is a small likelihood that the differences occurred by chance). Overall, survey findings are discussed first and then, when applicable, results by organization staff size and profit status are included for comparison. Analysis by organization staff size is important in that it provides insight about how the HR professionals’ customer base—the employees—may impact outsourcing practices, outcomes and, ultimately, general perceptions about outsourcing. The organization staff size categories are as follows: small organizations (1-99 employees); medium organizations (100-499 employees); and large organizations (500 and more employees). Examining data by for-profit and nonprofit organization status highlights the differences between these organizations in terms of their use of and reasons for outsourcing HR functions.

A glossary of Key Research Terms is provided for readers to refer to in understanding the statistical methods used for analyses throughout this report.

Prevalence of Outsourcing

Figure 1 depicts the percentage of organizations that currently outsource one or more of their HR functions. While 58% of the organizations currently outsource HR functions, another 38% reported not outsourcing and having no plans to outsource. Another 4% of HR professionals indicated that their organizations have plans to outsource at least one or more HR function within the next three years. These results are possibly influenced, in part, by the large percentage of HR professionals (about seven out of 10) who are employed at small- and medium-staff-sized organizations. It is generally recognized that large organizations outsource HR functions more often and have been outsourcing for longer periods of time compared with smaller organizations.

For-profit organizations outsource more than nonprofit organizations. The data revealed that while 63% of for-profit organizations reported outsourcing one or more of their HR functions, only 37% of nonprofits did. This trend is also evidenced by 55% of nonprofit organizations indicating that they do not outsource and have no plans to outsource in the near future, compared with about one-third (34%) of for-profit organizations.

Note: Percentages may not total 100% due to rounding.
Source: SHRM® Human Resource Outsourcing Survey Report

Figure 1: Outsourcing of HR Functions
(Number of Respondents = 291)

Currently Outsource
Currently Do Not Outsource and Have No Plans to Outsource
Plan to Outsource in Next Three Years

58%
38%
4%
Commonly Outsourced HR Functions

HR functions may be partially outsourced or completely outsourced. The distinction between the two is that in the former, the organization retains some control over the outsourced functions and may share access to information with the vendor. In the latter, the organization relies upon the vendor to carry out the entire function—thus, the HR department’s role with regard to the outsourced function is minimal and may be limited only to managing the relationship with the vendor.

Table 1 comprises a list of 24 human resource functions that were either partially or completely outsourced by organizations that currently outsource at least one HR function.

Overall, more than one-half (56%) of organizations partially outsourced at least one HR function, while 44% completely outsourced at least one HR function. The administration of health care benefits, pension benefits and payroll were the functions most commonly cited as partially outsourced. Temporary staffing, retirement benefits administration and recruitment of nonexecutive employees followed. These results reveal that while organizations may seek vendors to facilitate the administration of certain functions such as benefits and recruitment, they may elect to only partially outsource them in order to remain involved in these vital areas.

The top three functions that were outsourced completely, according to almost one-half of HR professionals, were background checks, employee assistance programs (EAPs) and the administration of flexible spending accounts (FSAs). These were followed by two health care functions—the Consolidated Omnibus Budget Reconciliation Act (COBRA) and health care benefits administration. Most of these functions, while important, are strictly transactional and have less impact on the day-to-day needs of employees, which may explain the willingness of organizations to transfer the entire function to vendors.

It is noteworthy, however, that nearly one-quarter of organizations have elected to completely outsource the administration of health care benefits. It will be interesting to see if this trend becomes even more widespread as health care becomes increasingly difficult and costly to manage. On the other hand, as one of the most important benefits to employee job satisfaction, organizations may find that this is an area from which they are unable to completely detach.

Functions that are of strategic importance to organizations, according to HR professionals, such as policy development and implementation, training and development programs, performance management, and employee communication, rarely appear to be completely outsourced.

Results by organization staff size showed significant differences between large- and small-staff-sized organizations in two outsourced functions: health care and retirement benefits administration. Large organizations were twice as likely to partially outsource these functions, compared with small organizations. Correspondingly, a larger percentage of HR professionals from small organizations indicated that their organizations completely outsourced health care and retirement benefits administration compared with large organizations.

These data may indicate that in small organizations with limited HR staff it is more feasible to take advantage of the economies of scale that vendors are able to offer. It is interesting that large organizations elect to maintain partial management over these functions. With health care and retirement benefits as important as they are to employee job satisfaction, organizations may be choosing to remain involved to ensure employee customer satisfaction.

Companies have utilized human resource outsourcing for decades, although vendor capabilities to handle a wide range of functions have only recently become more abundant. According to HR professionals, on average, retirement planning has been outsourced, either partially or completely, by their organization the longest—nine years—followed by retirement benefits administration, health care benefits administration, payroll administration, pension benefits administration

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and risk management, all of which have been outsourced for eight years. The outsourcing of strategic business planning is relatively recent and has only been outsourced by organizations in the last two years.

Organizations with large staffs have been outsourcing certain functions for longer than organizations with small and medium staffs. EAPs have been outsourced by large organizations on average for nine years, compared with five and six years, respectively, for small and medium organizations. The same trend is evident for training and development programs and work/life balance benefits administration of programs (e.g., implementation of employee childcare and eldercare solutions). Large organizations have been outsourcing

