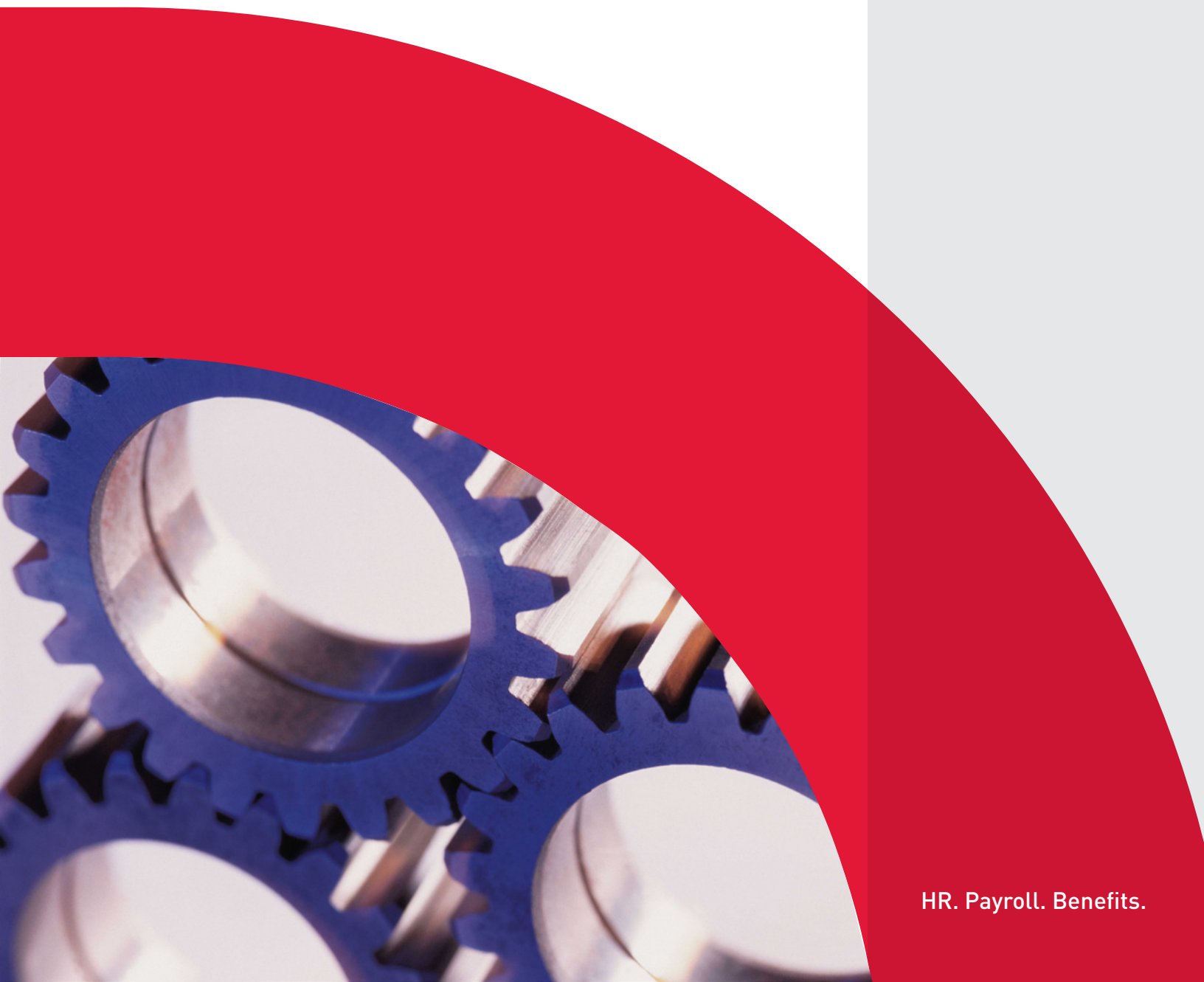




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ADP TOTALSOURCE<sup>®</sup>

# Outsourcing and the Future of HR



HR. Payroll. Benefits.

