



# Outsourcing:

## Today's Approach to Doing More with Less

**Your guide to getting the most from your HR outsourcing experience**



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counting on you, count on us.



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## Executive Summary

HR outsourcing often begins with payroll administration for fast cost containment. Organizations then may seek out the additional cost and strategic benefits delivered through outsourcing additional, primarily administrative, functions. Despite obvious benefits, the decision to outsource is not one organizations should take lightly or rush into. This paper begins with a general overview about outsourcing and then provides considerations and best practices for selecting and working with the right outsourcing provider for your organization.

### Recommendations

Organizations that are considering outsourcing HR or finance functions should:

- Have a sound understanding of what they want to accomplish by outsourcing.
- Start by outsourcing payroll administration for fast ROI.
- Consider, for expanded outsourcing opportunities, vendors with whom there are satisfactory current relationships.
- Be prepared to take time to select the right partner and to work extensively upfront (and on an ongoing basis) with that partner to develop expectations and plans.

# An Introduction to Outsourcing

## What is outsourcing?

Outsourcing allows an organization to selectively apply available external resources – tools, infrastructure and systems or human expertise – to optimize how it does business. It provides the opportunity to offload the day-to-day handling of time-consuming administrative functions that are business-critical yet are not core competencies of the organization. Outsourcing as a business approach can cut costs, and it can also free up time and internal resources so key talent can concentrate on more important, more strategic core activities.

**By payroll outsourcing, Gartner reports payroll costs can be reduced by 20 to 30 percent.<sup>1</sup>**

## Why outsource?

Organizations choose to outsource for many different reasons. The catalyst for the initial outsourcing decision is, quite often, quick cost reduction in the HR process.<sup>1</sup> Organizations also outsource to gain a strategic advantage through:

- Better access to skills and knowledge
- Higher levels of quality for business processes
- Greater cost reductions and process efficiencies
- Better use of internal talent and resources to drive their business forward.

## Misconceptions about outsourcing

While many companies are becoming more comfortable with outsourcing as a smart business

strategy, there are still some common myths surrounding the process.

### **Myth: Outsourcing is only about cost reduction.**

**Fact:** While outsourcing is often first considered as a means of saving money – and is, especially for critical but potentially onerous functions like payroll, benefits administration and time and attendance management – outsourcing’s benefits can go well beyond cost containment.

Up-to-date legislative and regulatory compliance – across provinces – mitigates risk, while ensuring consistency of experience for employees no matter where they work in relation to head office. A company’s resources, including those in HR and Finance, can focus on core business and ensure that essential strategic activities are not overshadowed by day-to-day functional tasks.

Today’s rapidly changing environment means that, for many companies, their needs change just as rapidly, but with in-house administration, some overhead costs remain relatively fixed. Outsourcing of essential but non-core services can be a mechanism to deliver the flexibility needed now and in the future.

### **Myth: Automating business processes must be accomplished by a one-size-fits-all solution.**

**Fact:** Process automation is an important mechanism for cost reduction when companies outsource their business processes. But when “automation” is thought to equal “same for every company,” automation will appear to be inappropriate for organizations that have unique requirements and needs.

<sup>1</sup> Gartner June 11, 2009 publication, Cost Optimization: Best Business Process Outsourcing Opportunities, 2009, by Robert H. Brown.

And, of course, there are tremendous costs associated with customized technology solutions to meet unique requirements.

Fortunately, there is a middle ground between off-the-shelf and purpose-built from scratch. Automated systems and processes similar to those used by other companies but configured to support the specific needs of the individual organization are much more cost-effective.

## Current outsourcing trends

Recent trends in outsourcing show that there are some commonalities in where organizations begin to outsource as well as in how they progress in taking advantage of outsourcing as a means to better achieve business success.

**Trend: A growing number of companies are outsourcing payroll.**

According to Gartner Research, payroll outsourcing has become well-accepted and highly adopted throughout



**Many organizations are looking for better ways to respond to the dynamic shifts in their business requirements. Companies that are rapidly growing – or are reducing in size – need their in-house HR and Finance teams to focus on strategically managing these changes.**

North America. The practice is common in companies with fewer than 1000 employees and exceptionally common among those with 100 employees or fewer.