<table>
<thead>
<tr>
<th>Function</th>
<th>Outsource Completely</th>
<th>Outsource Partially</th>
<th>Do Not Outsource</th>
<th>Average Years Outsourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Background/criminal background checks</td>
<td>49%</td>
<td>24%</td>
<td>27%</td>
<td>5</td>
</tr>
<tr>
<td>Employee assistance/ counseling</td>
<td>47%</td>
<td>19%</td>
<td>35%</td>
<td>7</td>
</tr>
<tr>
<td>Flexible spending account administration</td>
<td>43%</td>
<td>24%</td>
<td>33%</td>
<td>6</td>
</tr>
<tr>
<td>Consolidated Omnibus Budget Reconciliation Act (COBRA)</td>
<td>38%</td>
<td>17%</td>
<td>45%</td>
<td>5</td>
</tr>
<tr>
<td>Health care benefits administration</td>
<td>24%</td>
<td>36%</td>
<td>40%</td>
<td>8</td>
</tr>
<tr>
<td>Temporary staffing</td>
<td>21%</td>
<td>33%</td>
<td>46%</td>
<td>7</td>
</tr>
<tr>
<td>Pension benefits administration</td>
<td>19%</td>
<td>36%</td>
<td>45%</td>
<td>8</td>
</tr>
<tr>
<td>Retirement benefits administration</td>
<td>17%</td>
<td>30%</td>
<td>54%</td>
<td>8</td>
</tr>
<tr>
<td>Employee relocation</td>
<td>13%</td>
<td>16%</td>
<td>71%</td>
<td>6</td>
</tr>
<tr>
<td>Payroll administration</td>
<td>13%</td>
<td>35%</td>
<td>52%</td>
<td>8</td>
</tr>
<tr>
<td>Retirement planning</td>
<td>11%</td>
<td>10%</td>
<td>80%</td>
<td>9</td>
</tr>
<tr>
<td>Work/life balance benefits administration</td>
<td>6%</td>
<td>5%</td>
<td>89%</td>
<td>4</td>
</tr>
<tr>
<td>Compensation and/or incentive plans administration</td>
<td>4%</td>
<td>15%</td>
<td>82%</td>
<td>7</td>
</tr>
<tr>
<td>Executive development and coaching</td>
<td>4%</td>
<td>16%</td>
<td>80%</td>
<td>6</td>
</tr>
<tr>
<td>Human Resource Information Systems (HRIS) development</td>
<td>4%</td>
<td>11%</td>
<td>85%</td>
<td>5</td>
</tr>
<tr>
<td>Recruitment/staffing of employees (nonexecutives)</td>
<td>4%</td>
<td>26%</td>
<td>71%</td>
<td>6</td>
</tr>
<tr>
<td>Recruitment/staffing of executives only</td>
<td>4%</td>
<td>24%</td>
<td>73%</td>
<td>7</td>
</tr>
<tr>
<td>Risk management</td>
<td>4%</td>
<td>8%</td>
<td>88%</td>
<td>8</td>
</tr>
<tr>
<td>Expatriate administration</td>
<td>2%</td>
<td>4%</td>
<td>94%</td>
<td>6</td>
</tr>
<tr>
<td>Employee communication plans/ strategies</td>
<td>1%</td>
<td>9%</td>
<td>90%</td>
<td>5</td>
</tr>
<tr>
<td>Performance management</td>
<td>1%</td>
<td>2%</td>
<td>97%</td>
<td>6</td>
</tr>
<tr>
<td>Training and development programs</td>
<td>1%</td>
<td>20%</td>
<td>80%</td>
<td>6</td>
</tr>
<tr>
<td>Policy development and/or implementation</td>
<td>0%</td>
<td>4%</td>
<td>96%</td>
<td>5</td>
</tr>
<tr>
<td>Strategic business planning</td>
<td>0%</td>
<td>4%</td>
<td>96%</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: Percentages are row percentages and may not total 100% due to rounding. Data based on organizations that currently outsource one or more HR function. The percentages are not adjusted to reflect cases in which an organization may not perform a particular HR function. Average number of years outsourced includes outsourcing of HR functions both partially and completely.

Source: SHRM® Human Resource Outsourcing Survey Report
these programs for almost twice as many years as small and medium organizations.

**Reasons for Outsourcing**

Figure 2 examines the reasons that organizations have decided to outsource. Saving money and reducing operating costs (56%) and controlling for legal risk and improved compliance (55%) were the drivers cited most often. Almost one-half of HR professionals indicated that gaining access to vendor talent and streamlining HR functions were the impetus. Although some sources indicate that outsourcing does not drastically contain costs, it still seems to be a major factor in the decision to outsource. With corporate liti-

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**Figure 2** Reasons for HR Outsourcing

(Number of Respondents = 168)

<table>
<thead>
<tr>
<th>Reason for Outsourcing</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To save money/reduce operating costs</td>
<td>56%</td>
</tr>
<tr>
<td>To control legal risk/improve compliance</td>
<td>55%</td>
</tr>
<tr>
<td>To gain access to vendor talent/expertise</td>
<td>47%</td>
</tr>
<tr>
<td>To streamline HR functions</td>
<td>45%</td>
</tr>
<tr>
<td>To offer services the organization could not otherwise provide</td>
<td>44%</td>
</tr>
<tr>
<td>To allow the company to focus on its core business</td>
<td>42%</td>
</tr>
<tr>
<td>To reduce the number of HR staff and related staff expenses</td>
<td>41%</td>
</tr>
<tr>
<td>To provide consistent/improved service delivery</td>
<td>36%</td>
</tr>
<tr>
<td>To allow HR staff to focus more on strategy</td>
<td>33%</td>
</tr>
<tr>
<td>To make up for the lack of in-house talent/expertise</td>
<td>27%</td>
</tr>
<tr>
<td>To gain access to vendor technology</td>
<td>23%</td>
</tr>
<tr>
<td>To avoid the cost of major investments in technology</td>
<td>18%</td>
</tr>
<tr>
<td>To make up for a reduction in HR staff</td>
<td>13%</td>
</tr>
<tr>
<td>To improve metrics/measurement</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

Note: Percentages do not total 100% as respondents were allowed to indicate multiple response options. Based on HR professionals from organizations that currently outsource one or more HR functions.

Source: SHRM® Human Resource Outsourcing Survey Report
gation on the rise, companies perhaps believe that outsourcing serves as a protective factor which is equally as important as the rationale for cost savings. It may be that as human resource outsourcing becomes even more prevalent in organizations, it will be justified less as a cost-saving measure and more as a way to improve the overall functioning of the organization.

Also of interest is that 41% of HR professionals stated that their organizations elected to outsource as a way to reduce the number of HR staff and related staff expenses. Thirty-three percent stated that their organizations outsourced to allow HR staff to focus on strategy. Large-staff-sized organizations, however, were twice as likely to indicate this rationale as small organizations (36% compared with 18%.

Figure 3  Obstacles Faced in Decision to Outsource HR Functions

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fears that customer service to employees might be affected</td>
<td>64%</td>
</tr>
<tr>
<td>Fears about loss of control</td>
<td>51%</td>
</tr>
<tr>
<td>Fears that outsourcing might impact company culture</td>
<td>33%</td>
</tr>
<tr>
<td>Fears about loss of HR jobs/staff</td>
<td>31%</td>
</tr>
<tr>
<td>Resistance from employees in general</td>
<td>22%</td>
</tr>
<tr>
<td>Resistance within HR</td>
<td>21%</td>
</tr>
<tr>
<td>Lack of prior outsourcing experience in general</td>
<td>13%</td>
</tr>
<tr>
<td>Did not know what to look for in vendors</td>
<td>13%</td>
</tr>
<tr>
<td>Resistance within senior management</td>
<td>12%</td>
</tr>
<tr>
<td>Did not know how to locate vendors</td>
<td>12%</td>
</tr>
<tr>
<td>Lack of qualified vendors</td>
<td>6%</td>
</tr>
<tr>
<td>Did not know how to write RFP for vendors</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

Note: Percentages do not total 100% as respondents were allowed to indicate multiple response options. Based on HR professionals from organizations that currently outsource one or more HR functions and who reported facing obstacles when deciding to outsource.

