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## BPO: 7 Common Mistakes

Are you making  
the common mistakes  
that impact your  
HR performance and  
outsourcing agreements?





# Introduction

Choosing a Payroll BPO solution is an important stage of an organisation's evolution. However, a lot of questions, implications and decision-making criteria can interrupt the process. Taking the time at the beginning to understand these issues will ensure a smoother journey, and ultimately lead to improved business performance. The pressures of the current marketplace are such that businesses simply cannot afford to delay the increased efficiency, expertise and experience that Payroll BPO can offer. Indeed, more organisations than ever before are looking to outsource their HR and payroll solutions.

Getting the decision wrong and going with the wrong partner can be just as costly. As the Ernst & Young Global Payroll Survey (2013) found, close to 40% of global organisations are sufficiently dissatisfied with their existing outsourcing provider to consider a switch to a new provider within the next 12 months: "This suggests that once payroll is outsourced, it generally remains outsourced," says Ernst & Young.

As the BPO market matures, so the complexity and range of systems and providers can cause confusion. Organisations and decision-makers must ensure they have the right information and the relevant advice in order to choose the best option for them and their business. To help make that process an easy one, the following report highlights the common myths that surround BPO, related to people, processes, efficiency, technology, expertise and risks.

Outsourcing, when based on misunderstanding or miscommunication, can be a fraught experience. By revealing the myths, such mistakes can be avoided and a true long-term partnership can be formed between the business and the provider.



## 1. “We’ve always done it this way”

Most organisations highly value their HR function, and rightly so. Their knowledge of employees and internal procedures are second-to-none. The Ernst & Young Global Payroll Survey (2013) finds that 28% of companies still rely solely on a complete in-house payroll delivery model. When asked what they considered to be the main driver for their existing Payroll and HR operating model, the largest number stated that it was simply the way things had always been done. They had not had the time to re-assess whether BPO would provide a suitable alternative. As organisations compete in ever-changing marketplaces, having the flexibility offered by BPO services could be of benefit.

## CAN IN-HOUSE SYSTEMS COPE?

Relying on internal teams can be costly and time-consuming. Internal teams are often left under-resourced, under-trained, and over-loaded. A survey of CFOs, in collaboration with ADP (Managing Compliance in a Changing Environment, January 2013), finds that 60% of finance directors agree that companies have experienced increased pressure to respond to tax, employment and payment-related regulations in increasingly shorter timeframes during the past two years. The time needed to keep pace, however, isn't always in-keeping with the pressures of day-to-day business. Deloitte's Payroll Operations Survey (2011) found that only 27% of respondents have training or certification requirements in place for their payroll and HR administration staff. The Payroll and HR administration staff for approximately 60% of respondents received an average of between 1 and 20 hours of training per year. This leaves Payroll and HR professionals under skilled, and organisations exposed to risk.

Even if an internal team manages to cope today, the challenge is whether they can cope tomorrow, given the heightened level of expertise and reduced time and

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resources. The Deloitte survey found that only 13 per cent of global organisations surveyed had a global payroll strategy in place. The desire to create a more strategic approach to Payroll and HR is there, but it is often the time and expertise to do so that is lacking.

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## INFRASTRUCTURE AND EXPERTISE

With an BPO provider, organisations have access to constantly updated best practices. The internal danger of thinking “we've always done it this way,” sees organisations rapidly fall behind to more innovative and flexible competition. BPO allows them not only to catch up but to overtake their peers. An over-reliance on in-

house teams or historic legacy processes can therefore leave organisations encumbered by slow and inefficient processes.

“Understanding and managing the ever-changing nature of payroll and HR administration is a monumental task for HR.”

Understanding and managing the ever-changing nature of Payroll and HR administration is a monumental task for Payroll and HR, taking up staff time and resources. In contrast, BPO providers consolidate consistent and harmonised processes for all the countries in which they operate, providing a global network of local experts to support Payroll and HR professionals. Outsourcing delivers partners with the knowledge and infrastructure necessary for meeting those needs, while reducing the pressure on in-house professionals.



