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Evaluation of Human Resource Services, U.S. 1998

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Abstract

Many senior human resources (HR) executives have expressed frustration at their inability to contribute real added value to their businesses because of historic under investment in effective HR information systems and the high level of management effort devoted to routine administrative tasks. The emergence of integrated human resource information systems spanning the HR function, and the development of externally provided HR services, particularly in areas such as payroll and pensions administration, mean that HR services can now be improved in line with their increasing importance.

The overall objective of this research is to examine how HR services can be improved through use of up-to-date IT solutions and purchasing of external HR services. The detailed objectives of this report are to identify:

- current and planned organization and importance of the HR function
- current and planned sourcing of HR services
- expenditure on HR services
- the level of benefit expected from and delivered by HR services
- current and planned sourcing of HR solutions
- levels of satisfaction with existing HR solutions
- purchasing and vendor selection criteria for both HR solutions and HR services
- the perceived suitability of leading solution and services vendors.

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I

Introduction

A
Objectives

Many senior human resources (HR) executives have expressed frustration at their inability to contribute real added value to their businesses because of historic under investment in effective HR information systems and the high level of management effort devoted to routine administrative tasks. The emergence of integrated human resource information systems spanning the HR function, and the development of externally provided HR services, particularly in areas such as payroll management and pensions administration, mean that HR services can now be improved in line with their increasing importance.

The overall objective of this research is to examine how HR services can be improved through use of up-to-date IT solutions and purchasing of external HR business operations services. The detailed objectives of this report are to identify:

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- Expenditure on HR services
- The level of benefit expected from and delivered by HR services
- Current and planned sourcing of HR solutions
- Levels of satisfaction with existing HR solutions
- Purchasing and vendor selection criteria for both HR solutions and HR services

- The perceived suitability of leading solution and services vendors

B

Project Scope and Definitions

This report covers the United States. Industry sectors analyzed are manufacturing, finance, retail & distribution, and the utilities.

The HR service types examined include:

- Payroll services
- Personnel administration
- Benefits administration
- HR management services.

Personnel administration includes those administrative activities related to personnel joining and leaving an organization, and those related to changes in qualification and employment within the organization.

Benefits administration includes welfare benefits such as medical, disability and death benefits; financial benefits such as pensions and savings plans; and benefits in kind such as car schemes.

HR management services include the more strategic services such as compensation planning, headcount management, job evaluation and grading, career development, competencies development, recruitment and training.

C

Research Methodology

The data in this report was derived from 97 interviews across the United States, primarily with HR directors and managers, but also including a number of senior information technology and finance managers. The majority of participants were in the manufacturing, finance, retail & distribution, and utilities sectors, with about 20% being in other sectors such as services, transportation and local government.

The breakdown by industry sector is as shown in Exhibit I-1 on the following page.

Exhibit I-1

Interview Profile by Industry Sector

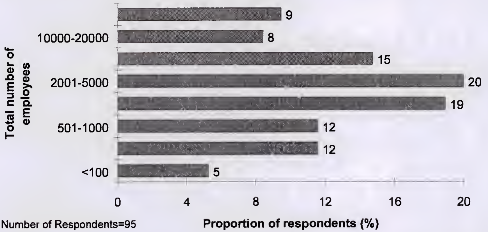
Sector	Total
Manufacturing	44
Finance	13
Retail & Distribution	12
Utilities	9
Services	9
Transport	5
Local Government	2
Education	2
Telecommunications	1
Total	**97**

Source: INPUT

The interviews covered a broad spectrum of company sizes. The interview profile by company size is shown in Exhibit 1-2.

Exhibit I-2

Interview Profile by Company Size



Number of Respondents=95

Source: INPUT

Interviews were also conducted with leading HR services vendors in the United States.

D
Report Structure

Chapter II consists of the Executive Summary, which is a summary of the key findings of the research.

Chapter III evaluates the sourcing of HR services, covering:

- Organization of the HR function including changes in centralization of services
- Current sourcing of HR Services
- Future sourcing of HR Services
- Reasons for outsourcing HR services
- Attitudes towards shared service centers
- Current expenditure on HR Services.

Chapter IV evaluates the current levels of satisfaction with HR services, including:

- Benefits sought and achieved
- Satisfaction with HR Services by service type
- Satisfaction with specific service criteria
- Satisfaction with HR Service providers.

Chapter V analyzes the current level of IT support for HR services, including:

- Overall satisfaction with the IT underpinning HR
- HR solution sourcing
- Satisfaction with HR IT solutions
- IT solution purchasing intentions
- IT solution vendor selection criteria and vendor perception.

Chapter VI evaluates HR Services purchasing and vendor selection, including:

- Attitudes towards service consolidation and bundling
- HR services vendor selection criteria and perceived vendor suitability.

Chapter VII analyzes vendor positioning, covering:

- HR services market size and growth
- Market drivers
- Current market segmentation
- Vendor positioning and the role of partnerships.