Source: SHRM® Human Resource Outsourcing Survey Report
respectively). This may be a sign that large organizations are more adept at balancing the more traditional roles of HR professionals with strategy. Although, as discussed earlier, large organizations were more likely to retain control over key functional areas such as health care and retirement benefits administration by partially outsourcing, they also appear to believe that an impetus for outsourcing is to allow HR professionals more time for strategizing.

Differences were also observed between for-profit and nonprofit organizations in their reasons for outsourcing. For-profit organizations (60%) indicated that they outsourced to save money and reduce operating costs at nearly double the percentage of nonprofit organizations (35%).

**Outsourcing Obstacles**

Outsourcing can be a very involved and complex process to carry out. There are many factors to consider from finding a suitable vendor to assessing the impact of change on the organization as a whole. Figure 3 lists the obstacles faced by organizations when deciding whether to move forward with outsourcing. Overall, 31% of organizations reported that they had not faced any obstacles, compared with 69% of organization that did. Fears that customer service to employees might be impacted was cited by 64% of organizations, and about one-half (51%) indicated concerns about loss of control over responsibilities traditionally carried out by the organization. This may be a measure of organizational readiness or a lack thereof. Thirty-one percent of respondents indicated that fears about losing HR jobs and staff were an obstacle, and another 21% cited resistance within the HR department.

**Cost Implications in Outsourcing**

Of the organizations currently outsourcing HR functions, have any experienced cost savings as a direct result? The answer to this question is important because one of the top reasons cited for outsourcing was financial. Thirty-one percent of HR professionals reported that their organizations had achieved cost savings as a direct result of outsourcing. Another 23% stated that costs remained about the same, and 9% of organizations experienced cost increases, according to HR professionals. Almost four out of 10 HR professionals did not know the financial impact of outsourcing on their organizations. These data are illustrated in Figure 4.

**Figure 4** Cost Savings Due to HR Outsourcing  
(Number of Respondents = 165)

<table>
<thead>
<tr>
<th>Achieved Cost Saving</th>
<th>Costs Remained About the Same</th>
<th>Incurred Cost Increases</th>
<th>Do Not Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>31%</td>
<td>23%</td>
<td>9%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Note: Percentages may not total 100% due to rounding. Based on HR professionals from organizations that currently outsource one or more HR functions. Source: SHRM® Human Resource Outsourcing Survey Report

It appears that nonprofit organizations (30%) experienced cost increases due to outsourcing much more so than for-profit organizations (6%). This may be linked to the initial reasons for outsourcing cited by the organizations. According to the results, the top reasons for nonprofit organizations to outsource were to control legal risk and improve compliance and to gain access to vendor talent and expertise. With their focus not on cost savings, cost increases may be more likely to occur. Conversely, for-profit organizations outsource to save money and therefore are much more likely to control for any cost increases due to outsourcing.

In addition, 41% of HR professionals who indicated that cost savings were a motivating factor behind out-
sourcing reported that their organizations had indeed achieved cost savings, while 7% had actually incurred cost increases and another 17% indicated that their costs remained about the same. Among those HR professionals who indicated that their organizations had outsourced to save operating costs, 36% did not know if they actually reached their goal.

Of the HR professionals who reported that their organizations had achieved cost savings due to outsourcing, 78% did not know the percentage of cost savings for their company. Those HR professionals who did know the answer indicated that the average cost savings for their organizations was 24%.

These findings highlight the importance of having measurement processes in place that evaluate the cost effectiveness of outsourcing. Many organizations believe that outsourcing will improve the bottom line, and while it appears that this may be the case, it is essential that organizations conduct cost-benefit analyses to monitor the actual return on investment.

Figure 5  Factors in Considering HR Outsourcing Vendor

(Number of Respondents = 168)

A proven track record 89%
Cost of vendor services 82%
Guaranteed service levels 64%
Flexible contracting (e.g., annual reviews ability to modify contract for subpar performance) 53%
Recommendations from other companies 41%
A compatible corporate culture 40%
Niche in a specific area 38%
Vendor employee-to-client ratio (i.e., the number of employees assigned to each vendor account) 20%
Size of vendor organization 19%
Physical location of vendor 14%
Vendor provides jobs for HR staff laid off due to outsourcing 3%
Other 2%

Note: Percentages do not total 100% as respondents were allowed to indicate multiple response options. Based on HR professionals from organizations that currently outsource one or more HR functions.

Source: SHRM® Human Resource Outsourcing Survey Report

1 Percentage based on n = 10 respondents. Readers should proceed with caution when generalizing the results.
Selecting an Outsourcing Vendor

Figure 5 depicts the major factors organizations consider in selecting HR outsourcing vendors. Of the organizations that are currently outsourcing HR functions, 89% indicated that the vendor’s proven track record was the most important selection factor, followed by cost of services (82%). Guaranteed service levels (64%) and flexible contracting options with parameters such as annual reviews and the ability to modify contracts for subpar performance (53%) were reported as additional important aspects to bear in mind. These types of safeguards require that the vendors assume the financial risk for not reaching performance standards. Large-staff-sized organizations seem to place high value on guaranteed services levels, in particular, when considering their vendor options, compared with small organizations (80% and 54%, respectively).

Satisfaction With Outsourcing Vendors

Figure 6 shows the satisfaction levels of organizations with both their relationship with vendors and the services provided by vendors. Overall, organizations are satisfied with their vendors. Ninety percent indicated that they were either “somewhat satisfied” or “very satisfied” with the services provided by their outsourcing vendors. HR professionals also report high satisfaction levels with the relationship they have with their outsourcing vendors: 87% were either “somewhat satisfied” or “very satisfied.”

Challenges of Outsourcing

What are some of the negative outcomes experienced by organizations currently outsourcing HR functions? Figure 7 illustrates these data. Thirty percent of HR professionals expressed that their organizations had not experienced unfavorable outcomes as a result of outsourcing. Of the 70% that did experience challenges, 37% indicated that lack of face-to-face contact with employees was the downside of outsourcing. This may explain why some organizations prefer to partially outsource some of their functions allowing opportunities for HR staff at the organization to remain engaged with and provide direct assistance to employees. About one-third of HR professionals (32%) indicated that they were not yet sure of undesirable impacts that outsourcing may have had on their organizations. The third most cited limitation of outsourcing was its detrimental impact on employee customer service (25%).

