



Leveraging Current Labor Investments for Economic Survival and Recovery

Executive Summary

This paper examines concurrent research findings from Deloitte Consulting and PricewaterhouseCoopers indicating that business leaders are focused on leveraging current labor investments in order to position their organizations in anticipation of an economic recovery. In the past few years businesses have conducted extensive layoffs while eliminating salary increases and employer 401(k) contributions. To remain profitable as they await a more favorable economic climate, leaders are focusing on leveraging workforce resources to increase productivity and competitiveness. This paper identifies their main areas of focus.

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Overview

To weather the current economic storm—and to position themselves for long-term strategic growth—business leaders are focused on leveraging their current labor investments. Everyone is trying to do more for the same amount or less. Businesses are finding opportunities across the entire employee lifecycle to increase productivity and competitiveness, from recruiting top talent to managing benefit costs and compensation plans. One way businesses are achieving efficiencies can be seen through the growth of HR administrative outsourcing services. Business leaders are also exploiting newer technologies, including human resource information systems (HRIS). This paper outlines how companies are leveraging labor investments and suggests where to look for opportunities.

CEOs Focus on Current Labor Investments

Results from surveys by Deloitte Consulting and PricewaterhouseCoopers concur that a majority of business leaders are focusing on ways to leverage their labor investments for survival today and growth tomorrow. This focus is a response to current economic conditions and preparation for a widely expected economic recovery.

The economic downturn resulted in extensive layoffs across multiple industries. Businesses are now trying to increase productivity, profits, and competitiveness with fewer employees. They believe that their best opportunities to get ahead in this challenging environment center on:

- Recruiting and retaining top talent
- Developing and rewarding employees for increased productivity and performance
- Managing compensation plans
- Controlling rising benefit costs

Deloitte Consulting identified a widespread economic trend in 2009. They found that businesses are keeping employee compensation costs fixed, while maximizing returns on current labor investments. The Deloitte study, “2010 Top Five Total Rewards Priorities Survey,” cites the following results, based on responses of U.S. employers about their key priorities for the coming year:¹

- 52 percent are targeting employee self-service technologies as a top priority.
- 72 percent of organizations plan to redesign health and welfare plans.
- 51 percent intend to improve ROI statistics of employee reward programs.

A 2010 PricewaterhouseCoopers survey yielded similar results, indicating that business leaders are closely scrutinizing labor investments and returns, while maintaining their commitment to recruiting, developing, and retaining skilled labor. According to the *PricewaterhouseCoopers 12th Annual Global CEO Survey*²:

- 69 percent of CEOs identified attracting and retaining skilled labor as a top challenge.
- 78 percent cited a need to create a more flexible working environment.

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In 2009, when the economy weakened, most businesses capped or reduced employee salaries and suspended 401(k) plan employer matches. In the next five years, labor costs, including health insurance benefits, are expected to rise. While rising costs will likely affect employee compensation, slashing labor expenses can directly—and negatively—stifle competitiveness and productivity. To survive beyond the initial economic threat, and to capitalize on the opportunity of an inevitable economic recovery, employers must manage their labor investments, increase competitiveness and productivity for profitability, and keep labor costs as neutral as possible.

HR Support Options

In today's world of rapid technological innovation and global commerce, businesses increasingly require flexible, turnkey solutions that can be easily added and modified as business requirements change. HR outsourcing services exemplify this trend. Recent years have seen a steady increase in the adoption of full-blown employee leasing, à la carte business process outsourcing, and the implementation of HRIS. Deloitte Consulting surveys show the majority of business leaders leaning toward implementing employee HR self-service options within their organizations.

After the widespread adoption of outsourced payroll and tax administration that occurred throughout the 1980s, HR outsourcing services were the next logical solution of choice among business leaders. The majority of companies today use some form of HR outsourcing from business partners within one of three basic support models:

- Professional employer organizations
- Business process outsourcing
- Application service providers

Professional Employer Organizations

Professional Employer Organizations (PEOs) represent a “co-employment” model, where an outsourced service provider, as an administrative employer, takes on designated employer responsibilities for its clients. Under this model, the PEO becomes the full business partner, providing HR and regulatory guidance, employee benefits, workers’ compensation, and payroll and tax administration to its clients. Businesses choosing the PEO approach typically reduce compensation costs by participating in a larger group health insurance plan. Along with the benefits of being with a PEO, businesses maintain the day to day control and supervision over their workforce, their products and their services.

Business Process Outsourcing

HR business process outsourcing vendors (BPOs) can offer a range of à la carte support services, from HR consulting to on- and off-site HR administrative support. An advantage of BPO is that vendors can establish turnkey services and modify them just as easily when the business environment changes. Examples of à la carte offerings include policy and procedural infrastructure, job candidate background screening, section 125 and 401(k) benefit administration, and supervisor training. The employer retains full control over the employer-employee relationship in the BPO model.

