

Assessing HROs



“This is the 2005 budget for HR. We spent days on these numbers. They are very comprehensive, and you won’t find any data or costs missing

from this budget.” These words were just uttered to me by the senior vice president of HR at a major multinational company, and this probably marks the 100th time I have been told something very similar.

When doing assessment work in preparation for an HRO initiative, the HR budget is just the starting point. At the

end of a very intensive cost-gathering process, we will indeed have to refer back to the numbers. However, budgets frequently contain people and costs that are not performing core HR services. Moreover, they will not contain all the costs related to core HR services.

These problems occur for a host of reasons:

- Budgets are based on headcount costs, not full-time equivalents.
- A departmental budget often fails to pick up the costs for HR work being performed outside HR.
- Third-party vendor costs, such as for training, often are not included in budget figures.
- Some companies do not allocate costs for data processing back to the HR department, and we find that problem in numerous departments.

In order to develop a comprehensive picture of the true cost of HR services, we have to find ways to identify all the costs and then screen out the non-core costs.

Labor costs are often built upon a comprehensive basis and include base salaries, incentive pay, fringe costs and possibly even desktop and facilities costs. They are almost always headcount-driven; i.e., they represent the costs of people working in and dedicated to the HR function. But in order to build an effective cost and service profile of *all* resources performing HR functions in a corporation, we need to find all the HR work, no matter where it’s performed.

The primary means to do this is to conduct a work-activity survey that reaches all departments that interact with HR. Time may be spent on HR services by people located in the finance, risk-management, legal and communications groups. In addition, HR may have headcount that is not involved in sourcable HR services. These types of functions often involve security, canteen, on-site health care and transportation. By finding out how much of a person’s time is spent on core HR processes in a given month, we can build a total full-time-employment-based resource profile of HR services. From that, we can determine the true labor costs of HR service delivery.

This is, of course, not the end of the road. We still have to do a thorough job of determining the third-party spending and true cost of services outside HR, regardless of allocation policies in the company. But HR labor costs are often 50 percent or more of total cost of HR service delivery, and we must get those foundational costs right for any assessment to be meaningful. The annual HR budget is a great starting point, but it is far from the finish line in almost all cases.

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