Reducing Public Sector Operating Costs Through Outsourcing

By Terrence McCrossan

Though times often lead to new measures and new approaches. As a result, some local governments in the U.S. have been diligent in exploring new ways to operate more efficiently. One particularly effective strategy being employed by some in order to help contain costs and reduce inefficiencies has been partnering with third party service providers for the delivery of administrative functions, such as payroll and human resources. By automating and off-loading certain human capital management functions to a third party, these organizations are taking significant costs out and freeing their staff up to focus on direct constituent services.

For example, ADP worked with Maricopa County in Arizona to implement an outsourced human capital management solution that recently automated key HR functions including payroll, time and labor management, and benefits administration serving approximately 13,000 county employees. As a result, Maricopa County officials anticipate the new solution will save the county approximately $8.2 million over the next five years. A similar project with Larimer County in Colorado will help streamline and automate the majority of its HR functions serving approximately 2,000 employees.

The true expense of processing payroll, administering employee health and welfare benefits and managing other key HR systems and functions is often underestimated by organizations. While most consider costs such as a payroll department’s staff or the costs of acquiring a new enterprise resource planning solution, many fail to recognize certain “hidden” costs necessary for operating and integrating these interdependent processes. Additionally, organizations often apply separate technology and process solutions to these individual administrative functions without considering how those solutions work with each other. This fragmentation drives up administration costs through task overlap and other inefficiencies.

Recently, a PricewaterhouseCoopers study titled “The Hidden Reality of Payroll and HR Administration Costs” (online at http://www.adp.com/cto2011), sponsored by ADP, revealed that outsourcing multiple HR functions to a single vendor can actually reduce an organization’s costs by 24 percent, on average. The study also found that for organizations that decide to move towards outsourcing, and not simply switching to SaaS (Software as a Service) technology models, are able to produce greater efficiencies and cost savings in the HR function.

Streamlining core human resources, payroll, benefits, and other processes by utilizing an outsourced solution allows organizations to significantly reduce manual efforts, improve compliance processes, as well as free up time and budget dollars. That time and money can then be refocused to enhance constituent services and execute other strategic initiatives.

The need for seamless integration of payroll and HR administration functions will also become necessary in the coming years. As organizations add additional solutions to their mix for effectively managing their workforce, such as recruiting and talent management solutions, the existence of a common platform will result in additional cost efficiencies. Moving forward, a comprehensive evaluation of the integration needs across payroll, workforce administration, time and attendance, and health and welfare benefits administration rather than individual process assessments, will allow organizations to identify interdependencies that can result in reduced costs and improved service delivery for the overall solution. Better understanding the hidden costs within an organization, as well as the potential options for reducing them, is clearly one way that state and local governments can take positive steps toward reducing spending and addressing their budget deficits.

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