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The benefits of outsourcing

San Francisco Business Times – by Mark Calvey

"Outsourcing allows us to take advantage of economies of scale," says Obuchowski.

The trend to outsource human resources functions is accelerating, especially among mid-sized companies.

Shifting activities from the HR department to outside vendors allows these companies to tap outside expertise while trimming costs.

"We're definitely seeing growth of HR outsourcing, mainly among middle-market companies with 1,000 to 10,000 employees," said Christoph Jenkinson, a **Watson Wyatt Worldwide** consultant who works with companies looking to outsource HR activities.

Among those mid-sized companies embracing outsourcing is Bank of San Francisco and its majority owner **Capitol Bancorp Ltd.**, with almost 1,600 employees. Capitol Bancorp is a \$3.9 billion national community-bank-development company, with a network of 50 separately chartered banks and bank operations in 14 states.

"Outsourcing allows us to take advantage of economies of scale," said Ed Obuchowski, president of Bank of San Francisco, which opened its doors in August 2005 and employs 15 people. The bank's human resources functions are handled by Capitol, which in turn often looks to outside vendors to handle the tasks.

Obuchowski said payroll and 401(k) plan administration, are among the HR activities that the banking company works closely outside vendors to handle.

"We're very committed locally on serving customers. Those

activities that don't affect client relationships or have an impact on our ability to control our destiny, we outsource to others," the veteran San Francisco banker said.

Nearly half the market opportunity for HR outsourcing lies in businesses with fewer than 2,500 employees, said Robert Brown, research director of HR outsourcing at **Gartner Inc.**

Interestingly, HR consultants say that mid-sized companies are less likely to look to vendors in India and elsewhere to handle their HR activities. Instead, these companies often prefer to work with providers that have call centers and other operations based in areas of the United States with lower labor costs.

While small and mid-sized businesses are seen as key growth areas for HR outsourcing, many of the nation's largest companies are far down the path of outsourcing important functions relating to human resources.

"HR administration isn't really part of their core business," Watson Wyatt's Jenkinson said. "Their growth plans focus on strategic initiatives and outsourcing administrative activities."

The San Francisco-based consultant said he's also seen venture-backed companies quickly embrace HR outsourcing, often with venture capitalists advising portfolio companies on the vendors to use to do so.

Typically, payroll processing is the first step a company takes in outsourcing their HR operations.

Once outside providers, which include **Automatic Data Processing, Ceridian, Gevity** and San Leandro-based **TriNet**, start handling payroll, it's easier for them to expand the services they're providing to a client.

The opportunity to pare expenses, coupled with the difficulty of administering benefits, is prompting more companies to

outsource.

Key functions often delegated to vendors include administration of pensions and 401(k) plans, employee assistance and counseling programs, and employee retirement planning, according to a survey by the Society for Human Resource Management.

In another survey, this one focused on almost 100 large U.S. employers, consulting firm **Hewitt Associates** found that large companies turned to outsourcing to improve the quality of HR services provided to employees and to access outside expertise, achieve cost savings, allowing the company to focus on its core business.

Almost half of those surveyed by Hewitt said cost-cutting was not the key factor in deciding to outsource.

Outsourcing is not a panacea, however. Two-thirds of respondents to Hewitt's survey said they found barriers to outsourcing, including concerns about losing control over key processes to running the business, employee reaction to working with outside vendors and difficulty in building a business case with senior management for outsourcing.

But the powerful economics of outsourcing suggests more companies will follow Bank of San Francisco's decision to delegate HR functions to others.

"The recipe for success is to focus on our core mission and outsource other activities to the professionals who are good at doing them," Obuchowski said.

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