## 2. Underestimating the true costs of HR

The cost of running Payroll, Time and Attendance and HR administration processes is drastically underestimated. In fact, a 2012 PwC total cost of ownership study found that only 37% of the Payroll and HR administration cost is visible with the remaining 63% being hidden away. As a result, the true cost of running Payroll and other HR services is not known. One reason why some costs are hidden is that HR processes are often “owned” partly by HR and partly by Finance, IT, or other functions.

## BOTTOM LINE, RISK AND ROI

Not knowing the total cost of ownership (TCO) impacts the bottom line, increases risk and affects the ROI of outsourcing as the business case is understated and incomplete. When developing the business case and potential ROI for Payroll and HR outsourcing engagements, the costs of IT components for example form a large part. Software fees, maintenance and upgrade fees, system integration and interfaces, hardware and subcontracting costs, and time spent by staff on payroll systems need to be included as these costs are transferred to the service provider. Outsourcing isolated HR processes is also not the answer. The PwC TCO data found that companies face software integration costs of around \$200 per employee per year when they operate HR systems separately. Even state-of-the-art technological solutions carry hidden costs when they are used in separate administrative silos.

In order to calculate the TCO, companies need to look at all their processes – and not focus on any one process in isolation. They also need to identify the critical “hidden” costs, in addition to the more obvious costs. Only by developing a real understanding of these costs will Finance and HR be able to deliver the efficiency, savings, and service improvements so critical to business success.

## BUILDING THE BUSINESS CASE NOT JUST ON COSTS

It has never been more important for companies to understand the total cost of ownership of their Payroll and HR processes. However, assessing TCO is a complex task that requires high levels of expertise. Having a partner that has a methodology of measuring the end-to-end costs of running Payroll and HR processes is essential. But the TCO studies should not only identify opportunities for cutting costs, it should also examine how the current processes work, as this will assist HR leaders build a compelling business case for change that turns HR into a true business partner.

A complete cost analysis or TCO scan of Payroll and HR processes should consider all the following costs, including those that are visible and the less obvious, “hidden” costs listed below.

### System Maintenance

IT systems need infrastructure, support, software, and regular maintenance – which all carry costs. But with IT staff often involved in maintaining HR systems, it can be difficult for HR Managers to track their system maintenance costs.

### Training

The cost of training employees to use Payroll and HR systems is sometimes overlooked.

### Indirect Labour

Indirect labour costs relate to people working outside HR who help deliver HR processes. For example, Facilities Manager providing building access cards to new starters and retrieving them from leavers.

### Direct Non-Labour

The total costs of operating Payroll and other HR processes may include fees paid to consultants and vendors, as well as corporate overhead, such as rent and building maintenance.

### Seams Costs

The cost of integrating Payroll, Time and Attendance and HR data administration. Finance and HR Departments often install these systems separately without considering the costs of transferring data from one to another.

### Data Consolidation

Companies with multiple local HR systems, rather than a single database may need to pull all their data together – for example, to calculate global employee numbers.

### Outsourcing

Outsourcing can deliver significant savings, but it also carries costs. Even companies that have not outsourced entire processes often outsource selected services linked to those processes, such as tax filing or benefits.

### Quality-Related Costs

Perhaps the hardest costs to detect are those linked to the quality – or lack of quality – of Payroll and HR solutions.



### 3. Delaying the decision to outsource

It is hard to overstate the importance of Payroll and HR effectiveness – from recruitment and talent management, to employee engagement and the day-to-day running of payroll – on an organisation's bottom line.



The PwC report 'Exposing the hidden cost of Payroll and HR Administration' (2011) estimates that the combined cost of Payroll, Time and Attendance, HR data administration and health and benefits administration cost large organisations (more than 700 employees) on average \$722.46 per employee per year (PEPY), and mid-size organisations (50-700 employees) \$1165.63 PEPY. It also states that "organisations that outsource the management of [those four functions] spend on average 27% less than those that deliver these functions using a manual approach". Meanwhile organisations that use a single outsourced service provider to integrate Payroll and Time and Attendance "spend on average 43% less".

