



IN THE BUSINESS OF YOUR SUCCESSSM

HR Outsourcing and the Finance Leader

EXECUTIVE BRIEF



Are you and HR speaking
the same language?

IN PARTNERSHIP WITH



HR Outsourcing and the Finance Leader



In-house HR administrations cost



than outsourcing

Outsourcing HR services saves companies time and money. Growing awareness of the link between people issues and the bottom line is blurring the boundaries between finance and HR. CFOs are also becoming increasingly involved in decisions about outsourcing HR administration not only for the increased productivity returns but due to the cash management and budgeting benefits.

Successful business leaders have always understood the value of employee engagement. Experience has taught them that loyal, engaged employees deliver good customer service, which then drives profits and growth. And there is now hard evidence to prove that they are right.

The 2012 Tower Watson Global Workforce study found that companies with high sustainable engagement levels had average operating margins almost three times higher than those with low engagement levels. Another piece of recent research, by the Aberdeen Group, showed that professional services firms investing in employee engagement improve customer service and revenue by 6% per full-time employee.

These numbers mean that employee engagement can't be dismissed as just a HR fad. It is now a strategic priority for all business leaders - including those heading up finance teams. As Peter Hadley, Chief Finance Officer for ADP's international Employer Service business puts it, "We are a people business and two-thirds of our expense base is people-related, so from a CFO's perspective, it's a critical - if not the most critical - driver that we have."

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Growing awareness of the link between people issues and the bottom line is beginning to blur the boundaries between finance and HR. CFOs are becoming increasingly involved in decisions about outsourcing payroll and HR administration. HR continues to be the main sponsor of these decisions, but finance is often a key stakeholder. This is partly the result of the function's evolution from book-keeper to strategic business partner. But it is also because outsourcing offers a value proposition that many CFOs find compelling.

According to research carried out by the consulting firm PwC Saratoga in 2011, the total cost ownership of in-house HR administration is 18 per cent higher than the cost of outsourcing this work. In today's tough financial climate, that's a number that no CFO can afford to ignore.

ECONOMIES OF SCALE

So how does HR outsourcing deliver these massive savings? "If the deal is negotiated appropriately," Says Jesper Lillelund Co-founder of CorporateLeaders a Business Transformation community of 8,200 executives, "there are opportunities for financial benefit because the outsourcing provider has created – or should have created – economies of scale that an individual organisation would have trouble matching."

CFOs are becoming increasingly involved in decisions about outsourcing payroll and HR administration.

Where outsourced processes are technology based, a supplier with a large client base can use the same platforms or applications with multiple clients. "If you have that ability, then almost by definition, you should be able to achieve a lower cost structure, and the benefit of that can be shared with the client," Says Lillelund.

FROM CAPEX TO OPEX

For CFOs, an added advantage of cloud based HR outsourcing is that leading suppliers usually offer continuous system upgrades as part of their solutions. This reduces the total cost of ownership of delivering



moves costs from
CapEX> OpEx

HR services by relieving client companies of the need to pay for system upgrades each time a new version comes on to the market.

It also allows them to move many of the costs associated with HR services from CapEx (capital expenditure) to Opex (operational expenditure). And that makes budgeting and financial planning easier. "It means you don't have to plan for CapEx, seek approval for CapEx or find finance for Capex, because it's all built into the service price and you don't have the disruption of upgrades and all the one-off costs associated with them," explains Hadley.

Capital saved as a result can then be switched to the company's core activities – allowing the business to invest in growth opportunities.

BEYOND THE FINANCIALS

But there is more to HR outsourcing than the financial play. A company specializing in delivering a process or service gradually develops a high level of expertise and professionalism in that area. "You are not going to be able to replicate that on a non-core activity," says Lillelund.

"If you are a manufacturer of motor vehicles, for example, you don't have an interest in creating HCM expertise in your company, but a outsourcing provider is very interested in doing that because it's a core activity. So a big part of the value proposition of outsourcing is quality of output."

That is especially important for small and mid-sized enterprises (SMEs) that cannot hope to match the expertise and professionalism of a large outsourcing provider.

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Outsourcing Payroll removes hassle of making regular payments to employees, tax and social authorities.



MANAGING CASH

SMEs are also the most likely to benefit from the payroll disbursement services now offered by some outsourcing suppliers. ADP, for example, offers this type of service - taking clients' funds and disbursing them to employees and the relevant tax and social authorities. This has the advantage of relieving clients of the administrative hassle of making regular payments to employees and third parties.

"In the current economic environment with interest rates so low, the value of keeping cash in the bank for a few more days is nominal, to say the least," says Hadley. "But ADP can get fairly significant investment returns on those clients' funds that we take in and then disburse over time." With these investment returns being shared with the client.

"The client gives away their administration and potentially also negotiates a discount on the book price of the payroll processing. So there are a couple of value propositions there."

That said, this model doesn't suit everyone. Very large companies, in particular, tend to have their own treasury departments and their own objectives around cash management. But for an SME this model makes a lot of sense.

LONG-TERM IMPACT AND CHANGE

Employees and managers will spend less time on payroll or other HR requirements as they no longer have to do this administrative work themselves and can spend time on more value-added activities. Having a sustainable impact on their overall productivity and results of the business.

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Service users also benefit, says Hadley. "We find that if we can deliver quality in terms of user experience, applications and so on, that's a benefit for our clients' employees and lifts their engagement and productivity." And, as the studies have shown, highly engaged and productive employees deliver stronger business results.

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About



India

ADP India has enabled several companies across the country, irrespective of their nature, size and requirements, take advantage of its business processing solutions to meet their business goals, especially in the HCM Arena. By offering best-in-class software and services, which reflects the company's continual efforts in R&D that span several years, ADP empowers people and organizations to innovate, increase HR operational efficiency, meet regulatory and legislative requirements, find opportunities to reduce cost and increase profits, and stay ahead of competition.

The Company offers a wide range of human resource, payroll, tax and statutory compliance solutions both as Managed Services and On Cloud. It has been certified for ISO 9001:2008 quality standards, ISO 27001:2005 information security standards and SSAE 16 Type II standards.

www.adp.in

Global

Automatic Data Processing, Inc. (NASDAQ: ADP), a \$11+ billion enterprise and one of the world's largest providers of business outsourcing solutions, serves approximately 620,000 clients. Leveraging over 60 years of experience, ADP offers a wide range of human resource, payroll, tax and benefits administration solutions from a single source. The company's easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions for automotive, marine, heavy equipment, and recreational vehicle dealers across the world.

CorporateLeaders is an exclusive independent network that inspires business and leadership by providing a trusted forum for executives to network, exchange ideas, share lessons learned, and drive business forward in an ever-changing environment. We focus on providing exclusive membership services, intimate and content-rich networking events, research, thought leadership and advice on business transformation with executive needs and experiences at its core.

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