E
Related Reports

Outsourcing Vendor Performance Analysis – U.S., 1997

Call Center Operations, Requirements and Opportunities – U.S., 1997

Operational Services Market Forecast, U.S. 1997-2002

Evaluation of Internet Managed Services , U.S., 1998

II

Executive Summary

A
Organizations Need Major Enhancements to HR Service Delivery

Human resource (HR) services have traditionally been regarded as low priority activities compared to other business functions such as accounting, manufacturing and distribution. HR activities have received comparatively low levels of investment in recent years and are often supported by aging, or in-house, IT solutions.

Accordingly, satisfaction with in-house HR services provision is currently moderate. Unfortunately, this also appears to be true for external HR services providers in the U.S. Both in-house and external service providers need to improve service quality while simultaneously reducing their cost of service.

IT investment is seen as the key to improvement for both groups of suppliers. This is good news for HR solution vendors who are in position to take advantage of renewed buyer enthusiasm for the purchase of modern, integrated HR solutions.

However, this trend could cause difficulties for HR service suppliers, since many organizations will prefer to use these solutions to improve in-house capabilities in preference to purchasing external services. In order to compete against in-house HR departments armed with up-to-date technology, HR service providers will have to:

- Ensure their ability to provide immediate access to information over an organization's Intranet
- Provide a complete range of fully-integrated HR services.

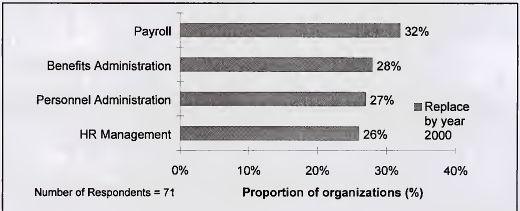
B

Offer Modern, Integrated HR Solutions

Exhibit II-1 shows, by application, the proportion of organizations that intend to replace their HR solution by the year 2000.

Exhibit II-1

Intentions to Replace HR IT Solutions



Source: INPUT

In recent years, the replacement levels of HR solutions have been low compared to those for EAS solutions. While the replacement of ERP and EAS solutions has received a major boost from the Y2K issue, this has not been the case for HR solutions, which have typically been given a lower priority within the organization.

However, this situation has now changed in the U.S., with approximately 30% of organizations in the U.S. planning to replace their HR solutions in the next 18 months. The principal drivers are not Y2K compliance but a need for improved technology, functionality and levels of integration to assist organizations to compete for scarce personnel.

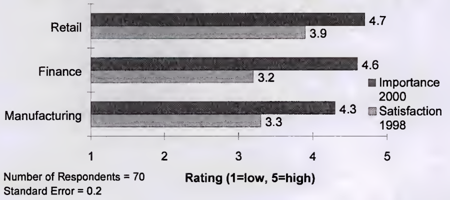
The impact of these changes will be particularly strongly felt in the manufacturing and retail sectors. By application, the replacement intentions for HR solutions are highest for:

- Payroll
- Non-payroll solutions in the retail sector.

Exhibit II-2 contrasts the current level of satisfaction with IT support for human resources with the importance of IT support for human resources in 2000.

Exhibit II-2

Satisfaction with IT Support for Human Resources



Source: INPUT

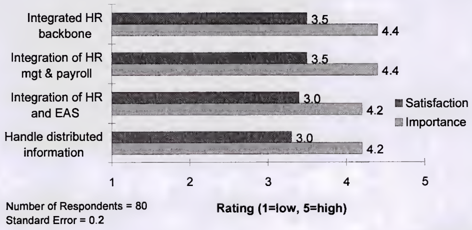
The lack of importance attached to HR solutions in the past has led to under-investment in this area and to relatively moderate levels of satisfaction with existing IT solutions in the manufacturing and finance sectors. Accordingly, HR solutions in many organizations will need to be upgraded over the next two years.

Overall there is a marked dissatisfaction with many characteristics of IT support for HR services.

Exhibit II-3 lists some of the key characteristics of IT support for human resources where there is currently a substantial shortfall between importance and satisfaction.

Exhibit II-3

IT Support: Areas for Improvement



Source: INPUT

A lack of integration is common among many existing IT solutions for human resources. This lack of integration is evident primarily as a lack of integration between the various HR functions, with the same personnel data often being entered into multiple systems for payroll, benefits administration, personnel administration and HR management. In addition, there is a lack of access to the existing personnel information for both personnel managers and line managers alike. Organizations would now like to see workflow support being built into HR solutions.

Indeed only a minority of personnel systems at present appear to have been Intranet-enabled, whether to provide administrative support to line managers or self-service facilities to employees.

Within the U.S., there is also a strong emerging demand for HR solutions to be integrated with EAS solutions. This demand is not yet strongly evident in Europe.

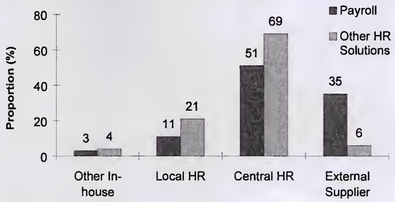
The principal improvements to their HR solutions requested by buyers were:

- The introduction or expansion of Intranet access
- Replacement of old systems with integrated systems
- Improved flexibility.