HR professionals from large-staff-sized organizations were much more likely than those from small organizations to report that outsourcing had led to a lack of face-to-face contact with employees and a loss of in-house expertise. About one-half of small organizations (52%) reported that they had not yet realized any downsides to outsourcing, compared with only 17% of large organizations. It is not clear whether small organizations are better able to buffer the unfavorable experiences of outsourcing or if they simply realize them later than large organizations. These data are depicted in Table 2.
Figure 7  Negative Outcomes of HR Outsourcing

(Number of Respondents = 118)

- Lack of face-to-face contact with employees/less personal: 37%
- Not sure of negative outcomes at this time: 32%
- Negative impact on employee customer service: 25%
- Lack of remedy(ies) for subpar performance: 22%
- A loss of in-house talent/expertise: 15%
- Unable to effectively manage the relationship with vendor: 13%
- Unable to achieve cost savings: 7%
- A decrease in employee morale: 6%
- Negative impact on company culture: 3%
- Lack of identifiable project milestones: 3%
- Other: 3%

Note: Percentages do not total 100% as respondents were allowed to indicate multiple response options. Based on HR professionals from organizations that currently outsource one or more HR functions.
Source: SHRM® Human Resource Outsourcing Survey Report

Table 2  Negative Outcomes of HR Outsourcing (by Organization Staff Size)

<table>
<thead>
<tr>
<th>Negative Outcome</th>
<th>Small (1-99 Employees)</th>
<th>Medium (100-499 Employees)</th>
<th>Large (500 and More Employees)</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>A loss of in-house talent/expertise</td>
<td>4%</td>
<td>13%</td>
<td>28%</td>
<td>Large &gt; Small</td>
</tr>
<tr>
<td>Lack of face-to-face contact with employees/less personal</td>
<td>19%</td>
<td>38%</td>
<td>53%</td>
<td>Large &gt; Small</td>
</tr>
<tr>
<td>Not sure of negative outcomes at this time</td>
<td>52%</td>
<td>35%</td>
<td>17%</td>
<td>Small &gt; Large</td>
</tr>
</tbody>
</table>

Note: Percentages do not total 100% as respondents were allowed to indicate multiple response options. Sample sizes of the organization staff size categories are based on the number of respondents who reported that their organizations currently outsource one or more HR functions.
Source: SHRM® Human Resource Outsourcing Survey Report
Changes in HR Department Size

Examining changes in the staff size of HR departments across organizations is valuable for understanding transformations in the HR profession. Changes in HR department staff size may be attributed to many factors, such as the economy and corporate restructuring, but outsourcing is often a reason at the top of the list. Reaction of some HR professionals toward outsourcing is that it reduces HR job opportunities, thereby decreasing the HR presence in organizations. Others counter that outsourcing increases career prospects and redistributes jobs but does not take them away. It is important to understand how HR departments evolve in response to the outsourcing of certain functions because it provides a way to assess the impact of outsourcing on the entire profession.

Although there have been changes in HR department staff size in the past five years, as illustrated in Figure 8, it appears that these changes are not a direct result of whether an organization currently outsources its HR functions. Although 37% of HR professionals indicated that there had been decreases in their organization's HR department staff size over the past five years, this was not dependent on whether the organization outsourced any HR functions, indicating that there may have been other causes for changes in department size. Twenty-nine percent of organizations reported increases in their HR department size, and another one-third (34%) stated that their department size had stayed the same.

Changes in HR department staff size varied by organization staff size. About one-half of HR professionals in small-staff-sized organizations (49%) stated that the size of their HR departments stayed the same over the past five years. This was twice the percentage of HR professionals at large organizations (24%). In turn, large organizations (53%) tended to experience decreases in their HR staff, especially when compared with medium organizations (31%).

HR professionals were asked if significant changes in their organization’s HR department size were a direct result of outsourcing or plans to outsource. Overall, 21% of respondents indicated that changes in staff size were related to outsourcing. It should be cautioned, however, that these are based on the perceptions of HR professionals.

It is of interest that 31% of HR professionals who said that their HR department size had decreased in the past five years perceived the decrease to be a result of outsourcing. This may mean that a perception exists that decreases in HR department staff size go hand in hand with HR outsourcing. Again, it is important to point out that these are perceptions, which may indicate room for clearer communication and education about the outsourcing and its direct impact on the profession.

Figure 8 Change in Size of HR Department in Past Five Years

(Number of Respondents = 171)

Note: Percentages may not total 100% due to rounding. Based on HR professionals from organizations that currently outsource one or more HR functions or plan to within the next three years.

Source: SHRM® Human Resource Outsourcing Survey Report

The Impact of Outsourcing on the Human Resource Profession

This section focuses on how HR practitioners perceive the impact of outsourcing on the profession. Perceptions are important because they illustrate the general attitude HR professionals may have toward outsourcing, even if their beliefs sometimes do not correspond with the actual outcomes. For example, previously in this report, it was explained that the
data show outsourcing does not have a direct influence on HR department staff size changes; however, HR professionals perceived it as having an impact on decreases in HR department size.

Figure 9 depicts how HR professionals perceived the effect of outsourcing on the HR profession. Almost one-half (47%) indicated that outsourcing has decreased job opportunities for HR professionals, while 31% reported that it had no impact. Twenty-two percent of HR professionals perceived an increase in job opportunities as a result of outsourcing.

Although about one-half of HR professionals expressed that outsourcing has led to decreased HR job opportunities, 51% commented that HR professionals at their organizations were not at all concerned that outsourcing led to HR staff reductions. Another 38% reported that they were somewhat concerned and 11% stated that HR professionals at their organization were very concerned that outsourcing would impact HR department staff size. These data are depicted in Figure 10.

It appears that the level of concern that outsourcing leads to reductions in HR staff varies by organization staff size, as shown in Table 3. Concern appears to increase as the size of the organization increases. Sixty-two percent of small- and 59% of medium-staff-sized organizations indicated that they were not at all concerned that outsourcing would decrease the number of HR staff, compared with 28% of HR professionals from large organizations. Consequently, while 20% of HR professionals from large organizations reported they were very concerned, only 8% of small and medium organizations indicated the same level of concern.

HR professionals were also asked if they personally had lost a job as a direct result of outsourcing. Only 4% indicated that they had. This may be a reflection of the types of functions organizations are outsourcing and whether these functions are outsourced completely or partially.

