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APRIL 2005 VOLUME 2 NO. 4 \$7 USA

THE HRA ALTERNATIVE p.18

Benefits and Same-Sex
Partners p.24

**Catastrophic Case
Managers** p.34

Business Process
Outsourcing p.37

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BROKER EDITION**
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CONJUNCTION
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**Home Run
Solution**

**Hank Aaron's restaurants
introduce paperless payroll** p.27

Darlene Coachman
Director, Business Support
755 Restaurant Corporation

MAKING THE HR DECISION

SELF ADMINISTRATION OR BUSINESS PROCESS OUTSOURCING? BY ART BROOKS

What company isn't looking for ways to add educated and experienced personnel in the many controlled areas of human resources (HR) and employee benefits, to add or change technology and processes to support these controlled areas, and to do so without adding expense—or better yet, at a savings?

If a company wants to expand its HR department without making additions or changes internally, but rather look to an

outside firm, this is known as outsourcing or Business Process Outsourcing (BPO).

By definition, outsourcing is to send out (work, for example) to an external provider or manufacturer in order to cut costs. Cutting costs may be the first consideration in the decision to outsource, but there are certainly other reasons, such as addressing the immediate need for professionally trained support and technology to meet regulation and compliance requirements.

Perhaps no other business process has more options for outsourcing than HR and employee benefit managers. These managers take care of the needs of employees, considered the most valuable assets by most, if not all,

companies. Group benefits are a major part of the compensation employers offer to entice and retain productive and reliable employees, and the methods by which these compensation elements are derived and presented are key to a company's success.

In the broadest terms, the business processes performed by HR range from recruiting; interviewing; providing, presenting, and delivering medical, dental, vision, life and other ancillary benefits; job training; instituting programs for retention and growth of employees; establishing tools and guidance for management reviews; and reviewing and selecting technology to support HR functions.

FASTER, CHEAPER

The need for HR support has given birth to BPO to help with all, or at least some, of these often daunting processes. The bottom line offer from the BPO vendor is the ability to provide service faster, quicker, and cheaper, which usually catches the attention of company decision makers. BPO vendors offer scalable processes and the personnel and technology to deliver their marketed savings.

The process solutions of BPO vendors also tend to be more scalable than processes used by self administrators, and therefore can be provided at a savings with enhanced outcomes. BPO vendors are not a new phenomenon, but they do seem to be getting more attention these days, indicating a possible shift in thinking.

How the company views its HR department and the role it plays often helps determine whether to outsource or manage processes in house. HR is generally not seen as a revenue-generating department; to the contrary, it most often is viewed as a "cost center." Some forward-thinking corporations may place a higher emphasis on HR's role in caring for its



most valuable assets and view the department as more of a revenue source than others. The corporate culture of a given company will influence whether or not it sees HR as a process that can be completely outsourced or one that must be managed in house.

A company that values its employees will address the decision to outsource very differently from the company that does not. If savings are the only concern, and other considerations of providing value fall to the wayside, it may be to the detriment of employees and customers that will not get the quality attention and care they deserve.

The process of administering employee benefits, COBRA, payroll, Flexible Spending Accounts, and technology to support all of these affects employee satisfaction and covers company liability in these areas. For these reasons, BPO vendors should be very carefully selected—and not based on price alone.

Outsourcing HR duties essential to the operation of the company—such as recruiting, interviewing, job training, developing retention and growth programs, and providing guidance for management reviews—may also negatively

impact the organization, since each and any of these elements can be critical in influencing overall performance.

At other times, it may be warranted to outsource recruiting, training, etc., such as when management is fully absorbed in funding, product, and market and needs help to identify and implement a corporate culture to support their vision.

CONSIDERATIONS

Often corporations may decide to outsource a portion of their HR functions to help their existing department or to fill a void in the organization. BPO vendors offer many different types of solutions. One vendor may emphasize payroll, another HR, another benefits administration, and yet another technology. Varied expertise, company cultures, and the variety of systems that must communicate with one another present a challenge for anyone assigned the task of selecting a single BPO vendor, and are compounded when selecting multiple, specialized vendors.

Asking existing HR personnel to make a change and outsource some, or many, of their tasks offers other challenges. These individuals may worry about being

replaced or feel as though procedures instituted by their staff are being viewed as mistakes to be done away with. Also, change is generally a cause for discomfort, but while maintaining the status quo is often easier, it can be more costly in the long run when the company fails to meet with required upgrades and improvements to remain competitive in its market.

In addition to the considerations above, in deciding whether or not to outsource companies also should examine factors such as:

■ **Company culture:** What are management's expectations of employees? What are the employees' expectations of the company? What are the customers' expectations (service levels) from employees? Is this a family or corporate business? What are the revenue and expense models?

The answers to these questions will help determine the expectations for benefits administration and indicate whether or not the organization has the resources in house or can build them to effectively manage plans.

■ **Processes:** What can be outsourced? What could be done better (faster, more accurately, cheaper)? What should the

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company be doing that others are doing? What could the company be doing that would make it different and better than others?