Exhibit II-4 shows the current sourcing of IT solutions by supplier type. There is a broad similarity between the patterns of sourcing for benefits administration, personnel administration and HR management and so the sourcing pattern for these applications has been averaged to provide a contrast with payroll solutions.

Exhibit II-4

Sourcing of HR Solutions by Supplier Type



Number of Respondents = 85

Source: INPUT

This pattern of sourcing explains much of the lack of integration of IT solutions within the HR department. The payroll solution has often been purchased externally, but the majority of benefits administration, personnel administration and HR management solutions come from an in-house source.

The most important technical criteria in selecting a vendor of HR solutions are perceived to be the overall functionality of the solution and the level of integration between payroll and the other HR functions. In addition, the level of vendor expertise in HR and the cost of the solution are perceived as important. The HR function has traditionally had a limited budget for implementing IT solutions, which partially explains the age and lack of sophistication of existing systems. Although organizations now wish to purchase integrated solutions, HR solutions budgets may remain subject to some cost pressure.

C

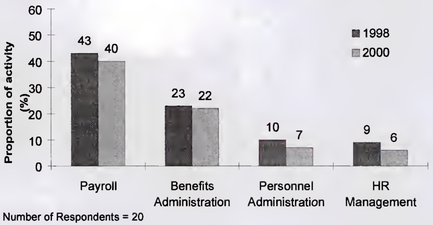
Offer a Full Range of HR Operational Services

While there is a strongly increasing level of demand for HR solutions in the U.S., there appears to be static or falling demand for HR business operations services.

Exhibit II-5 shows the anticipated increase in activity in the outsourcing of human resource services.

Exhibit II-5

Level of Outsourcing by Activity



Source: INPUT

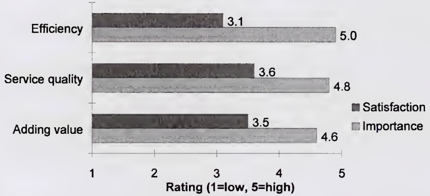
Even the level of payroll outsourcing appears to be static though vendors such as SAP have made it easier for organizations to integrate external payroll services with their in-house systems by providing a facility for vendors of payroll services to integrate their offerings with the R/3 software product.

Vendors of human resource services face a number of challenges. Firstly, as in all forms of outsourcing, clients require the external service provider to exceed internal capability in terms of both service quality and cost-effectiveness.

Exhibit II-6 shows the current level of benefit achievement with existing HR services.

Exhibit II-6

Level of Benefit Achievement – HR Services



Source: INPUT

The pattern of satisfaction for HR services is very similar to that for IT services when IT outsourcing first began to be offered in Europe. Essentially, there remains scope in HR services at present to improve basic service delivery through improved service levels and increased cost-effectiveness, particularly through improved transaction processing services.

Secondly, organizations appear to want to source a complete range of HR services from a single supplier and not just individual isolated services. This is all part of the increasing trend to integrate HR functions and related personnel information.

Indeed, buyers show a marked preference for purchasing a combination of bundled services from a single supplier. Accordingly, payroll services vendors should begin to complement these offerings with a wider range of support offerings.

This need to provide a full range of integrated services currently presents a major hurdle for HR business operations service vendors.

However, some buyers will create openings for external services vendors by:

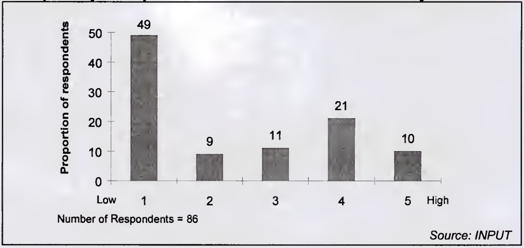
- Separating transaction processing services from consultancy services
- Centralizing transaction processing services across geographies and service types.

Nonetheless, few organizations in the U.S. currently display a high propensity to purchase transaction-processing services from an external vendor.

Exhibit II-7 shows the profile of willingness of buyers to separate transaction-processing services from consultancy and advice services.

Exhibit II-7

Propensity to Separate TP Services from Consultancy Services

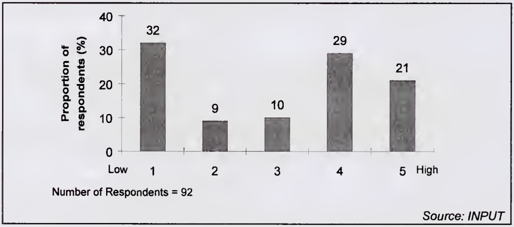


Approximately 30% of organizations are prepared to separate transaction-processing services from consultancy and advice services. This should assist them in achieving the improved service levels and cost savings required.

Exhibit II-8 shows the profile of willingness of buyers to centralize transaction processing services across service types.

Exhibit II-8

Propensity to Centralize TP Services across Service Types

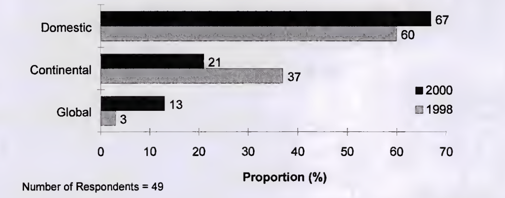


Approximately half of all organizations are also prepared to centralize the resulting transaction processing services across both geographies and service types. Accordingly, HR services vendors should expand their transaction processing capability beyond payroll services to encompass the transaction related elements of benefits administration and personnel administration. It is also becoming increasingly important that HR services vendors can operate across the range of geographies in which their clients locate, or plan to locate, employees.

