

# Executive Brief: HR Outsourcing, A CFO's Perspective

## The Role of CFO Has Changed

For most Chief Financial Officers, times have never been more challenging. Not that long ago, closing the month on time and completing the annual audit and the report to shareholders were the measures of success for many CFO's. As the business environment has evolved, the expectations of the CFO have changed too. Finance chiefs are now being expected to ensure compliance with burgeoning laws and regulations, achieve cost reductions in the corporation's institutional budget, improve every department's business processes and participate in key technology decisions. Most important, the CEO and the Board of Directors are looking to you to be a strategic partner in managing the company and providing leadership in focusing the business on its core mission.

Meeting your basic fiduciary responsibilities is no longer enough.

That means many of your traditional responsibilities are no longer your top priorities. The expectation that you'll use the company's resources wisely has taken on new meaning. You're being asked to think outside the box, to come up with new ways to use the company's limited resources to meet ever-increasing demands. Competition is becoming more aggressive and the revenue opportunities are becoming scarcer. To compound this problem, the expectations of the other stakeholders in your business world have changed too. Shareholders are expecting more information and accountability. Regulators are tightening reporting requirements. A joint Business Week/ Deloitte Consulting survey in February 2003 confirmed these findings, concluding that "Boards and CEO's expect CFO's to: 1) clarify performance and organizational roles, 2) improve the efficiency and integrity of financial controls, 3) drive corporate performance and 4) maximize operating efficiency." To be successful, today's CFO has to make the transition from manager of detailed financial processes to strategic corporate leader.

Of course, this analysis reflects a generalized description of the challenges you face. Everyone's circumstances are different, but there is a vein of truth running through them that most CFO's will recognize. These problems are compounded if you work for a mid-sized company. You have broader responsibilities and fewer direct reports to whom to delegate. Corporate resources are probably slimmer and product lines and margins may be narrower. You're expected to compete with much larger, better-funded and better-staffed companies without all the advantages they enjoy.

## Meeting the New Expectations

No CFO can meet all of these expectations at once. Somehow the CFO must find ways of focusing on those responsibilities that are most critical. What alternatives do you have to meet your new responsibilities and the expectations of stakeholders? Among the choices are:

- Reduce expenses in non-core areas;
- Offload responsibilities to other members of the management team;
- Squeeze more performance and service from existing vendors and service providers;



- Redefine your mission to include only those functions that really matter;
- Find ways of outsourcing important functions that are critical, but not core to the corporate mission (for example accounting, payroll, benefits, etc.); and
- Find a service provider that can deliver a number of these functions more efficiently while supporting the mission of the company -- for example, outsourcing some IT or human resources functions.

Sorting through these alternatives and reaching the best formula for balancing traditional roles and new responsibilities is a critical strategic choice for the Chief Financial Officer.

The logical conclusion many CFO's are reaching is to embrace their new priorities and delegate critical tasks that aren't part of their strategic mission and don't support the company's core business goals. At the same time, driven by the same forces, corporations as a whole have begun to look for solutions that can demonstrate current-year cost savings, produce real improvements in key business processes, and focus limited resources on the core business. And, as always, management must choose the solution from one of the three known alternatives - build, buy or outsource. Many CFO's have concluded that newly created outsourcing options available in the market can be a key element in the formula for success.

## Outsourcing Becomes Strategic

Outsourcing, or subcontracting responsibility for completing certain business functions, has been a fact of corporate life for a number of years. Traditionally, corporations have outsourced individual business functions, such as computer hardware infrastructure or payroll processing. Outsourcing decisions were made on the basis of whether the outsourcing vendor could provide the service more cost effectively than could be done with internal resources. With the changing business climate and the demonstrated success of outsourcing, companies have begun to ask for, and service providers have begun to offer, more comprehensive outsourcing solutions.

Typically these solutions extend the focused outsourcing of a single task to encompass the entire business process of which that task is a part. This newer approach has become known as business process outsourcing (BPO). Outsourcing entire processes can be very appealing to corporations because it enables them to expand the scope of the outsourced services

dramatically, while containing them within a scope that can be readily monitored and managed. This means the performance of the outsourcing provider can be more directly judged and the return to the corporation can be more clearly determined. The vast majority of BPO initiatives have been successful enough that corporations have chosen to continue and expand their use of business process outsourcing. In fact, the creation and management of BPO relationships is becoming a recognized business discipline. While outsourcing information technology processes typically has been the first place companies implement BPO, savvy CFO's have come to understand that even greater benefits can be realized in other parts of the corporation. The Outsourcing Institute reported in May 2003 that human resources processes are receiving more attention than any other area as a candidate for BPO.