# Executive Summary

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## THE CURRENT CLIMATE: BUSINESS AND HUMAN RESOURCES CHALLENGES

A number of macro issues, including uncertainties in Europe and concerns over global economic growth, are currently impacting business sentiment. While many U.S. businesses continue to carefully manage their budgets, they're simultaneously looking to gain a foothold in the current market. This operational conundrum presents a unique challenge — especially in the HR environment— where employee retention and skill cultivation is key amid pressures to reduce costs.

The cloudy economic environment and shifting priorities are key influencers of current HR strategy, as businesses seek cost-effective ways to focus on core competencies, growth and talent management. Many companies have found that outsourcing some of their HR functions make these goals a reality. The trend in the business world today is no longer directed toward the simple acquisition of technology. Rather it's the prudent utilization of technology to support the trend toward furthering a company's "people agenda." Achieving a balance between up-front and ongoing costs and reaping the benefits of these investments by cultivating employee growth, is the ultimate target.

Among the main goals identified by HR departments, the most commonly cited include stabilizing costs, lowering their risks and increasing employee productivity.<sup>1</sup> In terms of the key advantages they saw by outsourcing certain HR functions, they highlighted alleviating their staff's administrative burden, the expertise provided by their external partners, meeting their compliance requirements and allowing their internal staff to focus more on core business and strategic issues.<sup>2</sup>

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## ADMINISTRATIVE AND REGULATORY BURDENS A THREAT TO GROWTH

Given an environment characterized by increased healthcare and employee benefits legislation, the overwhelming majority of employers report that employment regulations have grown more complex. The challenge for HR departments then becomes juggling increasingly burdensome administrative and compliance tasks with their strategic organizational objectives.

**50% of companies expressed a lack of confidence in their ability to keep up with their regulatory requirements.**

Source: ADP Research Institute. *Competition, Cost Control & Compliance Strategies to Navigate a Changing HR World*, 2011.

It is becoming essential for HR departments to offload administrative, technology and regulatory tasks that can be automated and/or outsourced to free up the resources needed for talent development. The National Association of Professional Employer Organizations (NAPEO) cites outsourcing as a way to "gain competitive advantage by reducing employee costs and enabling focus on core competencies" — exactly the goal that small and midsized companies are moving toward.

## RELIEVING HR BURDENS WITH OUTSOURCING

The trend toward talent focus requires that HR departments surrender responsibility for administrative, technology and regulatory tasks that are labor intensive and offer little investment return. By doing so, it allows them to move forward with talent-centric, growth-oriented initiatives. This offloading of HR burdens can result in the achievement of a more strategic, involved and profitable HR role. The Professional Employer Organization (PEO) model, for example, is a prime solution that offers relief from administrative and technology burdens, while allowing companies to still retain control over employees' day-to-day duties and activities. A PEO is ideal for small-to-midsized companies because it allows both the client and the PEO to share responsibility, thereby minimizing risk to the client. It also allows companies to tap into an "HR department" of seasoned compliance and HR experts, scalable technology that meets a company's changing needs and buying power to deliver robust and affordable HR and benefits solutions.