One development within HR departments is the slowly increasing geographic polarization of the HR function and its related services. To illustrate this phenomenon, Exhibit II-9 shows the change in geographic emphasis of benefits administration services within international companies in the U.S.

Exhibit II-9

Change in Centralization of Benefits Administration: International Groups



Source: INPUT

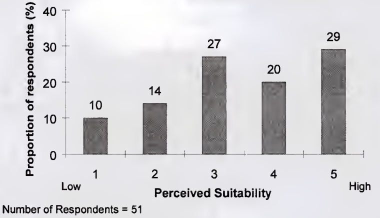
The principal direction of this increase in polarization is decreasing service delivery on a continental basis. Accordingly, business operations vendors should be prepared to centralize some service components globally while delivering others on a domestic basis.

Although approximately half of organizations favor shared service centers, few organizations currently favor sourcing transaction processing services externally.

Exhibit II-10 shows the attitude of buyers towards the concept of shared service centers.

Exhibit II-10

Attitude to Shared Service Centers

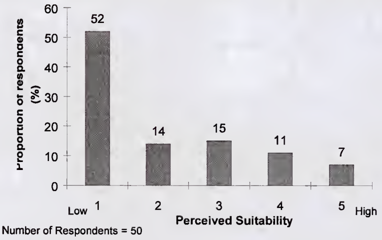


Source: INPUT

Exhibit II-11 shows the profile of willingness of buyers to source transaction processing services externally.

Exhibit II-11

Propensity to Source TP Services Externally



Source: INPUT

Accordingly, although there is scope for services vendors to expand their limited client base in large organizations, it will not be easy for them to do so. In order to succeed, services vendors will be required to:

- Provide a full range of integrated HR services
- Price these services more keenly than in-house services

- Provide their clients with improved IT capabilities, particularly the ability to access integrated personnel databases via an Intranet or Extranet
- Use IT as a means of improving communication for their clients
- Integrate their offerings with the client's EAS solution
- Begin to offer both global and national HR services capability.

III

Human Resource Services Sourcing

A
Organization of the Human Resources Function

Fifty nine per cent of the organizations interviewed belong to a group of companies. Seventy two percent of the groups identified are international, rather than domestic, in nature. Overall, 42% of the sample belonged to organizations constituting part of international groups of companies.

The breakdown of origin of these groups is shown in Exhibit III-1.

Exhibit III-1

Origin of International Groups

Origin of Group	Proportion of respondents (%)
North American	86
European	11
Asian	3
Other	0

Source: INPUT

Within organizations with just a domestic presence, 84% of HR functions are centralized at the domestic level.

Within international organizations, 54% of HR functions are centralized. The breakdown by type of centralization is shown in Exhibit III-2.

Exhibit III-2

Level of Centralization within International Groups

Level of Centralization	Proportion of International Groups (%)
Global	9
Continental	2
Domestic	43
Decentralized	46

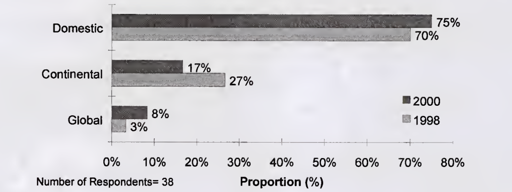
Source: INPUT

Overall, the HR function is centralized at a continental or global level within approximately 10% of international organizations.

Exhibit III-3 shows the anticipated change in centralization of payroll services within international companies over the next two years.

Exhibit III-3

Change in Centralization within International Groups: Payroll Services



Source: INPUT

Exhibit III-4 shows the anticipated change in centralization of benefits administration within international companies over the next two years.

Exhibit III-4

Change in Centralization within International Groups: Benefits Administration

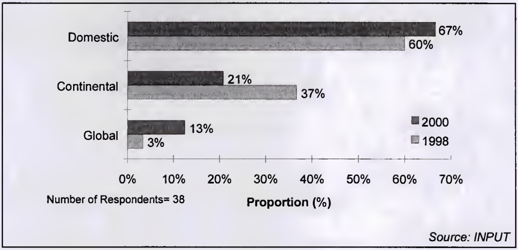


Exhibit III-5 shows the anticipated change in centralization of personnel administration within international companies over the next two years.

Exhibit III-5

Change in Centralization within International Groups: Personnel Administration

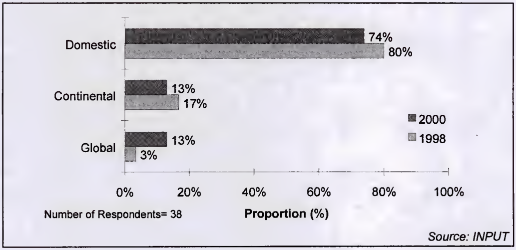
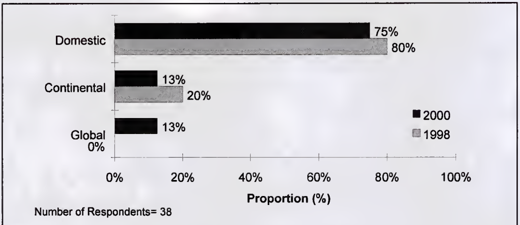


Exhibit III-6 shows the anticipated change in centralization of HR management within international companies over the next two years.