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## WAITING ACCUMULATES RISK

Ultimately the question is can you afford to wait? Not only from a cost perspective, but from an operational point of view too? The Ernst and Young Global Payroll Survey (2013) found that just 15% of respondents believe that the effectiveness of their current payroll policies and practices could be considered excellent and meeting best practices; and 85% of all respondents saw room for improvement in their current payroll processes and practices.

This isn't to say that the process itself should be rushed. It is the decision that should be quick – the faster that BPO is identified as the right approach, the quicker the benefits can be realised. But choosing the right vendor, and working with them to design the right solution, should be necessarily thorough. By developing clear objectives and targets with the provider from the onset, the goals are more likely to be achieved.

“Financially successful organisations are early adopters of the new global service delivery models for payroll.”

## EARLY ADOPTERS BENEFIT THE MOST

According to PwC's 'Outsourcing comes of age: The rise of collaborative partnering' (2008), "Outsourcing is delivering results. A large majority of customers (87%) say that today's outsourcing delivers the benefits projected in the original business case, whether partly or completely. 31% say they got the benefits 'completely' – which is remarkable."

There is also evidence to suggest that fast-moving companies also achieve the best outcomes too. Jeitosa Group International, in collaboration with the ADP Research Institute, finds that "financially successful organisations are early adopters of the new global service delivery models for payroll, while other organisations are more likely to keep their long-standing, localised models in place. A reasonable conclusion to be drawn from this finding is that top-performing organisations are better able to convert plans into action."



## 4. Fear of losing control

The idea that Payroll and HR outsourcing can generate a degree of uncertainty internally. One key concern is who will control the HR process and manage the security of internal data once it has been transferred. That is not just a concern for the Finance and HR Departments. The wider leadership team also fears any loss of control of sensitive company information. However, what is often overlooked is that BPO can actually create a safer system for data security, while the control rests firmly in the customer's hands.

## BPO CAN BE SAFER THAN IN-HOUSE

World-class BPO providers take care of the IT capabilities (with a Disaster Recovery Plan), security budgets, certifications - look out for a provider that is ISAE 3402 compliant (previously known as SOX) - all under-pinned by a comprehensive understanding of local legislative data rules. They must also have data centres of a sufficient scale and sophistication to protect against outside cyber threats.

Data security also depends on the expertise of staff. As technology becomes ever more complex, and more operations transfer to the cloud, data handling expertise becomes an urgent priority. Again, this is well-supported by BPO providers with highly trained and experienced staff in exactly these technical and specialist areas.

Transferring the running of back-office Payroll and HR administration to a BPO provider does not mean you

transfer control. Far from it - liaising with the provider to agree terms on how data is used, stored and secured, is a key role for the retained in-house Payroll and HR teams. In addition, forming an internal outsourcing engagement team with overall responsibility for the scope and quality of the services to be provided can help allay any fears that remain. This would include tracking and managing service level agreements, service credits, trending, control, and process impacts resulting from changes. The service delivery manager(s) would then also be responsible for overseeing new Payroll and HR initiatives and managing changes to existing services.

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## HOW TO ENSURE SUCCESS?

The security of data and employee information becomes less of a concern under best-in-class BPO arrangements, not more, while also offering even greater control. Organisations address any concerns about maintaining control by checking the following five points:

“BPO can actually create a safer system, while the control rests firmly in the customer's hands.”

1. **Service Level Agreement** (SLA) and contract.
2. **Service Delivery Model** with HR and Finance KPI's (progress and updates on a monthly basis on the operational deliveries from the provider).
3. **HR CRM** dedicated to service delivery. Having the ability to manage service delivery and access data at any time with tools and platforms to support delivery.
4. **Governance structure** consisting of decision makers and stakeholders from both the Client Company and provider to review strategy and progress.
5. **Ability to conduct an IT and Data security** capabilities investigation (validating and checking for certifications, ISAE 3402 (previously known as SOX), resources allocated to IT security, and compliance with local legislation and standards).