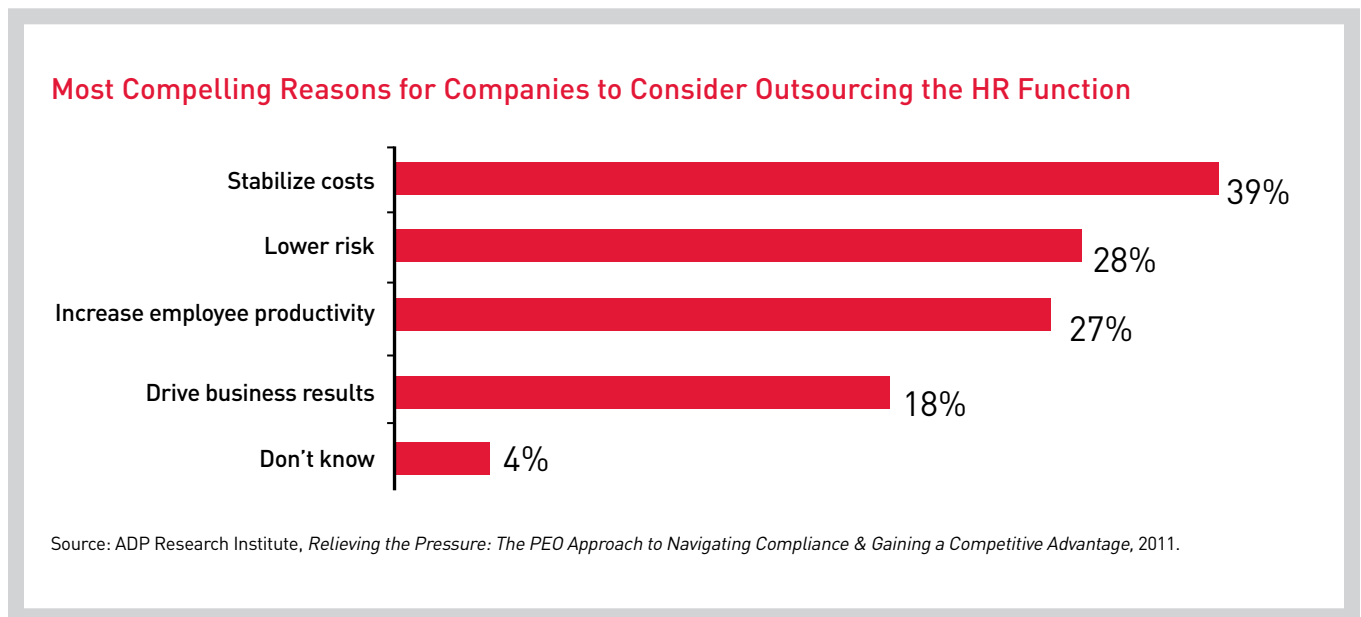
This report offers an overview of recent research into HR technology and its role in future growth. It also explores the role that outsourcing and PEO models play in providing the relief HR departments need from administrative and compliance burdens in order to focus more on talent management and development.

# HR Technology Outsourcing Findings

## THE SPOTLIGHT IS ON STRATEGY

Recent research indicates that companies are maintaining a strategy-heavy focus, as demonstrated by interest in employee and management self-service tools and a desire to offload administrative functions such as payroll, benefits, and compliance — along with certain HR technology-related needs — to outsourced providers.

### **FINDING 1: Human Resources Technology Outsourcing Allows Businesses to Manage Expenses, Reduce Risks and Focus on Their “People” Goals to Drive Results**



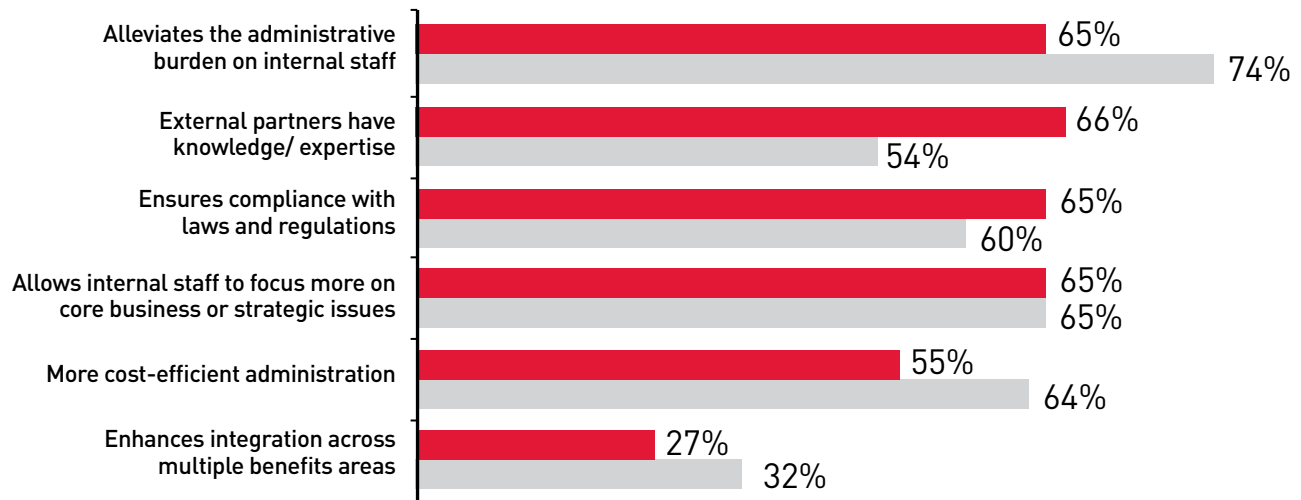
### **SURVEY FINDINGS DEMONSTRATE HOW COMPANIES CAN ENJOY A VARIETY OF BENEFITS BY OUTSOURCING THEIR HR FUNCTION**