Figure 11 illustrates perceptions of how HR professionals, as a whole, view the benefits of outsourcing. The majority (75%) indicated that outsourcing allows HR professionals to focus on core business functions. Another 66% indicated that outsourcing allows HR professionals to spend more time on strategy development and execution, while 45% stated that it allows HR to be perceived as strategic business partners. This viewpoint was especially apparent among HR professionals from large-staff-sized organizations, 64% of which had this opinion, compared with
approximately 40% of HR professionals from small and medium organizations.

In conjunction with the results explained above, HR professionals were specifically asked if they agreed that the role of HR professionals could become more strategic with the outsourcing of transactional HR functions. Seventy-one percent agreed with the statement: 50% indicated that they “somewhat agree” and 21% “strongly agree.” Only 14% of respondents disagreed. These data are shown in Figure 12.

### Table 3 Level of Concern That HR Outsourcing Leads to Reductions in HR Staff (by Organization Staff Size)

<table>
<thead>
<tr>
<th></th>
<th>Small (1-99 Employees)</th>
<th>Medium (100-499 Employees)</th>
<th>Large (500 and More Employees)</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very concerned</td>
<td>8%</td>
<td>8%</td>
<td>20%</td>
<td>Large &gt; Medium</td>
</tr>
<tr>
<td>Somewhat concerned</td>
<td>30%</td>
<td>33%</td>
<td>52%</td>
<td>Large &gt; Small Large &gt; Medium</td>
</tr>
<tr>
<td>Not at all concerned</td>
<td>62%</td>
<td>59%</td>
<td>28%</td>
<td>Small &gt; Large Medium &gt; Large</td>
</tr>
</tbody>
</table>

Note: Percentages may not total 100% due to rounding. Sample sizes of the organization staff size categories are based on the number of respondents who reported that their organizations currently outsource one or more HR functions.

Source: SHRM® Human Resource Outsourcing Survey Report

### Figure 11 Benefits of Outsourcing HR Functions for HR Professionals

(Number of Respondents = 298)

- HR is able to focus on core business functions: 75%
- It allows HR to spend more time on strategy development and execution: 66%
- It allows HR to be perceived as strategic business partners: 45%
- It improves HR metrics/measurement: 25%
- HR has a better reputation among senior management: 17%
- HR has a better reputation among employees: 11%
- Other: 4%

Note: Percentages do not total 100% as respondents were allowed to indicate multiple response options.

Source: SHRM® Human Resource Outsourcing Survey Report
Clearly, outsourcing is perceived as a way for HR professionals to engage in roles that are more strategic to the organization’s bottom line. This may reveal that HR outsourcing as a concept is taking hold in the profession and that HR professionals are generally accepting it as a way to advance the profession.

How may the HR profession change as a result of outsourcing? Two general themes emerged: 1) the perception that outsourcing is a way to increase the strategic importance of HR professionals, and 2) the view that outsourcing leads to decreased personal contact with employees and ultimately impacts a central component of the profession. Other viewpoints were that outsourcing impacts the availability of HR professional jobs and that roles within HR will eventually become more specialized, thus eliminating the bulk of HR generalist positions. Overall, HR professionals seem to believe that outsourcing provides greater opportunities for the profession to be seen as business partners, although at the detriment of

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<table>
<thead>
<tr>
<th>Figure 12</th>
<th>Role of HR Becomes More Strategic With HR Outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Number of Respondents = 295)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Percentages may not total 100% due to rounding. On a scale where 1 = Strongly Disagree and 5 = Strongly Agree, the average of HR professional agreement was 3.75 with a standard deviation of 1.01. A standard deviation of 1.0 or greater indicates a relative lack of consensus. Readers should proceed with caution when generalizing the results. Source: SHRM® Human Resource Outsourcing Survey Report

<table>
<thead>
<tr>
<th>Figure 13</th>
<th>Extent to Which HR Outsourcing Has Met Organization’s Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Number of Respondents = 164)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Percentages may not total 100% due to rounding. Based on HR professionals from organizations that currently outsource one or more HR functions. On a scale where 1 = To No Extent at All and 5 = To a Large Extent, the average level of expectation was 4.21 with a standard deviation of .86. A standard deviation of 1.0 or greater indicates a relative lack of consensus. Readers should proceed with caution when generalizing the results. Source: SHRM® Human Resource Outsourcing Survey Report

<table>
<thead>
<tr>
<th>Figure 14</th>
<th>Outsourcing of HR Functions Within Next Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Number of Respondents = 164)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Percentages may not total 100% due to rounding. Based on HR professionals from organizations that currently outsource one or more HR functions. Source: SHRM® Human Resource Outsourcing Survey Report

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4 The important point to bear in mind is that this question was asked of all HR professionals participating in the survey, regardless of whether their organizations currently outsource HR functions.
jobs being reorganized and having less day-to-day contact with employees.

Projected Increases in the Use of Outsourcing

As depicted in Figure 13, outsourcing seems to be meeting the expectations of organizations. Nearly half of the organizations indicated that their expectations had been met “to some extent” and “to a large extent” (43% and 42%, respectively). Does this mean that respondents expect their organizations to outsource more HR functions in the near future?

According to 32% of HR professionals, their organiza-
tions are planning to outsource more HR functions within the next five years. Still, nearly two-thirds (64%) indicated that within the next five years the level of outsourced functions would remain the same. Only 4% anticipated decreases in outsourcing. Overall, as organizations utilize the services of outsourcing vendors, they are likely to continue to do so. These data are illustrated in Figure 14.

About one-half of HR professionals from large-staff-sized organizations (49%) reported that they expect outsourcing to increase within five years, which is more than twice the percentage of medium organizations (21%).

Some organizations, mostly global industry giants, have made decisions to outsource their entire HR function or a large portion of it. This does not appear to be a trend that will take hold in the next five years. Only 2% believed that their organizations would outsource the entire HR function in the near future.

HR professionals from organizations that are not currently outsourcing any HR functions but plan to in the next three years indicated that the top three projected areas for outsourcing are background/criminal background checks (25%), Human Resource Information Systems (HRIS) (17%) and strategic business planning (17%).

Reasons for Not Outsourcing

An organization’s decision on whether to outsource HR functions depends on several factors, many of which center around the organization’s culture, staff size, leadership and overall strategic business plan. As discussed earlier in this report, 38% of HR professionals indicated that their organizations currently do not outsource any of their HR functions nor do they have plans to. Some organizations may feel that it is not in their best interest to outsource, and they have perhaps found alternatives to outsourcing that offset the benefits or reasons designated by those that currently do outsource: to reduce operating costs, to improve compliance and to gain vendor talent.