Overall, the percentage of organizations turning to payroll outsourcing is likely to continue growing as organizations of all sizes examine their bottom lines and refocus on their core competencies. In fact,

payroll outsourcing can deliver a quick cost reduction and average cost savings of 20 to 30%.<sup>1</sup>

Organizations start to realize savings, according to Gartner Research, within 4 to 6 months.<sup>1</sup>

Payroll outsourcing can also substantially improve internal employee service levels in companies where missed payroll or large numbers of payroll errors have been a problem – and a significant added cost burden.

**Trend: Many companies are looking for increased cost savings by more fully outsourcing administrative functions beyond payroll.**

Once they've experienced the fast ROI of payroll outsourcing, a growing number of companies are seeking further opportunities for cost savings.

They're looking at outsourcing more services, including administrative functions within HR, benefits administration and time and attendance management.

The move to comprehensive outsourcing is not simply about cost savings, however.<sup>2</sup> Many organizations are looking for better ways to respond to the dynamic shifts in their business requirements. Companies that are rapidly growing – or are reducing in size – need their

<sup>1</sup> Gartner June 11, 2009 publication, Cost Optimization: Best Business Process Outsourcing Opportunities, 2009, by Robert H. Brown.

<sup>2</sup> Gartner November 28, 2008 publication, Magic Quadrant for Comprehensive HR BPO, by Robert H. Brown.



in-house HR and Finance teams to focus on strategically managing these changes.

## Benefits of Outsourcing

While some benefits of outsourcing business processes to a good partner are obvious, others are less so. Here are a few benefits that organizations can experience when working with a capable outsourcing partner.

### Reducing costs

Because outsourcing providers have access to a lower cost structure as a result of the greater economies of scale, and because organizations that outsource have lower human resources or payroll-related capital expenditures or infrastructure costs, outsourcing enables reduced and more tightly controlled operating costs.

### Improving business process accuracy and accountability

Handling business processes in-house can be error-prone and taxing on internal staff. Whether it's processing payroll or updating benefits selections, accuracy is paramount to ensuring that employees are satisfied. In even the best work environments, employees will become disgruntled if they are not paid correctly or promptly or if they make health care claims that are not processed correctly. The outcome could affect morale and employee retention – and it could even pave the way for legal challenges.



**With administration-related headaches and hassles another company's responsibility, the internal HR and Finance teams at the organization are free to focus on what is most valuable and what they do best – strategically managing change to ensure the organization is in the best possible position for future challenges and opportunities.**

A good quality outsourcing partner is less likely to make serious errors than a company's in-house staff and takes full responsibility for ensuring all situations are handled to satisfaction. They will also provide "help desks" or customer service support for employees with questions or concerns – taking the onus for first-line responsiveness off the HR or Finance department of the organization.

### Increasing processing reliability and quality

The quality and efficiency of non-automated business processes is truly a function of the people doing the work. In a company that relies solely on in-house processing

by a few key people, many variables – employee vacation, sick time or a multitude of other factors – can impact the speed and quality of output.

With the right outsourcing partner, processing quality and timeliness is pre-determined. Outsourcing vendors draw from a larger pool of staff with the necessary skills, and they are able to better handle the ebbs and flows of company needs – including rapidly changing

employee numbers. In addition, they will have immediate access to the specialized expertise required to handle complex situations.

### **Gaining access to invaluable industry expertise, insight and relationships**

Good outsourcing providers will have close relationships with government officials who regulate payroll and tax laws. They will be aware early about potential changes that may have a significant impact on existing procedures, so they can make any necessary adjustments on their clients' behalf in a timely fashion – and they can influence the discussion to ensure that the needs of their clients are taken into account in policy decisions.

### **Securing new access to technology without costly infrastructure or technology investments**

Staying current with new technologies and maintaining legacy systems have always been significant burdens for businesses due to the amount of capital funding required. Outsourcing provides organizations with access to leading-edge technology that might otherwise be unaffordable or too costly to support. A good outsourcing provider maximizes their use of current technologies to streamline administrative processes. By taking responsibility for hosting and storing the organization's data (as well as maintaining its integrity and privacy), they free resources that can then be invested into other areas of the business.

### **Attaining peace of mind**

The right outsourcing partner can bring peace of mind to any organization. Reducing administrative tasks within the HR and Finance teams, the organization



is better able to focus on what is most valuable and what they do best – strategically managing change to ensure the organization is in the best possible position for future challenges and opportunities.