In a recent study, more than half of the responders expressed a lack of confidence in their ability to keep up with their regulatory requirements.<sup>3</sup> With the anticipated increase in regulations over the next three years, addressing their HR compliance burden is expected to be an ongoing challenge. This demonstrates one of the most restrictive issues facing HR today. Outsourcing functions like compliance, benefits and payroll, for example, alleviates much of the strain caused by these multiplying and changing regulations. At the same time, it lessens the strains associated with integrating software and IT functions,

as companies have the flexibility to select the level of service to meet their current needs, and then adjust the service they receive as their company evolves over time. Organizations are then free to deliver what the business needs and wants: personnel development and talent and performance management support.

By offloading administrative and compliance tasks, HR is free to undertake the strategic steps necessary to move forward with performance and talent management initiatives. One solution to relieve HR of the bulk of time-consuming administrative duties is a PEO. This co-employment model enables business owners to cost-effectively outsource the management of human resources, employee benefits, payroll, and workers' compensation — resource-intensive tasks that can prevent many businesses from reaching their objectives.

## Key Advantages of Outsourcing Certain Benefits Administration Functions



Source: ADP HR/Benefits Pulse Survey of Benefits Administration, 2012.

■ Mid-sized Companies (50-999 EEs) ■ Large Companies (1000+ EEs)

### FINDING 2: Macro Issues and Uncertainties Are Not Deterring Businesses from Investing in HR Outsourcing

Companies today face a host of macro and other economic uncertainties. In addition, one survey found that 60% of companies feel that the rising cost of employee benefits is the largest impediment to meeting their business goals—in fact, it is by far their largest concern.<sup>4</sup> Yet, most companies are not cutting back on their HR spending. From 2004 to 2007, HR outsourcing grew roughly 25-30% a year. After falling to single-digit growth during the Great Recession, HR outsourcing is projected to grow approximately 16% a year over the next five years.<sup>5</sup> Another study found that the confidence level among HR suppliers is high, as 73% said they were much more confident or slightly more confident regarding outsourcing opportunities in the first quarter of 2012 versus a year ago.<sup>6</sup> This confidence is being driven, in part, by companies' needs to reduce costs and improve their bottom lines.

Outsourcing offers the benefit of offloading IT needs and administrative burdens to have a more efficient, talent-focused HR operation. Fixed costs are converted into variable costs, opening the door for businesses to invest in promoting growth through efforts that include talent development and performance management. Benefits seen in the long-term are worth the investment, as shown by the high rate of satisfaction reported by companies that have turned to outsourcing. According to one study, 91% of large companies and 80% of mid-sized companies said that outsourcing some or all of their benefits administration/HR functions provided real value for their organizations.<sup>7</sup>

### FINDING 3: Employee and Manager Use of HR Technology Is Expanding, Allowing for Improved Accuracy, Growth and Effectiveness

Businesses continue to experience positive results from their HR technology investments and outsourcing initiatives. Resources formerly tied up in administrative, regulatory, and IT endeavors are now free to focus on people rather than processes. Employees continue to utilize self-service HR functions, as they have been implemented by 79% of companies in the U.S. In addition, another 15% of companies are expected to implement self-service by the end of 2012.<sup>8</sup> A further trend is seen in employees' ability to manage their own growth and development — another important step toward meeting strategic HR goal trends in the future.