Exhibit III-6

Change in Centralization within International Groups: HR Management



Source: INPUT

Overall, there is an increasing emphasis on centralization at the global level. At the same time, there is reduced emphasis on centralization at both the domestic and continental levels. Organizations appear to be beginning to bypass centralization of HR functions at the continental level in favor of moving immediately to centralization at the global level.

Overall, the HR functions of organizations within the retail and finance sectors tend to be highly centralized while those in the manufacturing sector are much more decentralized. Similarly, HR functions in large organizations (more than 1000 personnel) tend to be more highly decentralized than those in smaller organizations. Four-fifths of respondents in companies with a thousand or less staff report that HR is centralized compared with two-thirds in companies employing more than 1000 personnel.

The principal reasons given for centralizing HR activities are

- Efficiency
- Corporate reasons, such as the desire for a common approach or economies of scale
- The organization is based on a single site (for domestic organizations)
- Consistency of approach.

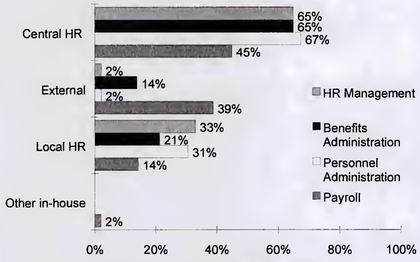
The need to reflect local employment and taxation conditions probably lies behind the decision to organize most HR activities on a domestic basis.

B
Current Sourcing of Human Resources Services

Exhibit III-7 identifies the current source of operational HR services and whether these are provided internally by the central or local HR function, by another in-house function, or by an external service provider.

Exhibit III-7

Current Provider of Operational HR Services



Number of Respondents=94-98

Source: INPUT

It is clear that the central or local HR function remains far and away the principal provider of HR services. The only exception is payroll, with a 60:40 split between those using internal and external payroll services. Benefits administration (which includes pensions) is outsourced by 14% of those surveyed. Personnel administration and HR management services at 2% are almost no-go areas at present.

This overall picture, however, disguises significant variations in the propensity to outsource HR services by industry sector, and company size.

Exhibit III-8 shows the percentage of respondents using external suppliers for operational HR services by industry sector.

Exhibit III-8

Use of External Suppliers for Operational HR Services by Industry Sector

Industry Sector	Payroll Services (%)	Benefits Administration Services (%)	Personnel Administration Services (%)	HR Management Services (%)
Retail & distribution	67	25	8	8
Finance	54	17	0	0
Manufacturing	39	12	0	0
Utilities	11	22	11	0

Number of respondents between 76 and 78
Source: INPUT

This data shows that the retail/distribution and finance sectors are more enthusiastic users of external payroll services than the manufacturing or utilities sectors, and are also making relatively high use of externally provided benefits administration. Organizations in the retail/distribution sector are overall the greatest users of external services, and organizations in the utilities sector are the least enthusiastic. However, organizations in the utilities sector appear to exhibit a relatively high propensity to look externally for benefits.

In terms of the survey findings by size of organization, the only significant difference is in the use of payroll services. As might be expected, smaller companies (1000 or less employees) were much more likely to use external payroll services than larger companies (1000+ employees). The relevant percentages outsourcing are 54% and 32% respectively.

Overall, this analysis shows that there is ample theoretic scope to increase the penetration of externally provided HR services in the United States.

Respondents were asked to identify their current external service providers.

Some 20 individual organizations were cited, but only five of these received more than one mention. These are:

Vendor	No. of Mentions
ADP	26 (mainly for payroll services)
Ceridian	5 (all for payroll services)
PayChex	2 (payroll and benefits administration)
ProBusiness	2 (payroll services)
Hewitt	2 (benefits administration)

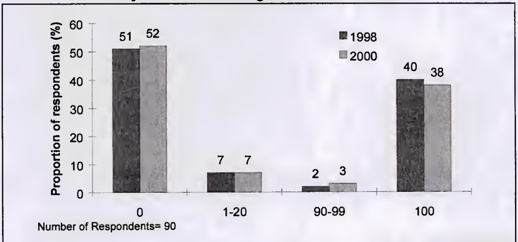
C
Future Sourcing of HR Services

Participants in the survey were asked what proportions of their HR services were executed externally now in 1998 and what proportions they expected to be executed externally in 2000.

Given the seemingly inexorable trend towards outsourcing, the responses to this question were surprising, since they actually show a small fall in the proportion of services expected to be executed externally between 1998 and 2000. Exhibits III-9 to III-12 show the distribution of responses for each service type in 1998 and 2000; this pattern is repeated across each area of HR service activity. Clearly suppliers have considerable work to do in convincing those within HR of the benefits of HR services outsourcing.

