

## Manitoba health authority turns its back on outsourcing

*Experience raises question: Is payroll outsourcing right for everyone?*

BY UYEN VU

It's often said that as employers come to understand the true strategic value in the HR function, they'll be more inclined to view transactional HR processes as ripe for outsourcing.

But, as some employers have found, it's just not that easy to outsource payroll administration — one of the most transactional functions in HR.

That's the experience of Sheldon Hildebrand, regional payroll co-ordinator at the Regional Health Authority Central Manitoba in South Port, Man. Three years ago, he worked to bring payroll processing back in-house. His motivation: better quality control and greater savings.

"The main issue for us has been control and efficiency, accuracy," said Hildebrand, who has worked at the health authority since 1994.

When he first joined the organization, payroll processing took place at a service centre run by the Manitoba Health Organization. Payroll input was submitted

by each hospital and personal care home, and time entry was done manually by keying information from manual time cards.

In the late 1990s, the province created 10 regional health authorities and the payroll service centre was sold to Winnipeg-based payroll provider Comcheq, which was subsequently bought by Ceridian. Even back then, Hildebrand felt processing payroll internally was more efficient and more accurate than outsourcing. One of his largest concerns had to do with the lack of control and oversight for his payroll staff when it really mattered.

"We're talking about the checks and balances prior to processing that I wasn't able to do. The end product was the first opportunity to actually review the results," said Hildebrand. "I wasn't able to check the results until the payroll had been processed and the electronic fund transfers had been sent to the bank, and it's only later that I would receive a box of paper with many canned reports from the service bu-

reau. And then it was a matter of searching for errors and omissions and start processing the special pays."

Errors were spotted every period, he said, acknowledging, however, that much of the time the mistakes stemmed from inputting errors that Hildebrand couldn't control.

"We had paperwork from a variety of sites," he said.

What's more, Hildebrand felt he wasn't getting the customized reporting he needed.

"We were essentially restricted to canned templates. And if there was customized reporting that was possible, they were all billable. There was that extra cost involved in having the time spent and, of course, the results may not have met our needs but we would have to pay extra fees."

### Little cost savings in outsourcing gross-to-net

Hildebrand's experience illustrates why some employers shouldn't be too quick to turn to an outsource provider, according to Ian Mise, founder and president of LeadingEdge Payroll

Group, a Newmarket, Ont.-based consultancy that helps organizations determine whether an outsourcing option is a good fit.

As payroll is a touch point of several dozen HR activities, it seldom makes sense from a cost perspective to outsource that component alone, he said.

"When we start to examine whether it's a good fit or not, organizations realize very quickly that when you look at the payroll piece in itself, there's very little cost saving to outsourcing only the gross-to-net portion of their payroll process," he said.

That's why the payroll outsourcing market has remained rather small. According to a survey this year of about 550 readers of *Canadian HR Reporter*, half said they don't outsource payroll at all. Only 12 per cent of respondents said their employers outsource the function entirely and 37 per cent said they outsource only in part.

And, according to Conference Board of Canada data, payroll outsourcing is even less prevalent. Out of about 160 organizations it surveyed in 2005, only six per cent outsource payroll administration fully (up from four per cent in 2001) and 23 per cent do so on a partial basis (up from 20 per cent in 2001).

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# Customization needs can create frustration

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Mise is not an opponent of outsourcing. In fact, he's a fan of the emerging outsourcing model in which an outsourcer takes over all of the HR administrative activities, including payroll, benefits and pensions.

"When it's done for the right strategic business reasons and is examined holistically, plus implemented correctly, that's where you could get the value," he said.

Speaking to Hildebrand's need for customized reports, Mise said a traditional payroll outsourcing service seldom gives employers the opportunity for heavy customization and a robust reporting system.

"If this person has a bunch of unique business requirements and he's trying to run them through the processes and the service is offered by a traditional outsourcer, I could see why he could be frustrated," said Mise. "We always tell organizations, 'Before you consider outsourcing, you have to redesign your existing processes to optimize the process outcome. Because you can ill-afford to go into (the) heavy customization game.'"

Mise also finds himself advising organizations to "clean house" with respect to some of their internal practices before turning to

an outsider.

"If you've got a number of problems internally, if your organization hasn't adopted best practices internally, don't expect the outsourcer provider to rescue you," he said.

## A \$150K per year saving

Hildebrand has no regrets about bringing payroll back in-house. The results were immediate in terms of how clean and error-free the pay periods were.

"The employees and the unions have been able to recognize how the payroll has been processed so much more efficiently than had been in the past," said Hildebrand.

The efficiency he gained in not having to pore over registers after the fact has been such that, when the regional health authority purchased a payroll software from QHR Software Inc. and brought back the function in 2004, there was no need to hire anyone extra. And in two years when the software is paid off, Hildebrand said the health authority will start to save \$150,000 a year from not having to go to an outsource provider.

He's also happy with the level of reporting he's now able to provide to managers across the organization. On a bi-weekly basis he produces a series of reports, including reports on sick time

## ■ FINDING THAT FIT

### 10 tips for choosing an outsourcer

Choosing the right outsourcing provider is the critical first step in freeing the time to focus on more strategic tasks; but it's not always easy to find that perfect fit. Outsourcing firm ADP offers the following 10 tips to help organizations hire the right partner:

1. **Choose wisely:** Consider the organization's needs and find an outsourcing provider that is stable and has the resources and know-how to handle both immediate and gradual shifts in the business.
2. **Do the homework:** Ask for references and, by all means, check them. Ensure the provider has tangible experience in the organization's specific field. Examine the number, type and longevity of its client relationships.
3. **Find good chemistry:** If you like and trust the people, see a compatible corporate culture and they understand the way you do business, that could be the service provider for you.
4. **Remember honesty is the best policy:** Telling the outsourcing provider what's going on in the payroll and HR department will ensure they understand the business and can recommend the correct mix of products and services. Brief them thoroughly, honestly and regularly.
5. **Provide one voice:** Give the outsourcing provider one main contact. She should be involved with HR, payroll and technology functions and be senior enough to make strategic and budgetary decisions.
6. **Write it in the contract:** Both parties need to clearly state their responsibilities to limit confusion and conflict. The contract should outline specific conditions, but also be flexible enough to adapt to change.
7. **Map it out in pencil:** Once an outsourcing provider has been hired, write down all the organization's business needs — in pencil. A good provider will come to the table with other ideas and insights to include, and outsourcing plans should be flexible as things can always change.
8. **Plan together:** Consult with outsourcing experts before they create a plan to handle the company's mounting front and back office needs. Working hand-in-hand from the start will ensure the working relationship gets off on the right foot, generating better results.
9. **Provide continuous feedback:** Don't expect the outsourcing provider to read your mind. If something is missing or performance is lagging, let the representative know.
10. **Plan ahead:** Look three to five years ahead of the business plan. One of the most important factors in choosing an outsourcing provider is finding someone who can grow and change with the company.

Source: ADP Canada

analysis, vacation, sick and statutory holiday banks and work/benefit time analysis to show at a glance how productive employees have been. Plus, at management's request, he'll regularly pro-

duce reports on absenteeism or wage analysis.

"It's quite exciting. When you own your own information, there's really no limitation to how you massage your data."