On the management side, routine tasks such as applicant tracking, on-boarding and employee development can be streamlined via integrated MSS (manager self-service) tools, thus freeing up HR resources to focus on more tangibly profitable avenues. MSS has been praised for its ability to improve accuracy and efficiency, alleviating the workload for HR, administrative staff and managers when implemented and utilized appropriately. Time-consuming administrative processes can be a major roadblock when it comes to forward business growth, but solutions such as PEOs can be a major contributor to improving operational efficiencies while, at the same time, increasing employee satisfaction and reducing operating costs.

# Conclusion

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## RETURNING THE FOCUS TO CORE ORGANIZATIONAL COMPETENCIES

Alleviating the administrative burden on their internal staff and drawing on the knowledge and expertise of external partners were key benefits cited for outsourcing certain administrative functions.<sup>9</sup> It stands to reason, as outsourcing then allows HR to move forward with strategic organizational initiatives that deliver greater value and drive bottom-line growth.

In addition, HR outsourcing helps combat rising expenses — a concern for many in this economic climate, by allowing businesses to convert fixed costs into variable costs and invest greater capital in revenue-generating and growth-promoting activities, like talent development. Research confirms that HR outsourcing also provides companies with the ability to gain access to experienced and knowledgeable professionals, as well as state-of-the-art technological solutions to improve customer service and enable HR to deliver greater overall value to the organization. In fact, roughly nine out of ten large companies and eight out of ten midsized companies found value in outsourcing certain HR benefits administration functions.<sup>10</sup>

## LOOKING FORWARD

Developing and nurturing core business competencies is the key business trend. However, this still requires a focus on cultivating employee development and performance. With budget constraints making hiring more administrative and IT staff prohibitive, outsourcing is an ideal solution when it comes to both technology and staffing. That's because companies have the flexibility to choose only the support and IT systems that are tailored to address their unique requirements.

For companies and HR departments that seek to return the focus to their core processes, PEO solutions can help relieve administrative and regulatory burdens, allowing more effort to be expended on strategic initiatives. Affordable outsourcing opportunities have the ability to significantly reduce operating costs and streamline business operations, paving the way for growth and competitive gains.

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ADP's Professional Employer Organization (PEO), TotalSource<sup>®</sup>, provides employers with a comprehensive Human Resources outsourcing solution that helps reduce the costs and complexities related to employment and human resources management. ADP's integrated PEO services enable employers to deal with the costs, complexities, and administrative burdens of human resources and employment management. For more information, contact your ADP TotalSource representative at 800-HIRE-ADP and visit [www.adptotalsource.com](http://www.adptotalsource.com).

<sup>1,3,4</sup> Source: ADP Research Institute, *Relieving the Pressure: The PEO Approach to Navigating Compliance & Gaining a Competitive Advantage*. 2011.

<sup>2</sup> Source: ADP HR/Benefits Pulse Survey of Benefits Administration, *Benefits Administration: Should You Outsource or Manage In-House?* 2012.

<sup>5</sup> Source: Nexstep.com, *HR Outsourcing Trends 2012: A Primer*. 2012.

<sup>6</sup> Source: NelsonHall, 2011: *HR Outsourcing Market Forecast: 2011-2015*.

<sup>7,9,10</sup> Source: ADP HR/Benefits Pulse Survey of Benefits Administration, *Benefits Administration: Should You Outsource or Manage In-House?* 2012. Large companies defined as those with 1,000+ employees. Midsized companies defined as having 50-999 employees.

<sup>8</sup> Source: Towers Perrin: 2011 – 2012 HR Service Delivery and Technology Research Report. 2011.



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