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GUIDE TO PAYROLL OUTSOURCING



**Maximizing the Advantages
Avoiding the Pitfalls**

Guide to Payroll Outsourcing: Maximizing the Advantages, Avoiding the Pitfalls

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Introduction

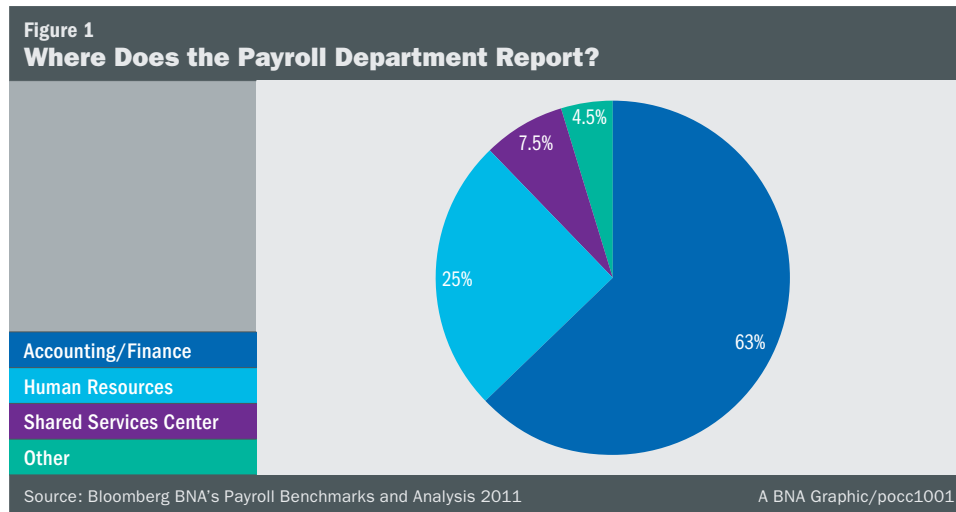
The practice of outsourcing the payroll function has grown in recent years, both in terms of the users—the number of organizations that are choosing to outsource payroll—and the suppliers—vendors that have entered the market and are offering services.

Since cost reduction has become a major concern for organizations, there is increased focus on outsourcing single processes as well as enhancing existing outsourcing functions. The global human resource outsourcing market, of which payroll outsourcing is a major part, is expected to grow to \$162 billion worldwide by 2015, according to the website Seeking Alpha (seekingalpha.com).

As it pertains to outsourcing the payroll function, the cost of administering payroll in-house, compared to outsourcing, is often the primary consideration. Research by PriceWaterhouseCoopers, *The Hidden Reality of Payroll & HR Administration Costs*, conducted in 2011 in conjunction with ADP, analyzed the costs associated with payroll and HR administration when done in-house, as compared to when outsourced. According to the study, organizations that retain payroll, workforce administration, time and attendance, and benefits administration in-house, spend on average 18 percent more than organizations that are outsourcing.

In addition, larger organizations spend 27 percent more than smaller sized organizations, and organizations using software vendors spend 32 percent more than those that use web-based solutions. The report reveals that despite significant technological advances in payroll administration software, the costs for payroll administration continue to increase.

According to a study by Bloomberg BNA, 64 percent of organizations locate the payroll department within finance/accounting, 25 percent of organizations place it in human resources, 7.5 percent of organizations put it in shared services, and 4.5 percent of organizations choose some other department (see the chart below).



The Society for Human Resource Management (SHRM) posits that where payroll resides within an organization may have some bearing on the likelihood of it being outsourced. If payroll is in human resources, outsourcing may be more likely because human resource departments use outsourcing more commonly than other departments. If payroll is in finance/accounting, on the other hand, outsourcing may be less likely because those areas traditionally use outsourcing less often than human resources.

Also of note is the manner in which payroll tasks are outsourced. For example, the American Payroll Association found, in a recent survey, that the later the task falls in a payroll cycle, the more likely it is to be outsourced.

While organizations vary greatly in how they generate paychecks, all must do so on time and in compliance with the law.

It's important to understand that while outsourcing can be defined as any work done by someone other than the organization's employees, freelancers, independent contractors, and subcontractors are not necessarily "outsourcing vendors."

Typically, outsourcing involves a more substantial commitment of resources than the use of individual contractors. Independent contractors are generally asked to take on tasks that are project based, with a well defined beginning and end. Arrangements are usually short term, and are easily terminated. By contrast, outsourcing generally refers to a strategic partnership between an organization and a vendor and requires that the organization make a long term decision to

divest itself of large, often unwieldy business functions. Functions that have been outsourced are often unwieldy or expensive to bring back in-house, so arrangements with the provider are necessarily more long term.

Organizations began outsourcing as a means for offloading one or more business processes to a third-party to reduce costs or to gain efficiencies. As the practice of moving to outsourcing spread, so too did the scope of activities that were being outsourced.

Today, almost every business responsibility—customer service, logistics, information technology support, finance and accounting, editorial services, research and development, and legal services, to name but a few—is capable of being outsourced in one form or another.

As a 2011 Bloomberg BNA survey reveals, almost half of US businesses have engaged in some form of payroll outsourcing.

***A Note About Terminology:** A number of terms are used to describe those that hire outsourcing services and those that provide them. For example, those that acquire outsourcing services are often called “employers,” “companies,” “businesses,” and “clients,” among other terms. In this book, they will be called “organizations.” This is an all-inclusive term that encompasses all forms of public and private corporations, partnerships, governmental entities, and not-for-profits.*

In addition, the providers of outsourcing services have been called “service providers,” “vendors,” “solution providers,” or “outsourcers,” among other terms. Throughout this book, they will be referred to primarily as “vendors” or “outsource vendors,” to eliminate any possible confusion.

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