## **Determining What Level of Outsourcing is Right for Your Organization**

Having gained a sense of the benefits outsourcing can offer, it may be the right time to more specifically consider its potential for your organization. Because your organization is likely to have some unique requirements and needs, it's important to take a close look at current business processes and evaluate which of them make the most sense to outsource. That is, you must identify which processes, when handled by an external partner, could provide the highest return on investment and free up the most time and resources for strategic reinvestment.

### **What to consider**

An important step in moving forward with an outsourcing decision is to consider the needs of the organization as a whole as well as the specific needs of each affected department. Because outsourcing is not a “one-size-fits-all solution,” it's important to have a sound understanding of what the organization wants to accomplish by outsourcing some or all business processes.

Examine how business processes currently operate and determine whether you will benefit from outsourcing them by asking questions like:

- Could we be spending less on administering and managing these processes?
- Could we be putting internal resources and talent to other, better uses if they were not burdened by these administrative tasks?
- Are these processes as efficient, accurate and reliable as they could be?
- Are we letting technology help us, or are we struggling under the burden of increasingly repetitive manual tasks?
- Are we holding onto expensive legacy systems that no longer support our current needs?

Subject matter experts within the organization should be consulted for their perspective on what your organization is doing well, what it isn't and where it could use a little outside help. Once these discussions have occurred, you will have a better sense of any key areas that could benefit from being outsourced. These discussions will also provide information about how your organization could benefit from outsourcing – information that can be used to establish a business case for management.

## Where to start

An organization should start by identifying one administrative HR or Finance business process that could benefit from the technology and expertise an outsourcing partner can provide. By starting small,

key decision makers in the organization – who may have some reluctance to outsourcing – are given a comfortable entry point into a working arrangement with an external vendor and sufficient time to evaluate a potential larger relationship.

It may make sense to begin the exploration with a vendor with whom your organization has a current relationship, perhaps for payroll support or human resources information system support. This current

vendor may have a range of additional services and capabilities.

If the working relationship is satisfactory, perhaps business processes could be improved by adding automated tools or establishing a more efficient call centre. Maybe there are opportunities to streamline processes to make them easier

and more efficient. Whatever the driver, it's important to begin somewhere and a current partner could be a comfortable starting point.

Based on its capability to reduce operating costs quickly, payroll outsourcing offers a good first step for most organizations.

Payroll outsourcing is generally mature, but there is still room for growth.<sup>1</sup> The processes are usually predictable and, since payroll is not a core competency of most organizations, there is sufficient incentive to outsource the activities to a provider who can execute more efficiently and cost effectively.

According to Gartner Research, businesses should pursue payroll outsourcing for a quick cost reduction

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<sup>1</sup> Gartner June 11, 2009 publication, Cost Optimization: Best Business Process Outsourcing Opportunities, 2009, by Robert H. Brown.



in the HR process and can anticipate average cost savings of 20% to 30%.<sup>1</sup>

Another area for significant cost reduction lies in time and attendance management. In a 2008 study commissioned by ADP and conducted by Environics Research Group, it was found that time and attendance activities made up over 40% of the annual HR costs.<sup>3</sup> In addition to these costs, process inefficiencies were also identified, with a large percentage of businesses employing paper-based systems. These findings support the consideration to refine a company's overall costs through outsourcing.

## Choosing the Right Partner

Once an organization has decided to outsource some or all of its administrative processes, it's important to choose a provider that's the right fit for the business. Finding a good business partner can be challenging at the best of times – and the same challenge applies for selecting the right partner to support outsourcing needs.

When your organization is evaluating potential outsourcing partners, make sure:

- You have a sense of the processes you want to outsource and why you want to outsource them
- You have a good understanding of what you want from an outsourcing partnership
- You are prepared with a list of questions to ask prospective partners to ensure they'll be able to support your needs and the needs of your business.

And remember, don't rush the selection of a partner – it's too important to the success of your organization.

## What to look for in an outsourcing partner

Outsourcing partners come in all sizes – from small local operations to large multinational companies – so consider whether the provider has the resources and know-how to handle both your immediate needs and the needs that will arise with changes in your business. For example, if your organization is planning to open another location, increase the size of your workforce or acquire other businesses, you need to know that your selected provider can accommodate those types of changes quickly and accurately.

