HRM
Human Resource Management

ADP

Implementing HR Services that Keep Pace with Your Business

We've all heard the phrase, "The whole is greater than the sum of its parts." This certainly is true for an organization with fully integrated payroll, human resources and benefits services.

But the reality for many companies falls short of full integration. Most companies have built IT systems to support a particular function, with the goal of optimizing the performance of an individual process. Therefore, payroll data will reside on one dedicated system, and health and welfare benefits on another. The information becomes siloed in different departments and practice areas and becomes difficult to merge, analyze and reconcile.

For many companies, the situation is the result of business strategies based on rapid growth, globalization, mergers and acquisitions, or at times, even divestitures. In the rush to keep critical employee services flowing, aging legacy systems are often left in place and integration is forced using an expensive and inefficient combination of software customizations, manual processes and system interfaces – an IT system maintenance and upgrade nightmare.

It is what you would expect when the pace of business far exceeds the adaptive capabilities of HR systems, payroll processes and perhaps even the personnel tasked with making changes happen.

Recent Study Points to Impacts

A recent study commissioned by ADP, and conducted by PricewaterhouseCoopers (PwC), documented the potential "hidden costs" of a non-integrated HR service delivery strategy. The results showed that HR inefficiencies and redundancies in a non-integrated environment cost many organizations up to six percent of the annual HR and payroll budget. Also, pieced-together delivery infrastructures often hamper the ability to take advantage of modern automation tools and result in greater compliance risk for the organization.

With an integrated approach, HR managers realized cost reductions and improved service quality were critical for organizational efficiency. In fact, not only were "integrated" organizations more cost effective, but those that were also leveraging employee self service technologies had noticeably higher levels of employee satisfaction.

The Hidden Costs of Non-Integration

The PwC study contrasted the experiences of organizations with a fully integrated approach to HR with those where components of HR services are administered on multiple in-house systems and/or by multiple service providers.

The study focused specifically on the points of inefficiency resulting from linking two HR-related processes together. The interrelated processes evaluated were: 1) payroll and HRIS (Human Resources Information Systems), 2) payroll and health and welfare benefits, 3) payroll and time and labor management (TLM), and 4) HRIS and health and welfare benefits.

The study revealed that organizations spend up to $104 per employee, per year to overcome the inefficiencies associated with HR service delivery – specifically, the inefficiencies that result from non-integrated service "seams." These seams result in organizations having to manually administer interfaces, invest in customizing software and building manual processes for data integration and reporting, all at significant cost to the organization.

Not surprisingly, the study also found that the more complex the infrastructure, the less efficient and effective the HR services. Of the non-integrated companies, almost 60 percent were without self service. Companies delivering functions internally, without a shared services center, consistently showed the lowest satisfaction with overall HR service delivery. These companies were also least satisfied with the ability to integrate data, reporting and self service. In many of these organizations, critical time and labor management services were developed in-house, difficult to customize and lacked a formal process owner, making it seem like an organizational "orphan."

Compliance also becomes an issue with non-integrated infrastructures. The scrutiny of Sarbanes-Oxley extends to administrative areas. Payroll, benefits and HR administration costs are significant operational expenses, and as such, material to a company's financial statement. As a result, they are part of the "in-scope" processes for review, documentation and testing under Section 404 of the Sarbanes-Oxley Act. If payroll is processed in multiple locations, then the key controls for each location must be documented, tested and certified for Section 404 compliance. Additionally, HR is the guardian and steward of personnel data. Because of the plethora of laws and regulations governing workplace policies and labor practices, companies must maintain complete, up-to-date and auditable employee records. Having loosely linked disparate systems makes Sarbanes-Oxley and other compliance requirements a challenge.

Seeing Your "Seams"

Surprisingly, the majority of HR managers interviewed for the PwC study believed their patch-worked systems and processes were integrated, and they accepted the costly customizations as "part of life."

The confusion is easy to understand. Organizations were employing multiple techniques aimed at linking their disparate systems and processes together, whether through third-party interfaces, manual workarounds, or additional software that addressed the gaps between non-integrated systems. In fact, nearly 70 percent of respondents said they anticipated future costs for system integration customization and software. And more than 50 percent expected to incur additional costs related to employee or HR administrative time, compliance and reporting as a result of their current infrastructure. Recognizing these cost impacts helps many organizations to plan for a solution.

BPO Services Help HR Keep Pace

Many organizations are beginning to adopt HR Business Process Outsourcing (HR BPO) as a way to keep up with business changes and drive standardization and efficiency into HR operations.

HR BPO is defined as the transfer of ownership of some or all HR processes or functions to a specialized service provider. This transfer of ownership typically includes both back office administration (process and technology management) as well as front office administration (employee contact center/service management). In essence, the service provider becomes the HR or payroll department and performs the functions that would typically have been handled internally, including directly answering employee requests.

