



## Discovering the Distinct Benefits of Human Resources Outsourcing

By Terrence McCrossan, ADP

*When companies turn to outsourcing providers to control costs and lessen administrative burdens, knowing how to make the most out of the relationship is just the first step to success.*

In an increasingly uncertain economic environment for businesses and consumers alike, many companies are looking for opportunities to control costs and liberate their organizations from time consuming and increasingly complex HR processes. The transition of one or more HR functions to a third-party typically results in a higher quality service delivery at a lower cost, while also providing the technological capabilities for human capital measurement, reporting, analysis, and regulatory compliance that otherwise may not have been readily available.

Working with a human resources outsourcing provider can also impact business results as resources are refocused to support key growth areas, while leveraging economies of scale and efficiencies provided by the latest technology. Perhaps one of the largest advantages for HR professionals is the fact that they have more time to focus on personnel issues within their organization that will help meet their strategic agenda.

A variety of factors must be considered prior to entering into a relationship with an outsourcing provider to achieve

maximum value. We will examine a number of those factors including:

- Understanding best practices in outsourcing,
- How to find efficiencies within your HR department by taking a holistic approach to the process, and
- Investigating the real-world benefits of outsourcing.

### Best Practices in HR Outsourcing

Outsourcing relationships represent a partnership that hinges on the commitment of both parties. Before entering into an outsourcing arrangement with an HR provider, it is important to establish a solid plan for implementation and management and understand best practices to ensure success within your organization. It is often difficult to know how to make the most out of an outsourcing agreement. The following best practices serve as a guide for any HR professional considering or pursuing outsourcing as a way to improve the HR department and free up business resources.

#### 1. Know Your Options

It's always best to know your options before taking a leap into any new agreement, and it is safe to say that many HR professionals have faced challenges similar to your own. Once you decide to engage with an outsourcing partner, be sure to clearly communicate your goals and requirements to ensure success from the onset of the partnership.

Ask your outsourcing provider to develop a list of solution options that address your specific needs, and request references from other HR professionals to learn from their experiences within the organization. Some examples of outsourced services include:

- Payroll,
- Time and labor management,
- Pre-employment services such as recruitment and background checks,
- 401(k) administration,
- Benefits administration,
- Tax administration,
- Human resources management system (HRMS), and
- Full business process outsourcing (BPO).

This exchange of ideas will help you understand your service options and allow you to select the most appropriate solution for your organization.

#### 2. Gain Support from your Organization

The introduction of outsourcing to your organization will affect the way your business operates, and it often requires cultural shifts within your organization that must be properly explained to all employees. In most cases, it is the responsibility of senior management to ensure that the organization supports the transition to outsourcing on all

levels. As the key influencer, management can encourage employees to embrace new processes and set the standard for working relationships.

Be sure to work closely with your management team to help them clearly understand the business benefits of outsourcing, including how it will help control costs and improve performance, ultimately increasing client satisfaction. Once your management team is on board with the company's outsourcing plan and they understand the overarching benefits to the organization, they can clearly communicate this to other stakeholders to help drive change.

### **3. Set Goals**

As with any business effort, goals should be set early in the process, therefore, success needs to be defined from the onset of the outsourcing project. For an organization looking to outsource one or more HR functions, the goals might be to reduce costs, lessen time spent on administrative functions, or enhance the employee experience by implementing a self-service model. For each goal, assign quantitative metrics that can be measured over time. Share these goals with both your management team and your outsourcing provider so everyone understands exactly what is expected of the outsourcing project and results can be easily mapped back to the goals. By ensuring that everyone clearly understands the project goals, you are setting yourself up for success in the end.

### **4. Evaluate Results**

Lastly, it is essential to regularly assess progress toward the achievement of goals. This includes measuring internal performance against goals and commitments, as well as your outsourcing partner's performance versus expectations. Before you agree on the metrics, be sure you give consideration to how data will be captured, tracked and analyzed. If data is harder to capture than you anticipated, consider focusing on the crucial measurements that are most telling of the progress being made.

These are some very simple steps that can be utilized when considering an outsourcing arrangement and can help prepare your organization for long-term success – ultimately it is important to remember to clearly define success from the beginning, communicate a clear message within your organization, and share your goals with the provider you choose.

## **Finding Efficiencies: Taking a Holistic Approach to HR Processes**

In addition to setting a clear plan for implementation and management, it is important to remember that every HR process is interdependent and that efficiencies must be in place across the board in order to get the most from your outsourcing relationships.

For example, if a benefits system was upgraded successfully, it still may be weighed down by an older payroll system or paper-based processes in time and attendance systems. The key to adding value is to make improvements on a holistic level throughout the HR department; however, keep in mind that often multi-vendor, multi-system processes can drain

system capabilities, valuable time and financial resources.

ADP commissioned a study from PricewaterhouseCoopers (PwC)<sup>1</sup> to determine the impact of non-integrated HR systems, multi-platforms or multi-vendors on cost, performance, and satisfaction with HR service delivery. More than 140 organizations participated in the study, representing a variety of industries with an average employee base of 5,000 or more. The study found that there is a tangible cost associated with non-integrated HR service delivery, estimated at approximately US\$104.00 per employee, per year. For many organizations, this can represent up to six percent of the annual HR and payroll budget.

The study attributed this cost to four common challenges faced by many HR organizations across the U.S. By addressing these common issues, your organization can begin to experience the efficiencies of an updated HR platform:

### **1. Eliminate Redundancies**

Company management structures or mergers and acquisitions can produce multiple service delivery infrastructures for a single company or process, and it is not unusual for an organization to have multiple platforms for benefits, HR and Time and Labor Management (TLM). These redundancies slow down a company and its efficiencies, and it is important to address the gaps in these processes for maximum benefit.

