



The Case for an Integrated Approach to Outsourced HR Systems

By Amy Daniels, December 2006

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Editor's note: The HR Outsourcing Focus Area recently published Companies Prefer 'Selective' Outsourcing Approach, Especially for HR Tech. Below we present a case for consolidating HR systems outsourcing with a single vendor, using an integrated platform.

Today, HR professionals across the United States have a common goal—to demonstrate the added value of the HR function to their organizations. Many aim to achieve this by creating efficiencies such as reducing payroll processing errors or automating health and welfare benefits enrollment.

However, focusing on specific functions can be nearsighted. HR processes are interdependent. For example, even if a payroll system was upgraded successfully, it still might be weighed down by a failing legacy benefits systems or paper-based processes in time and attendance systems.

A key to adding value is to make improvements holistically throughout the HR department.

A recent study by PricewaterhouseCoopers (PwC) sought to determine the impact on cost, performance and satisfaction with HR service delivery when outsourcing HR systems to multiple vendors using multi-platforms. More than 140 organizations participated in the study (sponsored by HR systems vendor ADP), 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 \$104 per employee per year. For many organizations, this can represent up to 6 percent of the annual HR and payroll budget.

The study attributed this cost to three challenges faced by many HR organizations across the United States:

1. Piecing Together the System

Company management structures or mergers and acquisitions can produce multiple service delivery infrastructures. It is not unusual for an organization to have multiple software platforms for time and labor management (TLM), benefits administration or HR information systems (HRIS). These redundancies force companies to develop system interfaces, develop manual workarounds or to purchase additional software to address the integration points between the gaps.

According to the PwC study, nearly 70 percent of respondents said they anticipated future costs for system integration customization and software. Because of 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.

2. Lacking Self-Service

HR professionals find that self-service is a valuable tool for employees to manage and access personal information 24 hours a day, seven days a week.

According to the PwC study, approximately 60 percent of respondents said they did not have a self-service platform that was able to integrate employee or manager input across multiple systems such as payroll and HR systems. Manual data entry increases the likelihood of errors and requires additional time spent to enter information multiple times. This can cause employee satisfaction to suffer. Additionally, if HR involvement is required to resolve issues, it takes time away from more strategic initiatives.

3. Decentralized Time and Labor Management

With multiple TLM systems or inadequate TLM functionality, HR professionals are often required to get involved with administrative payroll activities. Many organizations do not have a formal TLM owner accountable for TLM processes and outcomes, which leaves the TLM system as an organizational orphan.

Also, non-automated TLM systems may not provide functionality such as employee tracking, scheduling, performance reviews and linkage with organizational rules, such as overtime pay and vacation tracking.

In the study, TLM had the lowest service delivery effectiveness rating of all the areas covered.

Taking a Holistic Approach

Conversely, companies with centralized HR service delivery reported higher satisfaction and lower expectations of incurring future costs related to inefficiencies.

When outsourcing or using a shared services model, far fewer employers expected to incur software upgrades or systems customization. Without this burden, employers may

have more time and resources to focus on improving internal HR processes. Six out of 10 surveyed companies that had taken steps to integrate their HR service delivery claimed to have saved money. And many of those who did not report savings indicated a significant increase in value attributable to system functionality and better data. The \$104 savings per employee, therefore, can be converted into an investment in improved functionality such as better decision making or more robust reporting.

Using 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.

Lastly, when outsourcing or using a shared services approach, data reporting and compliance becomes the responsibility of the vendor. When using an HR BPO (business process outsourcing) solution, the vendor provides complete reporting and accepts responsibility for any errors. The organization saves valuable time without manual or paper-based processes such as data entry so that key personnel can focus on more strategic initiatives.

While there is no one-size-fits-all solution, by creating a cohesive platform for HR service delivery, more time can be spent on business strategy, money can be invested on improving capabilities and the daily pressures of regulatory compliance and reporting can be relieved. Ultimately, integrating multi-vendor, multi-platform HR service delivery will improve the performance of a department and make HR a more strategic function helping to achieve business goals.

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