An HR BPO arrangement is potentially more cost effective, as it allows the employer to off-load non-strategic, non-core functions, and can deliver a scalable and integrated technology infrastructure that services employees effectively and keeps pace with changing business needs.

Adoption of HR BPO services, though the industry is still young, is increasing rapidly. Currently, HR BPO is the fastest-growing segment of HR services. Research firm IDC projects that HR BPO services will continue to grow, reaching 46 percent of total HR outsourcing spending by 2010.1 In a report summary, IDC attributes the mainstream adoption of HR BPO to HR managers seeking to realize cost savings while improving their service levels and access to new technology.2

Gartner analyst Robert Brown notes that the shift to outsourcing is a natural move that happens over time. In a recent presentation, "HR Outsourcing for the Mid-Market: A Path for Growth and Agility?" he states, "Most companies will start small with a discrete outsourcing relation, but many seek a BPO provider who can 'tee-up' incremental affinity services over time as comfort levels with the relationship and BPO in general increase."3

Brown notes that mid-sized companies, in particular, will increasingly adopt HR BPO to: 1) reduce transaction costs, 2) improve service levels, 3) focus on core business, 4) shorten implementation time, 5) reduce implementation costs, and 6) re-engineer business processes.3

Benefits of HR BPO

Partnering with a leading service provider helps organizations gain access to new technology and best practices they may not ordinarily have access to. Full or partial outsourcing arrangements allow HR professionals to tighten up their technology seams and move away from the transactional activities that get in the way of long-term planning, performance monitoring, innovation and improvement.

Whether your business plan calls for rapid growth or a heightened strategic focus, this model ensures that HR technology and processes are an enabler of success, allowing key employee information to be shared, data accuracy to be improved and overall administrative costs to be lowered.

The Vanguard of HR BPO: ADP

Its long history and success as a provider of outsourced HR and payroll services has allowed ADP to become a global leader in the HR BPO market. This leadership has been established though ADP's innovative use of scalable technology, focus on best practices and efficiencies derived from its deep domain expertise. According to Everest Research Institute, ADP has utilized this experience and leadership in payroll outsourcing and broadened its capabilities.

With offerings specifically designed for mid-sized organizations (approximately 1,000-20,000 employees), ADP delivers deep domain expertise and fully integrated service delivery across the HR, benefits and payroll functions. ADP leverages this experience and established infrastructure to provide the base of its HR BPO offering, ADP Comprehensive Outsourcing Services (COS). Enabling its customer base to utilize market accepted systems and best-practices in a one-to-many service model places ADP in a unique position among HR BPO providers.

And the industry is taking notice. ADP was recognized as a "mid-market mover," by Nelson Hall in 2006. Further, Everest Research Institute Vice President of Research/HRO Markets Marc Pramuk recently said, "ADP is a frontrunner in providing HR BPO services to the mid-market. ADP is in a very select group of service providers that has been able to attain a large number of clients, particularly in the 3,000 to 15,000 employee mid-market segment."4

ADP recently signed its 50th HR BPO client in the United States, which demonstrates that clients are deriving significant value from ADP's COS offering. "The decision to go with ADP's COS was a big win for JT3. Not only have we been able to add more services for our employees, apply tighter controls, and create more efficient processes, we've also cut operating expenses over the previous provider (our parent company) by 30 percent — and that percentage is still growing," said Dan Wild, vice president and CFO for

JT3, LLC.5

"At the end of the day, no other outsourced HR services provider could match ADP's products and quality," Wild added.5

IS HR BPO Right for You?

In these challenging times, HR professionals are under pressure to attract and retain skilled workers, reduce operating costs and increase enterprise-wide efficiencies. As the PwC study results show, companies with a centralized service delivery strategy are most able to achieve these goals with the highest reported overall cost savings and employee satisfaction.

As stated above, IDC attributes the mainstream adoption of HR BPO to HR managers seeking to realize cost savings while improving their service levels and access to new technology.

What better or more compelling reason is there to undergo a business transformation?

Footnotes:

1. ZDNET, Outsourcing, "HR Outsourcing to Grow to $18.9 Bln by 2010," November 15, 2006 (http://blogs.zdnet.com/ITFacts/?cat=29)
2. IDC Website, Document At A Glance, "Worldwide and U.S. H.R, BPO 2006 Vendor Analysis: The Answer is in the Margin," Doc #204137, November 2006 (www.idc.com)
3. "HR Outsourcing for the Mid-Market: A Path for Growth and Agility?" Robert Brown, HRO Research Director of Gartner, Inc., http://www.shrm.org/outsourcing/webcast/06brown.pdf
4. Press release issued April 25, 2006, "ADP Announces Signing of 40th HR BPO Client."
5. JT3 case study, Q406 issue of HR Management Magazine.