The answers to these questions will help the organization identify where it can obtain greater efficiencies in outsourcing some, or all, of its HR functions while allowing it to better focus on its core competencies.

■ **Return on Investment:** What savings could be achieved with task reduction through BPO? What savings could be obtained due to accuracy and timeliness? What enhancements could

be made with the addition of skilled personnel? How could outsourcing enhance employee productivity?

The answers to these questions will help the organization determine how it can save money and/or provide better service.

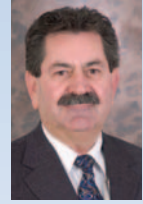
SPECIALIZATION

The business of being in business has grown ever more complicated and given way to specialization. Those executives looking to outsource some or all of their HR capabilities should first know what their company culture is today and where they would like it to be in the future.

Knowing will help them start planning the best methods to maximize income and reduce costs.

Determining the need to outsource and overcoming inertia to make change are bold steps. But they also are necessary considerations that may have a big payoff for the company's future. ❏

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Helping business get back to business

BY TIM DIASSI

The trend toward human resource outsourcing (HRO) has indeed created a burgeoning, technology-driven industry. HRO means a lot of things to different people, from outsourcing the entire HR function to as little as managing benefits administration. In fact, the HRO industry continues to grow steadily. In a report from IDC Worldwide, the HRO industry worldwide is expected to reach \$103.3 billion in annual spending by the end of 2007—representing an 11 percent compounded growth rate. By that same year, the HRO market in the United States alone will represent nearly \$60 billion with an annual growth rate of more than 12 percent.

Such significant growth in the HRO industry is supported by businesses that see the obvious benefits of handing over payroll and HR functions to an outside firm. These advantages include:

- **More control and reduced operating costs:** These days, all costs are closely scrutinized. As new technologies develop, HRO firms are also focused on advancing state-of-the-art software to meet changing HR and payroll needs. Contracting with an HRO firm eliminates a company's need to buy, manage and upgrade its own HR software as well as all the costs associated with these functions. Outsourcing also reduces unpredictable expenses such as those incurred when system challenges occur.
- **Improved efficiencies and productivity:** Adopting a web-based HR solution reduces paperwork throughout the company. Outsourcing eliminates redundancy and frees up staff time that can be invested elsewhere.
- **Access to the most up-to-date technology and HR expertise:** Outsourcing HR makes sense for all company sizes. Smaller companies, however, may have the most to gain from outsource partners since along with the latest technology they gain HR expertise in wide range of areas.
- **More strategically focused HR personnel:** Does it make sense for highly-qualified HR professionals to input personnel data or manage payroll check runs? Outsourcing removes much of the mundane from the in-house HR function. This leaves HR staffs with more time to strengthen recruitment efforts, lower turnover, raise morale and initiate professional development programs.
- **Refocused IT:** Technology drives business for many companies. Therefore, IT time spent on HR and payroll-related issues reduces the time spent on initiatives that actually increase the bottom line. Outsourcing can reduce IT diversions on an ongoing basis.
- **Streamlined, yet customized, processes:** Many applications can be integrated into existing HR systems and processes related to compensation, vacation, sick leave, travel expenses, performance reviews, insurance, and 401K investments. Some HRO market leaders can also customize their programs to meet the varying needs of specific businesses working within unique industries.
- **Greater accessibility:** Web-based HR programs provide managers and

employees with easier access to more information. For instance, many online systems allow managers to retrieve comprehensive financial figures or performance reviews and employees to access information related to benefits, dependents, vacation day, performance reviews and more.

Additionally, outsourcing aids public companies consumed with Sarbanes-Oxley compliance issues by helping them to segregate and facilitate important financial functions related to payroll, tax filing, internal audits, and reporting. Likewise, qualified third-party providers can lend credence to a company's financial efforts by simply enforcing and verifying credible practices.

However, finding a reliable outsourcing partner may not be easy for many companies, especially for those working in unique industries or niche markets. For these businesses, asking a few preliminary questions will help them choose the right providers and then carefully evaluate their performances:

- **How will technology improve in the very near future?** Most qualified outsourcing firms can answer this question by citing examples of the latest IT introductions currently saving time, improving efficiencies, and controlling costs in your field. A good strategy is to find a reputable provider that knows your business, has developed its own software, and has accomplished results with companies similar to yours.
- **How much knowledge and expertise does the provider have?** HR issues can be complicated and unique at the same time. Choose a provider that thoroughly understands HR for the best results.
- **How much willingness to partner does the provider demonstrate?** Outsourcing requires a commitment from both sides. Look for a provider that wants to be more than a vendor and is dedicated to learning your business, establishing a mutually-rewarding partnership, and improving your processes.
- **How much experience and stability does the provider have?** In a growing industry, many newcomers will try to jump on the bandwagon. Identify a partner with a long track record and that exudes responsibility and commitment.
- **Is the provider dedicated to servicing your needs?** No matter how mundane HR/payroll administration may seem, it is an essential business component that demands proper professional attention at every service level. Only a qualified outsourcing firm specializing in HR can fully comprehend all the intricacies involved in its upkeep and management. ❏

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