Figure 15 describes the reasons provided by organizations that have elected not to outsource any of their HR functions. The major cited reasons were wanting to maintain face-to-face contact with employees (61%), followed by not wanting to lose control over their HR functions (50%) and preferring to develop expertise in-house (46%). Also of interest is that 30% of respondents indicated a deterrent to outsourcing was the concern that it would be too expensive. This is at odds with what HR professionals from organizations that are currently outsourcing cited as the main impetus to outsource—to save money and reduce operating costs. This might indicate that uncertainty exists as to whether outsourcing saves organizations money and that there is not enough favorable information for cost savings to convince organizations that have opted not to outsource any of their HR functions.
HR departments today are faced with dual roles. The first involves being a business partner focusing on core functions that impact bottom-line objectives of the organization. Second, HR professionals are critical in ensuring that the day-to-day needs of employees are addressed. These two roles afford that HR professionals have the foresight to manage the organization’s strategic approaches while also handling its most immediate and relevant concerns.

As a way to juggle these responsibilities, outsourcing appears to be a viable option that organizations are embracing. This is especially evident in large-staff-sized organizations which show a trend in utilizing outsourcing slightly more than smaller organizations. They also report a greater likelihood of increasingly relying upon it in the future. Large organizations, however, also reported more unfavorable outcomes due to outsourcing, such as less face-to-face contact with employees and decreases in in-house expertise. HR professionals from large organizations also expressed greater concern that outsourcing would lead to reductions in HR staff size, which is corroborated by results of this survey that show these organizations experiencing decreases in their HR department size in the past five years.

HR professionals are fully aware of the impact of outsourcing on the profession. Some embrace it, while others do not. Their concerns center around the shifting roles of the HR professionals that require them to be both transformational and transactional. It is likely that as an outcome of outsourcing the preferred skills in the profession may shift. Some jobs may be redistributed such that they require broader business skills as well as specific HR expertise. These changes, however, are likely to be felt throughout the profession, regardless of whether an organization outsources its HR functions or not. Depending on the organization’s business goals and corporate culture, outsourcing may not be the most viable alternative. Yet, the role of HR professionals will continue to alter as the profession advances into new territory. While most of the discussion about HR outsourcing tends to center on the cost savings, the advantages and the disadvantages, the real focus may need to be on preparing for the inevitable impact on the profession itself.
Most human resource outsourcing market analysts believe the market for HR outsourcing will continue to grow over the coming years. This prediction seems to be supported by this report’s findings that show that almost one-third of HR professionals said their companies planned to increase the use of outsourcing.

This increased use of outsourcing could be particularly pronounced in larger organizations due to economies of scale. Not only may larger businesses save money by outsourcing discrete HR functions, but they may also be more likely to utilize multiple HR outsourcing services. As existing HR outsourcing providers merge and other major players get into the game, the trend toward the use of several HR outsourcing services is apt to continue because larger providers are more likely to offer a larger selection of products and services.

Another factor that may encourage more businesses to outsource multiple HR processes to a single provider is the increasing integration of business and technology systems. Using a single HR outsourcing services provider may make it easier to link several different systems together, creating a more seamless delivery.

This may be particularly significant if there is a rise in the use of self-service HR delivery mechanisms. With an increasing need to save costs, a greater demand for customization and the growing tech-savvy of the workforce, this seems likely to occur, and in this case, the seamless delivery of technology-enabled HR services will be critical.

Because the main reasons for outsourcing are to save money and reduce operating costs, offshoring—where outsourced functions result in jobs moving to other countries—could become another key driver in the trend toward outsourcing. Improvements in information and communications technology have enabled many industries to take advantage of the lower labor costs in India, the Philippines, Russia and China, and HR processes that are currently being outsourced to companies based in the United States may soon be sent to lower-cost countries to create even greater cost savings. The types of HR functions that are likely to be offshore, as opposed to outsourced, to companies operating out of the United States may be slightly different due to a variety of factors such as cultural knowledge or security issues. This could mean that some functions may be more likely to be only partially outsourced to other countries. Regardless of the form it takes, the development of the offshoring trend will have a major impact on HR outsourcing overall.

There are, however, many HR services that will continue to be resistant to both outsourcing and offshoring due to the nature of the work. Those involving high levels of face-to-face customer interaction or specialization are likely to be least vulnerable to outsourcing. As more transactional HR functions are outsourced, the character of the HR positions that remain could shift as well. Most of the survey respondents felt this shift was toward a more strategic role. This could be why at least some of the HR professionals surveyed believed that outsourcing had improved their job opportunities. These respondents may view outsourcing as a way to free them up to focus on more visible and high-profile strategic tasks. As SHRM tracks the outsourcing trend over the coming years, one of the most critical issues it will continue to examine will be whether the number of HR professionals reporting an improvement in their own career prospects as a result of the outsourcing trend increases.
## Demographics

### Organization Staff Size

<table>
<thead>
<tr>
<th>Staff Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-99 Employees</td>
<td>30%</td>
</tr>
<tr>
<td>100-499 Employees</td>
<td>43%</td>
</tr>
<tr>
<td>500 and More Employees</td>
<td>27%</td>
</tr>
</tbody>
</table>

*Number of Respondents = 291*

### Unionization

Sixteen percent of respondents indicated there are unionized employees at their locations, with an average of 28% of employees unionized.

*Number of Respondents = 292*

### Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New England (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut)</td>
<td>3%</td>
</tr>
<tr>
<td>Middle Atlantic (New York, New Jersey, Pennsylvania)</td>
<td>16%</td>
</tr>
<tr>
<td>East North Central (Ohio, Indiana, Illinois, Michigan, Wisconsin)</td>
<td>20%</td>
</tr>
<tr>
<td>West North Central (Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas)</td>
<td>10%</td>
</tr>
<tr>
<td>South Atlantic (Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida)</td>
<td>19%</td>
</tr>
<tr>
<td>East South Central (Kentucky, Tennessee, Alabama, Mississippi)</td>
<td>4%</td>
</tr>
<tr>
<td>West South Central (Arkansas, Louisiana, Oklahoma, Texas)</td>
<td>10%</td>
</tr>
<tr>
<td>Mountain (Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada)</td>
<td>6%</td>
</tr>
<tr>
<td>Pacific (Washington, Oregon, California, Alaska, Hawaii)</td>
<td>12%</td>
</tr>
</tbody>
</table>