## 5. Buying on price alone

HR & Payroll departments are under constant pressure to contribute to overall company savings and to find ways to reduce costs. Outsourcing can therefore seem an effective and attractive means of doing so. However, focussing purely on cost means only seeing a small part of the picture. A board's decision is more likely to be influenced by the wider benefits of Payroll and HR outsourcing. Pay and Benefits magazine ('Payroll Bureau: Working in partnership', August, 2012) argues, "Today's organisations are looking for a strategic approach to their payroll processes, with the main drivers behind adopting bureau services being to increase effectiveness, reduce overheads and aid business continuity while reducing risk and responsibility." It concludes, "While cost is a major driver, it should never be the only factor."

## HAVING THE RIGHT PRIORITIES

If the business case is only to drive down costs then the priority is wrong. HR transformation has to focus on the needs of the internal customers, what they value and in which way HR can bring greater value to them and the business. Outsourcing Payroll and HR administration on price alone without focusing on the value the partner can bring will not benefit the internal customers as the quality and service levels are sacrificed to meet cost targets. In the long-term, the internal customers will be disappointed. By outsourcing Payroll and HR administration to free up resources and empower the provider to work in partnership (by delivering the highest

levels of service and innovation) will the greatest ROI and optimal total cost of ownership be achieved.

“If the business case is only to drive down costs then the priority is wrong.”

## COST IS NOT THE ONLY FACTOR

In their paper for the International Journal of Innovation, Management and Technology (2011), Dr. Manisha Seth and Dr. Deepa Sethi recognise that “HR services are among the key elements in the enlarging outsourcing game”. Rather than simply cost, they argue that today’s drivers typically include freeing up management time from “mundane day-to-day processing work and focus instead on strategic planning, core competencies, customer satisfaction and decision making”. This, say the authors, is seeing “a number of large companies, across the globe have begun opting for outsourcing of their Payroll and HR services”.

“Today’s drivers typically include freeing up management time to focus instead on strategic planning, core competencies, customer satisfaction and decision making.”

By looking beyond the costs, Payroll and HR outsourcing programs can be developed to optimise HR performance which can deliver the following key benefits:

- **Globally consistent HR policies**
- **A more flexible HR function that responds to business needs**
- **Clarification of roles within HR**
- **Harmonisation and/or standardisation of HR processes to help ensure fair treatment for all employees**
- **Real integration of HRIS with other systems**
- **Improvements in the quality of HR services through service level agreements and changes to HR roles**
- **Reallocation of HR resources to activities with higher added value**



## 6. Insufficient partner evaluation

Payroll and HR administration is strategic, yet it is too often treated as a commodity. Some companies invest little time when selecting service providers, while others may not use the right criteria. This may be why only 25 per cent of businesses are happy with the solutions they have in place, according to The Hackett Group's 2013 'Global Payroll Performance Study'. Selecting an outsourcing partner is a complex task where various factors and criteria need to be considered to make the right choice for the business, yet the Ernst and Young Global Payroll Survey (2013) found that close to 40% of companies surveyed were so disillusioned with their existing outsourcing partner that they were considering switching.

## SERVICE AND PARTNERSHIP NOT A ONE-OFF PURCHASE

Much like buying a new car from a dealership, you simply do not buy a metal box with four wheels, but you also purchase future servicing, reliability, customer service, fuel consumption, maintenance, insurance, roadside recovery and so on. Payroll and HR administration outsourcing arrangements are complex, and the services offered by your partner will reflect that. Software and back office solutions can transform an organisation's Finance and HR operations, however, this is not part of a simple one-off purchase, but instead an ongoing relationship and a long-term commitment.

Your provider should partner with your business to offer innovative and flexible solutions that meet your business priorities as they change, expand and adapt to market pressures. Ben Trowbridge, Chairman at Outsourcing Center writes in BPOOutcomes.com (2013), "detailed pre-designed specification of requirements, arms-length dealings

with multiple potential suppliers and old-fashioned adversarial contract negotiations... may be fine (if a bit old-fashioned) when buying certain types of commodity products, but cannot work when buying complex services

**“Only 25 per cent of businesses are happy with the solutions they have in place.”**

which will be delivered over a period of years to a changing client, in an ever-changing world.”