### **2. Self-Service is Key**

Self-service is a valuable tool that enables employees to manage and access personal information at any time and any place. Employees want convenience, clarity, and accessibility in an HR solution. It is essential to offer an easy-to-use Web-based portal that puts HR-related information at their fingertips, as well as the ability to update their personal information online. Many vendors provide an easy way for employees to view their paycheck, W2 or benefit plans online. These services deliver convenience that employees appreciate and eliminate the need for HR involvement to resolve issues, offering HR professionals more time to focus on strategic initiatives.

### **3. Centralize Time and Labor Management (TLM)**

With multiple TLM systems or inadequate TLM functionality, HR professionals are often required to devote substantial time to managing administrative payroll activities. Many organizations do not have a formal TLM owner accountable for TLM processes and outcomes, which diverts focus away from other strategic programs. Companies with centralized TLM service delivery strategies state a higher satisfaction with HR service delivery, and few expectations of incurring future costs related to inconsistencies.

### **4. Moving Toward Integration**

What the PwC findings support is something that those in the outsourcing industry have long known: Using a single source provider or integrated HR system streamlines the HR function, reduces inefficiencies, and prevents money from slipping through the cracks. When an organization looks at the bigger picture to identify inefficiencies, it is easy to see that all functions are interdependent. By creating a cohesive

platform for all of the tasks to function on, more time can be spent on business strategy, money can be invested on improving capabilities, and the pressure of maintaining regulatory compliance is relieved.

Six out of 10 companies surveyed – that had taken steps to integrate their HR service delivery – claimed to have saved money. Beyond the obvious monetary advantage to this model, employers may have more time and resources to focus on improving internal HR processes. According to the PwC study, nearly 70 percent of respondents said they anticipated future costs for system integration customization and software. Due to inefficiency, more than 50 percent expected to incur additional costs related to HR administrative time, reporting and compliance. And more than one quarter expected to incur costs associated with erroneous payroll or benefit payments as a result of multi-platform and vendor strategies. In addition, utilizing a centralized approach can result in a higher degree of employee satisfaction with a comprehensive suite of capabilities and end-user tools, such as self-service and online benefits management.

Ultimately, integrating a single platform HR service delivery will improve the performance of your department and make HR a more strategic function that helps the company achieve business goals. In the end, creating a personalized and tailor-made HR solution for your organization that enables flexibility for both employees and managers and offers ease-of-use and obvious payback are just some of the benefits offered by outsourcing. Through the cost-effective strategies that outsourcing offers, companies can save time and unnecessary expenditures, while strengthening infrastructure and turning over business-critical tasks to a skilled business partner to help your organization expand.

### **Real-World Benefits: Outsourcing Lessons from a Top University**

As we have learned, there are some key steps that must be communicated within your organization before entering into an outsourcing agreement, and some key efficiencies must be examined in order to reap the benefits that outsourcing has to offer. Organizations have long embraced outsourcing as a way to gain access to new technology, processes and best practices, such as increasing client satisfaction and business revenue, without increasing the demands on its budgets and work force. For example, let's look at the real-life case of a large university in the Northeast that used outsourcing to fix a gap in its benefits administration system, which served some 14,000 employees.

When the university's existing benefits administration vendor announced a move to a new, more expensive platform, the top executives decided to search for a new benefits management and carrier enrollment provider. In addition to reducing rising costs, the university needed to condense multiple benefits vendors and also was faced with the challenge of enrolling additional employee groups into the process while adhering to a strict requirement to protect employee data. The first step the university took to accomplish this goal was to put

together a multi-functional project team with representatives responsible for benefits, human resources information management, and information systems and computing, because it realized the importance of involving the correct players and communicating internally every step of the way.

In addition, a top-flight benefits consultant was hired to spearhead the selection of a new partner and establish a complex matrix of decision points. Some of these decision points included on-site visits to support centers and customer sites and to oversee the daunting customization and implementation challenges. The university, like its attending students, took this challenge seriously and made sure that every base was covered. After an extensive selection process, ADP was chosen as the preferred outsourcing provider. The university, through the transition to its new model, was able to synchronize systems and provide employees full 24/7/365 access to its benefits records online. In addition, the university was able to avoid postage costs from having to mail a 36-page generic booklet to each of its 14,000 employees.

Overall, the university was able to realize roughly US\$2 million in cost savings in comparison with its previous benefits outsourcing partner, and simplified its processes by working through a single point of contact rather than dealing with multiple vendors for processes like FSA and COBRA administration. In addition, the organization was able to rely on a dedicated support team and higher-quality customer services representatives that would guarantee quick response time and solid communications. As a result, participation in open enrollment grew to 70 percent among the university's employees, a 10 percent increase over the previous year.

Overall, the university was able to realize a solution that met its requirements and outsourcing challenges. The relationship has continued to be a success for many reasons, and as a result of the effective ongoing communication, the two organizations continue to address any challenges that arise.

### **Endnote**

1 ADP study measuring the benefits of multi-service HR outsourcing commissioned from PricewaterhouseCoopers (PwC), 2006.

### **About the Author**



Terrence McCrossan, vice president of Vertical Markets, ADP, has responsibility for developing and driving vertical-specific strategies, solutions, research, and pricing within ADP's National Accounts Services division. Included in this role is the strategic planning and marketing of ADP's market-leading HR BPO offering – Comprehensive Outsourcing Services. McCrossan holds a B.A. from Villanova University and an M.B.A. from Wake Forest University. Based in Alpharetta, Georgia USA, he has been a frequent presenter at HR, payroll, and client functions around the country, including events sponsored by the American Payroll Association, the HR Leadership Foundation, CFO Rising, *Workforce Management*, HRO World and ADP's annual Meeting of the Minds.