Outsourcing Payroll: Use 6 Metrics to Measure & Achieve Success

Although outsourcing can help you accomplish more with less, you need to undertake it with care—especially when the function you outsource is payroll. One thing you need to avoid is rushing into an arrangement without adequate preparations. And no preparation is more crucial to outsourcing success than identifying clear objectives and establishing a system to measure whether those objectives are achieved.

The Business Case for Payroll Metrics

Metrics is a set of numerical values for measuring output and the effectiveness of business processes. Their use enables you to justify outsourcing (and other payroll programs) with hard data, but be careful. Metrics isn't just a way to dress up subjective opinions to look like objective measurements. It's a way to define what success is and whether the measures you're taking are getting you to your goals. Metrics, in other words, is a system, not simply a terminology.

It's important to develop metrics *before* selecting your vendor. The first step is to identify the discrete goals you want to accomplish by outsourcing and assign one or more metrics to each one. In addition to forcing you to prioritize, this discipline will help you pick the right vendor, i.e., the vendor that's best equipped to help you achieve your major goals.

Finally, metrics plays a key role in outsourcing success because they enable you to manage vendor performance and service level. Then, if your expectations aren't being met, you can make the necessary adjustments.

The 6 Areas to Measure

The final piece of the puzzle is to develop the right metrics. Leading HR consultant Dr. John Sullivan recommends developing metrics in 6 areas to ensure that an outsourcing initiative is successful:

1. **Level of Service.** This measures whether the vendor is actually providing the services contracted for. Although it might seem obvious, the failure to deliver expected services is a leading cause of failure in outsourcing arrangements. Examples: Numbers of T4s processed and costs per T4.

2. **Quality of Service.** Some organizations have unrealistic expectations about the level of expertise provided by their vendors. Even if vendors know their stuff, they may not fully understand how your organization works. So it’s critical to come up with a set of measures for service quality.
3. **Relations with Vendor.** It’s important for the payroll manager to assess certain vendor management issues, that is, whether a vendor has been “difficult to do business with.” Metrics for this area might address issues such as whether vendor representatives were honest and forthcoming, how much time they took before returning calls and how they responded to requests for changes.
4. **Total Cost Reduction.** Metrics in this area measure the crucial question of whether overall HR or payroll costs have decreased as a result of the outsourcing arrangement.
5. **Unforeseen Costs.** When you use vendors to perform payroll functions you might incur costs that you didn’t anticipate. For instance, employees who have bad experiences with vendor representatives might refuse to deal with the vendor and call on the organization’s remaining HR and payroll staff for help. If this becomes a common reaction among employees, it could disrupt administration and increase internal staffing costs, thereby defeating the point of the outsourcing arrangement. You must take these costs into account when measuring success and return of investment on outsourcing arrangements.
6. **Improvements in Use of Payroll Resources.** The strategic goal of outsourcing is to achieve more effective use of payroll resources. You must develop metrics to measure if you’re meeting that goal. Example: How management is rating payroll’s contribution to the achievement of strategic goals since outsourcing began compared to how it rated that contribution before outsourcing, and increases in percentage of strategic goals actually made since outsourcing began.