Exhibit III-9

Payroll Outsourcing Now and in 2000



Source: INPUT

Exhibit III-10

Personnel Administration Outsourcing Now and in 2000

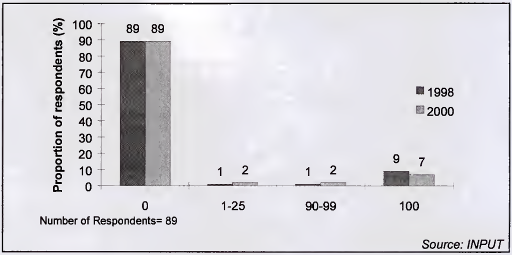


Exhibit III-11

Benefits Administration Outsourcing Now and in 2000

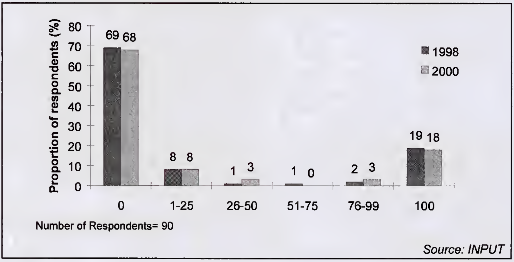
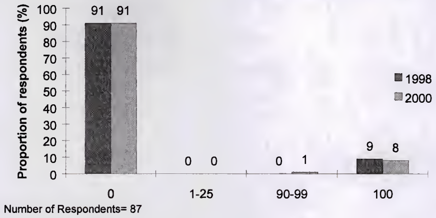


Exhibit III-12

HR Management Outsourcing Now and in 2000



Source: INPUT

Overall, it appears that organizations are reluctant to partially outsource each type of HR service, though this does happen to a certain extent with benefits administration services. They tend either to retain each service in-house or outsource it fully. This potentially presents a larger hurdle to external services vendors than a partial outsourcing approach.

In addition, the standard challenge of delivering improved value for money over in-house services applies equally to HR services outsourcing as in IT outsourcing. One company stated that it planned to reduce its level of outsourcing because it had derived no additional cost or service benefits from using an external supplier. Just matching in-house service standards and costs is insufficient to succeed.

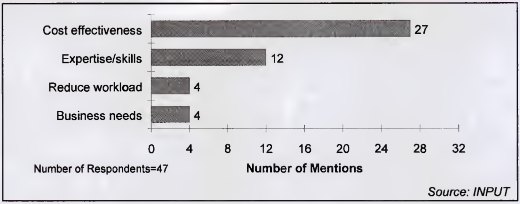
D

Reasons for Outsourcing HR Services

Organizations are primarily motivated to outsource to achieve higher levels of cost-effectiveness than can be delivered in-house. Other reasons given, shown in Exhibit III- 13, primarily reflect the need to look externally for particular skills and expertise.

Exhibit III-13

Reasons for Outsourcing HR Services



In this context, respondents primarily link cost to payroll services, voicing the view that it would not be possible to provide payroll processing at a lower cost in-house.

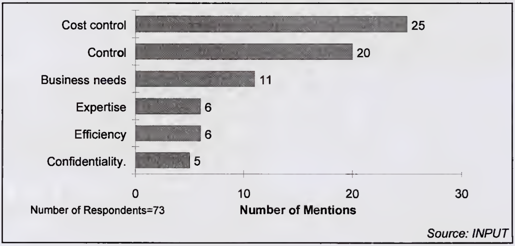
Skills and expertise generally relate to HR activities where particular skills may be required, such as recruitment and benefits administration.

Quality of service comments generally relate to the speed of response obtained from external service providers.

When specifically asked for key reasons for retaining particular HR services in-house, the reasons most frequently cited relate to issues of cost and management control, as Exhibit III-14 shows.

Exhibit III-14

Reasons for Retaining HR Services In-House



The prominence given to issues of control suggests that suppliers have yet to convince those nervous of outsourcing that external service providers are as accountable to internal management as their own employees.

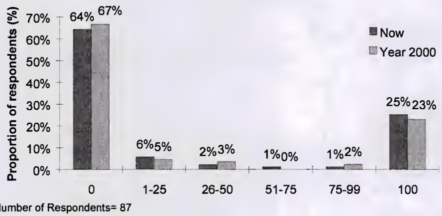
E

Attitudes Towards Shared Service Centers

In addition to their outsourcing expectations with respect to HR services, respondents were also asked about their attitudes towards splitting HR services into HR-related transaction processing services and into HR department activities. The results here show a similar picture to those for the HR service areas, see Exhibits III-15 and III-16.