## What is HR Outsourcing?

Non-core internal business processes are prime candidates for outsourcing, among them the repetitive transactions related to providing human resources administration and services. For many years companies have been outsourcing payroll services, tax preparation and similar focused tactical functions. Some companies even progressed to the point that they outsourced a number of functions. In fact, it's not uncommon to find that as many as six or seven individual HR functions such as COBRA administration, benefits management and payroll have been outsourced to multiple providers. This is especially true in middle market companies.

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Human Resources Business Process Outsourcing (HR BPO) is a logical extension of the trend toward outsourcing and the inclination of companies to delegate individual functions. In HR BPO, the company outsources complete responsibility for an integrated set of functions such as Benefits Administration, Payroll Management and general Human Resources Administration to a third party. It's generally accepted that Human Resource departments provide 22 standard services to the corporation, some of them strategic (they contribute to the central mission of the company), and some of them tactical (they don't contribute to the central mission, but they're necessary to carry on business day-to-day).

Of these 22 functions, eleven are tactical, back office functions, are transaction intensive and can consume as much as 80 percent of the time and energy of an HR department. Among these eleven are: compensation, benefits, payroll, time and expense reimbursement, employee data and records management, HRIT/HRIS, employee and manager self-service, workforce analytics, expatriate administration, domestic relocation and policy and legal compliance.

Comprehensive HR BPO generally encompasses most, if not all, of these eleven functions. Some, such as expatriate administration, are less critical to midsized companies. When properly implemented, HR BPO can help an organization deliver industry leading HR practices through the innovative use of technology, enabling its own internal HR department to focus on the truly strategic human issues that can have a significant

impact on organizational goals. For mid-market companies, outsourcing the tactical functions, so the organization can focus on strategic issues, can have a dramatic impact on performance.

## Benefits to the CFO of Implementing HR BPO

Although the benefits of outsourcing human resources processes vary from company to company, most firms that have implemented comprehensive HR BPO programs have seen significant financial savings (30 to 50% of the operating budget) and a variety of less tangible, but equally important benefits.

Among the key benefits of HR BPO for the CFO are:

- Converting a growing capital investment to a predictable variable expense based on the number of active employees;
- Reducing HR staff headcount and dramatically improving the ratio of HR personnel to the overall employee base;
- Reducing the total amount spent on internally provided and currently outsourced services;
- Eliminating inefficiencies resulting from non-integrated and redundant processes;
- Streamlining and simplifying relationships with several HR service vendors to a single strategic partner;
- Gaining access to HR best practices and subject matter experts at a fraction of the cost to bring them in-house;
- Reducing the risk and legal exposure of noncompliance with the myriad national, state and local regulations and laws now in force; and
- Refocusing HR personnel on strategic activities such as compensation planning, human capital development and recruiting and succession planning, where they can truly add value to the core business.

Until recently, human resources business process outsourcing was an alternative only for the largest companies. Conventional wisdom was that the economies of scale required to gain true benefit could only be achieved in companies with more than 10,000 employees. With the cadre of HR BPO providers expanding, some firms have already targeted their services to mid-market companies. If you're a mid-sized firm (500 to 10,000 employees), the key to success is finding an outsourcing partner that offers the unique scope and quality of services your organization requires and has achieved the economies of scale through working with multiple clients.

## HR BPO Makes Sense

As you work to refocus your role as CFO, offloading non-core functions such as back office human resources activities can be one of your key initiatives in shifting your focus to strategic activities that support the core mission of your company. Outsourcing human resources functions not only reduces operating expenses and improves internal performance, but frees your HR, IT and finance staff to become as strategic as you need to be. By selecting the right HR BPO partner and carefully deploying the solution, mid-sized companies can achieve the same benefits as their larger competitors.

This white paper was prepared by The BrightTrack Group at the request of PlatformOne, Inc.

### About PlatformOne

PlatformOne delivers flexible payroll processing, HR management, benefits administration and worker's compensation administration services tailored to individual client needs.

### About BrightTrack Group

The BrightTrack Group provides sales, marketing and business development services, including market research and validation. You can contact BrightTrack at [info@brighttrackgroup.com](mailto:info@brighttrackgroup.com).