## HOW TO ENSURE SUCCESS

A 2009 survey of 250 senior HR professionals found that the three key determinants of an outsourcing provider's quality were accuracy (71%), general level of service (68%) and reliability (68%). Yet 44% felt they didn't get that from their current provider, believing they did not understand their needs.

**“Key determinants of an outsourcing provider's quality were accuracy (71%), general level of service (68%) and reliability (68%).”**

Finding a suitable partner can be straightforward however, the following simply need to be considered:

- **Proven HR expertise**
- **Long-term service experience**
- **Reliable financial and IT security**
- **IT resources and HR innovation capacities**
- **Organisation dedicated to service**
- **International presence**

Payroll and HR outsourcing is a strategic and long term decision. Only by selecting the right partner can you ensure BPO is a success for your business both now and in the years to come.



## 7. Aggressive go-live date

Once the decision has been made to outsource Payroll and HR it can be tempting to move as quickly as possible. However, successful BPO requires careful planning, active change management and a close, collaborative partnership with the provider. One of the most important success factors in achieving the outsourcing business case and service delivery objectives is a successful and collaborative transition of functions or implementation from an in-house team to provider. An unnecessarily aggressive go-live date can therefore risk, or even miss out completely, some vital stages.



## A PAINLESS TRANSITION

It is best practice to form a small governance team to focus on managing the successful BPO transition, who will also then go on to manage the effectiveness of the ongoing relationship. According to the report by Gartner, 'How to Create and Implement a Successful Transition Plan' (2012), the following should be included in any effective transition management plan:

- A projected and established timeframe.
- Transition costs are managed and expected financial benefits are realised.
- Service-level requirements are confirmed and base lined with appropriate reporting.
- The new operational environment defined in the contract is implemented and fully functional.
- Service delivery and support processes are in place and adopted.
- Roles and responsibilities are clearly defined and communicated.

In addition, the provider needs to gather information about the organisational structure and job roles, identify areas for consolidation, design the structure of the retained HR and Finance teams as well as re-train them, conduct a wider employee engagement and communication exercise, and obtain senior-level sponsorship for the project.

“Successful BPO requires careful planning, active change management and a close, collaborative partnership.”

This is just a flavour of why it's vital at the pre-implementation stage – perhaps more so than at any other stage – to take the time to ensure the BPO design is right for your business, and sufficiently robust for the challenges that follow.

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## A NEW APPROACH

Outsourcing your Payroll and HR has a better chance of success in meeting your business case and service delivery expectations if you carefully plan for the transition. It is ultimately the design of your retained organisation, and the established relationship between provider and the business, that will ensure the desired future shape of your business. This should not take too long. The need for your business to realise the savings and efficiencies that BPO can bring, is well understood. Equally, the more care taken at this stage, the more savings and efficiencies can be expected in the years to come.

“It is ultimately the design of the retained organisation and the relationship with the provider that will ensure desired outcomes.”



# Conclusion

BPO myths have largely arisen through a misunderstanding of the core purpose of Payroll and HR outsourcing. The “lift and shift” model of cutting out a troublesome internal operation in its entirety and giving it to someone else to fix, is now an old-fashioned notion. Similarly, the pressure to outsource simply to cut costs is no longer the number one driver.

The value-add of HR & Payroll BPO is now becoming much better understood, and is driving business performance in innovative, high-growth organisations. The business leaders who are seeking an expert partner through Payroll BPO come to understand its true potential. It is not a case of losing an internal operation or cutting back, but rather one of gaining a whole new dimension: an international expert in innovation and growth. HR and Finance leaders no longer view this as a threat, but rather an opportunity.

It is the myths, untruths and miss-communication highlighted in these articles that slow down Payroll BPO projects and lead to failure. The strategic decision for a company in choosing a BPO solution and selecting the right partner for a long-term relationship cannot be taken lightly. By exposing these myths, we hope to make the process an easy and informed one for organisations and their leaders, and to help drive their future business performance. However, now, more than ever, the benefits of Payroll BPO are truly business-critical.





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