Exhibit III-15

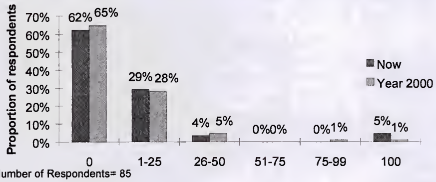
HR Transaction Processing Outsourcing Now and in 2000



Source: INPUT

Exhibit III-16

HR Department Outsourcing Now and in 2000



Source: INPUT

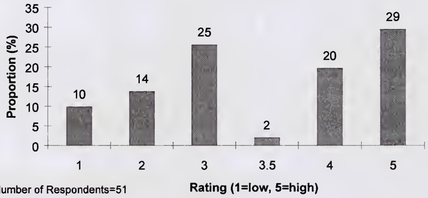
Although there is apparently reduced support for both these forms of outsourcing, this appears to be particularly pronounced for organizations that have already attempted high levels of HR department outsourcing. Those few organizations that appear to have tried completely outsourcing their HR departments have now decided that this is an unsuitable approach for the future.

One factor characteristic of an organization's propensity to outsource is its attitude to the concept of shared service centers for HR functions. Centralizing activities within such a center can be either a precursor to outsourcing, or perhaps a way of avoiding outsourcing by achieving internally the cost efficiencies that often underlie the decision to outsource.

As Exhibit III-17 shows, whilst a quarter of respondents are at present unenthusiastic about shared service centers, a half are enthusiastic and nearly 30% are very enthusiastic. This represents a potential market opportunity for suppliers considering offering such centers on an outsourced basis.

Exhibit III-17

Extent to which Organizations Favor the Concept of Shared Service Centers



Source: INPUT

Additional comments provided by respondents to this question show that lack of enthusiasm is often associated with unfamiliarity with the concept of shared service centers. There also appear to be two distinct and contrasting views of the efficacy of such centers, with one group citing their cost effectiveness and efficiency in delivering consistent practices, and another group complaining about high costs and poor individual service. This may reflect differing views on the part of service providers and consumers, and also suggests that there may be too much focus on cost issues and too little focus on customer service issues when such centers are first established.

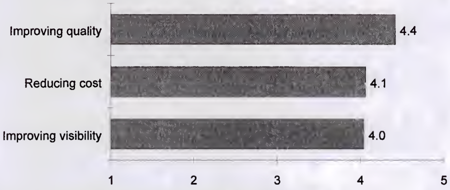
F

Cost Vs. Quality of HR Services

In order to try and assess the relative importance of the cost, quality and visibility of HR services, respondents to the survey were asked to rate these on a scale of 1 to 5. Exhibit III-18 shows that improving quality is ranked ahead of either improving visibility or reducing cost.

Exhibit III-18

Relative Importance of the Quality, Visibility and Cost of HR Services



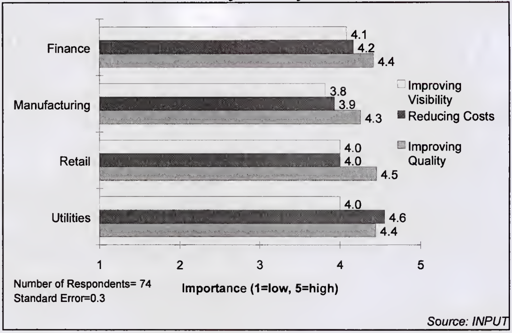
Number of Respondents=93
Standard Error=0.1

Source: INPUT

Within the different industry sectors, improving quality is also ranked the highest in all but the utilities sector (where cost reduction prevails), but is particularly important to the retail & distribution sector. However, cost reduction is more important than increased visibility in the manufacturing and finance sectors, but these two factors are rated equally in the retail sector. Exhibit III-19 gives the detailed sector breakdown.

Exhibit III-19

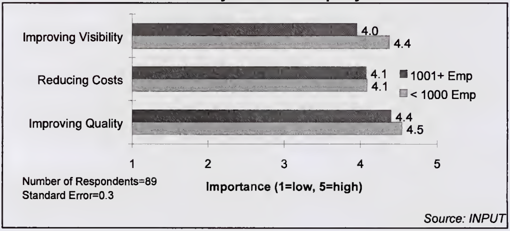
Relative Importance of the Quality, Visibility and Cost of HR Services by Industry Sector



When looked at by size of company, as in Exhibit III-20, improving quality remains the top issue, but smaller companies are more concerned about increasing visibility than reducing costs, suggesting that the HR function has made less progress here in raising the strategic profile of HR.

Exhibit III-20

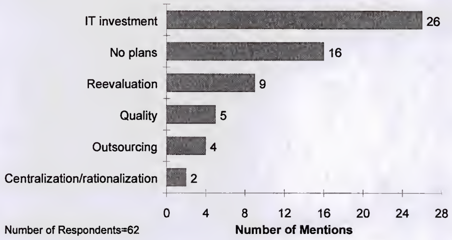
Relative Importance of the Quality, Visibility and Cost of HR Services by Size of Company



This emphasis on quality over cost is reinforced when participants were asked to identify what steps they plan to take to improve value for money from HR services by 2000. Within a fairly broad range of responses, the most frequently mentioned was IT investment, as Exhibit III-21 shows.

Exhibit III-21

Steps Being Taken to Improve Value for Money in HR Services by 2000



Source: INPUT

The low level of interest in outsourcing as a means of improving value for money reinforces the general lack of enthusiasm for outsourcing identified earlier. By contrast the high level of interest in IT investment suggests that at present the providers of HR software are making a better case for their wares to the HR community than the providers of HR services; this suggests that some new thinking and new service initiatives may well be called for if HR service providers are to make up ground.