*Number of Respondents = 284*

### Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing (Durable Goods)</td>
<td>11%</td>
</tr>
<tr>
<td>Services (Profit)</td>
<td>11%</td>
</tr>
<tr>
<td>Finance</td>
<td>7%</td>
</tr>
<tr>
<td>Health</td>
<td>7%</td>
</tr>
<tr>
<td>Insurance</td>
<td>7%</td>
</tr>
<tr>
<td>Wholesale/ Retail Trade</td>
<td>7%</td>
</tr>
<tr>
<td>Government</td>
<td>6%</td>
</tr>
<tr>
<td>Manufacturing (Nondurable Goods)</td>
<td>6%</td>
</tr>
<tr>
<td>Services (Nonprofit)</td>
<td>6%</td>
</tr>
<tr>
<td>Construction and Mining/ Oil and Gas</td>
<td>3%</td>
</tr>
<tr>
<td>High-tech</td>
<td>3%</td>
</tr>
<tr>
<td>Utilities</td>
<td>3%</td>
</tr>
<tr>
<td>Educational Services</td>
<td>2%</td>
</tr>
<tr>
<td>Newspaper Publishing/ Broadcasting</td>
<td>2%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
</tbody>
</table>

*Number of Respondents = 292*
For-Profit/ Nonprofit Organization
(Number of Respondents = 294)

- Nonprofit: 22%
- For-Profit: 78%

Sector
(Number of Respondents = 292)

- Private Sector: 84%
- Public/ Government Sector: 16%
In an effort to identify and address the impact of human resource outsourcing on the human resource profession, the Society for Human Resource Management (SHRM) is conducting this CONFIDENTIAL survey. Please be assured that your responses to the survey will be kept strictly confidential. Responses from all participants will be combined, analyzed and the findings reported only in their aggregate form.

Instructions:
For the purposes of this survey, you are asked to think of outsourcing in terms of how it relates to the contracting out of functions that are traditionally performed by an organization’s human resource department.

1. Does your organization currently outsource one or more of its HR functions?
   - Yes, my organization currently outsources one or more of its HR functions.
   - No, but my organization plans to outsource one or more of its HR functions in the next three years (skip to question 13).
   - No, and my organization has no plans to outsource its HR functions (skip to question 17).

SHRM Human Resource Outsourcing Survey Report
2. HR functions may be partially outsourced, meaning that the organization retains some control over the outsourced function (e.g., shares access to information with the vendor) or HR functions may be completely outsourced, meaning that the organization retains no control over the outsourced function.

Which HR function(s) does your organization partially or completely outsource, and for approximately how many years has the function(s) been outsourced? (Check all that apply.)

<table>
<thead>
<tr>
<th>Function</th>
<th>Partially Outsourced</th>
<th>Completely Outsourced</th>
<th>How many years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Background/criminal background checks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation and/or incentive plans administration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated Omnibus Budget Reconciliation Act (COBRA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee assistance/counseling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee communication plans/strategies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee relocation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive development and coaching</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expatriate administration</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Flexible spending account administration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care benefits administration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resource Information Systems (HRIS) development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll administration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension benefits administration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy development and/or implementation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruitment/staffing of employees (nonexecutives)</td>
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<td>Recruitment/staffing of executives only</td>
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<td>Retirement benefits administration</td>
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<td>Retirement planning</td>
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<td>Risk management</td>
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<td>Strategic business planning</td>
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<td>Temporary staffing</td>
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<td>Training and development programs</td>
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<td>Work/life balance benefits administration</td>
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<td>Other (please specify):</td>
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3. What were your organization’s reasons for outsourcing its HR functions? (Check all that apply.)
   - To allow HR staff to focus more on strategy
   - To allow the company to focus on its core business
   - To avoid the cost of major investments in technology
   - To save money/reduce operating costs
   - To reduce the number of HR staff and related staff expenses
   - To control legal risk/improve compliance
   - To gain access to vendor talent/expertise
   - To gain access to vendor technology
   - To gain access to vendor talent/expertise
   - To improve metrics/measurement
   - To make up for a reduction in HR staff
   - To make up for the lack of in-house talent/expertise
   - To offer services the organization could not otherwise provide
   - To provide consistent/improved service delivery
   - To streamline HR functions
   - To gain access to vendor technology
   - To gain access to vendor talent/expertise
   - Other (please specify): ______________________

4. What were the obstacles that your organization faced when it decided to outsource its HR functions? (Check all that apply.)
   - Did not know how to write an RFP for vendors
   - Did not know what to look for in vendors
   - Did not know how to locate vendors
   - Fears about loss of control
   - Fears about loss of HR jobs/staff
   - Fears that outsourcing might impact company culture
   - Fears that customer service to our employees might be affected
   - Lack of prior outsourcing experience in general
   - Lack of qualified vendors
   - Resistance from employees in general
   - Resistance within HR
   - Resistance within senior management
   - Not applicable: did not face any obstacles
   - Other (please specify): ______________________

5. As a direct result of outsourcing its HR functions, did your organization achieve cost savings, incur cost increases, or did costs remain about the same? (Check all that apply.)
   - Achieved cost savings
   - Incurred cost increases (skip to question 7)
   - Costs remained about the same (skip to question 8)
   - Do not know (skip to question 8)

6. Approximately what percentage of cost savings overall did your organization achieve by outsourcing HR functions?
   - ________ % (skip to question 8)
   - Do not know (skip to question 8)

7. Approximately, what percentage of cost increases overall did your organization incur by outsourcing HR functions?
   - ________ %
   - Do not know
8. What are the main factors to consider when selecting an HR outsourcing vendor? (Check all that apply.)
   - A compatible corporate culture
   - A proven track record
   - Cost of vendor services
   - Flexible contracting options (e.g., annual reviews, ability to modify contract for subpar performance)
   - Guaranteed service levels
   - Niche in a specific area
   - Physical location of vendor
   - Recommendations from other companies
   - Size of vendor organization
   - Vendor employee-to-client account ratio (i.e., the number of employees assigned to each vendor account)
   - Vendor provides jobs for HR staff laid off due to outsourcing
   - Other (please specify): ______________________

9. What have been, if any, the negative outcomes of outsourcing your organization's HR functions? (Check all that apply.)
   - A decrease in employee morale
   - A loss of in-house talent/expertise
   - Lack of face-to-face contact with employees/less personal
   - Lack of identifiable project milestones
   - Lack of remedy(ies) for subpar performance
   - Negative impact on company culture
   - Negative impact on employee customer service
   - Unable to achieve cost savings
   - Unable to effectively manage the relationship with vendor
   - Not applicable: there have been no negative outcomes
   - Not sure of negative outcomes at this time
   - Other (please specify): ______________________

10. Overall, how satisfied or dissatisfied is your organization with:
    - The services provided by your outsourcing vendor(s)?
    - The relationship with your outsourcing vendor(s)?