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Application Service Providers

Application service providers (ASPs) offer software, hardware, and data management services. These services can be completely housed and managed at the client site, the vendor location, or a combination of both. The trend with ASPs is toward providing fully Web-based human resource information systems (HRIS). These systems are fully housed and supported at the vendor location, with multiple advantages to both the vendor and the client. Client advantages include cross-organizational functionality and reporting, while allowing central data controls, security, and administration. Data maintenance, archiving, business continuity planning, and system upgrades are managed behind the scenes by the vendor.

While HR outsourcing partners generally follow one of the three models described above, vendors often overlap services, blurring the boundaries between these offerings.

Human Resource Information Systems

Web-based human resource information systems help organizations achieve cost savings and productivity gains by streamlining communications, improving procedures, decreasing manual labor and paper management costs, and strengthening cost controls.

HRIS technologies can have a positive effect on a broad range of business functions:

- Recruiting and applicant tracking
- Hiring and orientation
- Benefits administration
- Time and labor management
- Training and performance
- Expense management
- Payroll and tax administration
- Policy and labor compliance
- Management reporting

Today's systems require minimum investment and are within reach of most medium-sized, and even smaller, businesses. Web technology eliminates up-front hardware and software investments usually associated with system installations. Also, system upgrade time lags and costs are also eliminated. With centrally managed data, administrators can provide secure access to groups or individuals as required for optimum business performance. Controlled access can include custom user displays and powerful, cross-organizational reporting.

Key advantages of a robust HRIS include these features:

- *Centralized Data Administration.* Centralized data sharing increases administrative control over organizational data, processes, and communications. Without multiple data silos that require manual updates, data accuracy improves. Administrators can streamline data sharing, automate workflows, and tailor custom screens to the specific needs of user groups or individuals to reduce demands on administrative time and labor.

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- *Paperless Processes.* Interactive forms and payroll distribution are examples of automated processes that can eliminate direct costs associated with manual, paper-based methods.
- *Workflows and Communication.* Automated workflows, e-mail reminders and notifications, and other communication tools create efficiencies throughout the organization, saving time and resources. For example, the HR department will receive fewer routine questions and requests when automated time-off request calendars, check stubs, and standard company forms are available to employees. At the same time, employees appreciate the ease and access that enhanced communication channels provide as they streamline tasks and strengthen ties to the organization.
- *Real-Time Reporting.* Managing data in “real time” means that employees are always working with up-to-date information. Access to real-time data can have a significant impact in areas where administrators or supervisors need to contain and control key cost centers, including employee discretionary spending, direct labor time, paid time off, and health-care benefits.
- *Web-Based Technology.* The delivery model for Web-based applications is commonly called “software-as-a-service” (SaaS). Vendors charge clients by the number of users per month. Traditional out-of-the-box applications usually incur an up-front purchase cost in addition to ongoing periodic upgrade charges. The advantage of SaaS is that the physical limitations of in-house applications are removed. Software is automatically updated over the Web.

With SaaS, you are never caught between the choices of paying for an upgrade or using outdated software. Web services tend to be highly flexible and easily customizable to accommodate unique individual or departmental needs. Controlled admittance limits employee access to secure data according to company guidelines without the restrictions of internal investment in data protection and maintenance, hardware, software, and network maintenance. With the vendor providing systems security, data archiving, and business continuity planning, Web-based services represent a flexible and cost-effective HRIS option.

While employee self-service is not an option for every workforce, significant efficiency gains can be realized even when Web-based HRIS is implemented at the administrator, department, or supervisor level.

Conclusion

Results of research conducted by Deloitte Consulting and PricewaterhouseCoopers concur that the economic downturn has motivated business leaders to leverage today's investment in labor to prepare for tomorrow's strategic growth. One way businesses are achieving efficiencies can be seen through the growth of HR administrative outsourcing services. Business leaders are also leveraging newer technologies, including human resource information systems. As a result, opportunities for increasing productivity and competitiveness abound across the entire employee lifecycle.

About Paychex

Paychex, Inc. (NASDAQ:PAYX) is a leading provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses. Average client size of the largest 30,000 medium-sized business serviced by the Major Market Services division is 140 employees. Paychex was founded in 1971. With headquarters in Rochester, New York, the company has more than 100 offices serving over half a million clients. The corporate Web site is www.paychex.com.

Notes

¹www.deloitte.com/view/en_US/us/Services/consulting/human-capital/Total-Rewards-Consulting-Consultant-Consultants-Human-Capital/f7fbe0afd77b6210VgnVCM100000ba42f00aRCRD.htm

²www.pwc.com/gx/en/ceo-survey

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