Whether you plan to outsource multiple activities and business processes to a single vendor, or will use several specialists for individual tasks, it's important to evaluate each potential partner on a number of different levels. Before meeting with them, take a look at their website and any other background information you can access to get a better sense of their ability to provide what your organization needs:

- How experienced do they seem?
- Is that expertise both broad and deep?
- Do they seem to understand the needs of an organization your size?

<sup>1</sup> Gartner June 11, 2009 publication, Cost Optimization: Best Business Process Outsourcing Opportunities, 2009, by Robert H. Brown

<sup>3</sup> Environics Research Group. Pandora's Clock: Exposing the Hidden Costs of Time & Attendance Management. March 2009.



- What kind of solutions do they offer – are they flexible, transparent, integrated?
- How stable do they appear? Remember, your partner should decrease your risk exposure, not increase it.
- Does it look like they could provide you with ongoing access to best practices and real industry experts?
- What is the provider's reputation for customer service?
- Do the service provider's goals align with those of your business?
- Is the service provider most likely to deliver on long-term commitments and be a partner for the future?

And always ask for references.

## Questions to ask a potential partner

After you've arranged to meet with a potential outsourcing partner, it's important that you think about specific questions you plan on asking. While your questions will vary depending on the particular needs of your organization, it's important to spend time deciding what you'd like to know, specifically, about their capabilities and their ability to support your needs. Your questions could include:

- Is the service provider financially stable?
- Does the service provider offer a comprehensive solution?



**A good provider will always come to the table with new ideas designed to improve the efficiencies and operations of your business.**

## Working with Your Selected Partner

Once you've made the decision to outsource and have selected a provider, it's important that open communication is maintained. This openness ensures that your organization gets everything it

needs from the arrangement and that your outsourced business processes remain well-aligned with the needs of your business, even as those needs evolve with changes in your business or your business environment.

## Always plan ahead – together

Your organization needs the right advice and expertise to help it succeed, and your outsourcing provider needs the right information from you to continue giving you good advice.

At the beginning of your partnership, take the time – often to brief your provider thoroughly and honestly about what's going on in your business. Keep your provider up-to-date regularly to make sure they understand your business, so they can provide the best value. When creating or making changes to your outsourcing plans, treat your provider as an advisor. Also, keep in mind that things can change unexpectedly, so keep your plans flexible enough to adapt to business environment or organizational changes quickly.

Ultimately, while no one knows your business better than you do, your outsourcing provider should continue to assess your needs in order to provide the best service possible. As your partnership continues to evolve and progress, a good provider will always come to the table with new ideas designed to improve the efficiencies and operations of your business – ideas that should be based on insight drawn from their understanding of your specific needs and balanced against their experience with current industry best practices.

Don't expect your outsourcing provider to read your mind when it comes to evaluating the services delivered. If you feel something is missing, tell them. Ask them for feedback as well.

## Final Thoughts

Challenging and changing times demand new strategies. Right now would be a great time to explore outsourcing – or new levels of outsourcing – as a way to ensure the success of your business.

The right outsourcing solution configured for your business needs, combined with a good working relationship with an effective outsourcing partner, will reduce your overhead costs while maintaining – or even improving – your employees' satisfaction with payroll, HR and time and attendance management functions. You also gain peace of mind in knowing

that your organization is supported by experts who remain up-to-date on changing legislation and ensure your organization remains compliant – without paying overhead costs for sustaining the necessary expertise in-house.

Your entire organization could see benefits. Senior management gets more of what it wants and needs, including more strategic HR and Finance management that comes when the right people are better supported to make informed business decisions and when your HR and Finance teams have access to the specific tools and genuine expertise they need to shine.

The bottom line? To effectively outsource your business processes, you don't have to outsource everything. You do, however, need to leverage everything – both internal and external resources – to achieve a better strategic alignment between how your resources and talent are allocated within the organization and how they could be better allocated to help your organization thrive.

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Effective outsourcing – the kind that comes from working with the right partner that will help you optimize your business processes by combining emerging technologies with your existing workforce applications and your existing processes and staff – could be the key to help your business thrive.

## About ADP

ADP Canada is a leading provider of payroll, human resources and time and attendance management solutions with approximately 50,000 clients across the country. With major offices in Toronto, Montreal, Vancouver, Halifax and Calgary,

and smaller satellite operations in other Canadian communities, we employ approximately 1,800 Canadian associates.

ADP Canada is a subsidiary of Automatic Data Processing, Inc. (NYSE: ADP).



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