11. Overall, to what extent has outsourcing HR functions met the expectations of the organization?
    - To a large extent
    - To some extent
    - Neither to a large extent nor to a small extent
    - To a small extent
    - To no extent at all

12. Do you expect that your organization's outsourcing of HR functions will increase, stay the same or decrease in the next five years?
    - Increase (skip to question 13)
    - Stay the same (skip to question 14)
    - Decrease (skip to question 14)
13. Which HR functions does your organization plan to outsource in the next three years? (Check all that apply.)

- Background/criminal background checks
- Compensation and/or incentive plans administration
- Consolidated Omnibus Budget Reconciliation Act (COBRA)
- Employee assistance/counseling
- Employee communication plans/strategies
- Employee relocation
- Executive development and coaching
- Expatiate administration
- Flexible spending account administration
- Health care benefits administration
- Human Resource Information Systems (HRIS) development
- Payroll administration
- Pension benefits administration
- Performance management
- Policy development and/or implementation
- Recruitment/staffing of employees (nonexecutives)
- Recruitment/staffing of executives only
- Retirement benefits administration
- Retirement planning
- Risk management
- Strategic business planning
- Temporary staffing
- Training and development programs
- Work/life balance benefits administration
- Other (please specify): ______________________

14. Has the size of your organization’s HR department increased, stayed the same or decreased overall in the past five years?

- Increased
- Stayed the same
- Decreased

15. Is this a direct result of outsourcing or plans to outsource?

- Yes
- No

16. Do you believe that your organization will outsource its entire HR function in the next five years?

- Yes (skip to question 18)
- No (skip to question 18)

17. Why has your organization chosen NOT to outsource its HR functions? (Check all that apply.)

- We do not have the resources to manage the outsourcing process
- We do not want to lose control of our HR functions
- We encountered resistance from employees in general
- We encountered resistance within HR
- We encountered resistance within senior management
- We felt it would negatively impact customer service to our employees
- We felt it would negatively impact the company culture
- We felt that it would be too expensive
- We felt we would be unable to achieve a cost savings
- We have had a bad experience with outsourcing in the past
- We preferred to develop expertise in-house
- We preferred to invest in technology in-house
- We wanted to maintain face-to-face contact with our employees
- Other (please specify): ______________________
18. In terms of its impact on the HR profession, do you believe that human resource outsourcing has increased, had no impact on or decreased HR professional job opportunities?
   - Increased HR job opportunities
   - Had no impact on HR job opportunities
   - Decreased HR job opportunities

19. In general, how concerned are HR professionals at your organization that outsourcing leads to reductions in HR staff?
   - Very concerned
   - Somewhat concerned
   - Not at all concerned

20. In the past, have you lost your job as a direct result of HR outsourcing?
   - Yes
   - No

21. In general, do you agree or disagree that the role of HR professionals can become more strategic with the outsourcing of transactional HR functions (i.e., health, retirement and pension benefits administration, payroll, etc.)?
   - Strongly agree
   - Neither agree nor disagree
   - Somewhat disagree
   - Strongly disagree

22. What are the benefits of outsourcing HR functions for HR professionals? (Check all that apply.)
   - HR has a better reputation among employees
   - HR has a better reputation among senior management
   - HR is able to focus on core business functions
   - It allows HR to be perceived as strategic business partners
   - It allows HR to spend more time on strategy development and execution
   - It improves HR metrics/measurement
   - Other (please specify): ______________________

23. How do you think that human resource outsourcing will change the HR profession?

24. How many employees are employed at your location? ____________________________________________

25. In which state is your location? ______________________________________________________________

26. Are there unionized employees (under a collective bargaining agreement) at this location?
   - Yes
   - No (skip to question 28)

27. What percentage of employees at this location is unionized (under a collective bargaining agreement)?
   ________ %
28. Which industry best describes your location’s main business? (Check only one.)

- Construction and Mining/Oil and Gas
- Educational Services
- Finance
- Government
- Health
- High-tech
- Insurance
- Newspaper Publishing/Broadcasting
- Manufacturing (Durable Goods)
- Manufacturing (Nondurable Goods)
- Services (Nonprofit)
- Services (Profit)
- Telecommunications
- Transportation
- Utilities
- Wholesale/Retail Trade
- Other (please specify) ______________________

29. Is your organization for-profit or nonprofit?

- For-profit
- Nonprofit

30. Is your organization in the public/government or private sector?

- Public/government sector
- Private sector
Available to members and the public:

5. Job Satisfaction Poll (74 pages, December 2002)
6. HR Implications of the Attack on America (23 pages, September 2002)
7. Corporate Credibility and Employee Communications Survey (14 pages, August 2002)
8. Job Opportunities Poll (30 pages, August 2002)
11. HR Implications of the Attack on America: Executive Summary of Results of a Survey of HR Professionals (13 pages, October 2002)
12. Negotiating Rewards Poll (14 pages, October 2001)
13. Search Tactics Poll (8 pages, April 2001)

Available to members only:

1. SHRM/CNNfn Job Satisfaction Series: Job Satisfaction Survey Report (52 pages, April 2004)
5. SHRM Eldercare Survey (40 pages, December 2003)
7. Undergraduate HR Curriculum Study (45 pages, October 2003)


17. Fun Work Environment Survey (56 pages, November 2002)

18. Aligning HR With Organizational Strategy (53 pages, November 2002)


23. SHRM 2002 Benefits Survey Results (57 pages, April 2002)


27. World Events Survey—Impact on Global Mobility (4 pages, November 2001)

28. Religion in the Workplace (58 pages, June 2001)

29. Employee Referral Programs (40 pages, June 2001)

30. Impact of Diversity Initiatives on the Bottom Line (41 pages, June 2001)

31. 2001 Benefits Survey (59 pages, April 2001)

32. 2000 FMLA Survey (51 pages, January 2001)

33. Workplace Privacy Survey (51 pages, December 2000)

34. Performance Management Survey (43 pages, December 2000)

35. Impact of Diversity Initiatives Poll (5 pages, October 2000)


37. SHRM Cover Letters and Resume Survey (39 pages, May 2000)

38. 2000 Benefits Survey (52 pages, April 2000)

www.shrm.org/ surveys/ results