IV

Satisfaction with Human Resources Services

A
Benefits Sought and Achieved

Participants in the survey identified a very wide range of benefits expected from current HR services covering all aspects of HR activity.

In order to provide guidance on the characteristics of HR services that will deliver most benefit to their users, we have identified the most frequently mentioned benefits and then rated them according to importance and satisfaction, both on a scale of 1 to 5.

The relative importance and satisfaction scores associated with these benefits are set out in Exhibit IV-1.

Exhibit IV-1

Satisfaction with Benefits Expected from Current HR Services

Benefit	Average Importance	Average Satisfaction
Employee retention	4.9	4.1
Cost effectiveness	4.9	3.4
Efficiency	4.9	3.1
Improved services	4.8	3.6
Recruitment	4.7	3.5
Adding value	4.6	3.5

Source: INPUT

Services in the context of *improved services* include staff education and training, leadership development, information management and communication, benefits negotiation and personnel management. Included under *adding value* are organization-wide benefits such as increased competitiveness and flexibility, and culture change.

As Exhibit IV-1 shows, the extent to which the benefits expected from current HR services are actually being delivered varies considerably. Whilst a gap between importance and satisfaction is to be expected, it is clear that this gap is significant in most areas of HR service delivery and that there are particular areas of underachievement which external services providers should focus on in developing and promoting their services. In particular, the area of efficiency and cost-effectiveness is one where there is currently considerable scope to increase the level of achievement.

The issue of staff morale was also frequently mentioned, and given an average importance score of 4.7 and a satisfaction rating of 3.6.

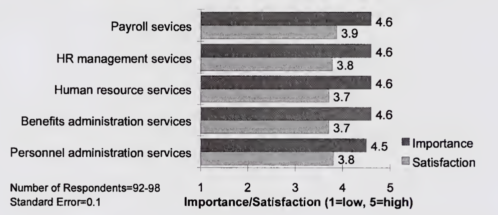
B

Satisfaction with HR Services by Service Type

As well as evaluating the overall importance of HR services and the level of satisfaction achieved, the level of satisfaction with each of the four main service areas (payroll, personnel administration, benefits administration and HR management) has been analyzed. The results are shown in Exhibit IV-2.

Exhibit IV-2

Satisfaction with HR Services by Service Type



Source: INPUT

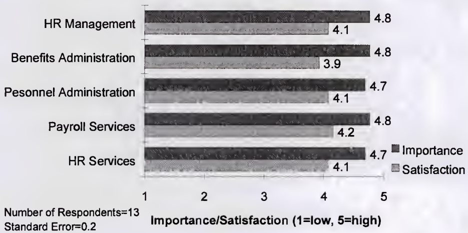
A similar picture emerges as in Exhibit IV-1, with respondents identifying a consistent gap between importance and satisfaction both at the overall HR services level and for the individual service areas. Whilst the absolute satisfaction scores are medium to high at 3.7 to 3.9, the gap between importance and satisfaction shows that there is scope across the board for external services providers to deliver higher levels of satisfaction if they can deliver real service improvements.

Overall the highest level of satisfaction is with payroll services.

Looking at the graphs by industry sector reveals that while the highest levels of importance are afforded to HR services by the finance and utilities sectors, these sectors are also a little more satisfied with the services they receive, as Exhibits IV-3 to IV-6 show.

Exhibit IV-3

Satisfaction with HR Services by Service Type - Finance Sector

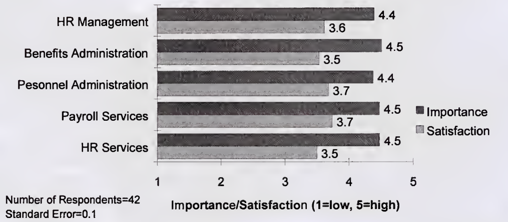


Number of Respondents=13
Standard Error=0.2

Source: INPUT

Exhibit IV-4

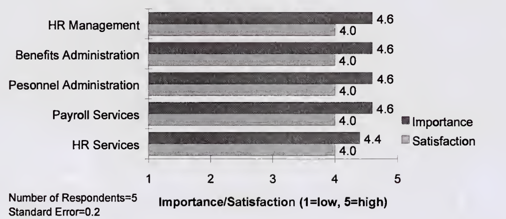
Satisfaction with HR Services by Service Type - Manufacturing Sector



Source: INPUT

Exhibit IV-5

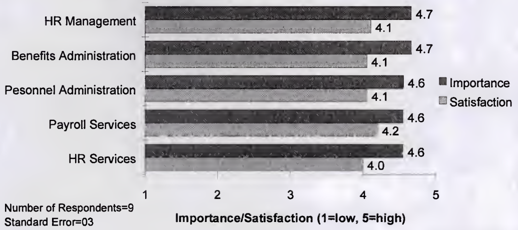
Satisfaction with HR Services by Service Type – Retail & Distribution Sector



Source: INPUT

Exhibit IV-6

Satisfaction with HR Services by Service Type - Utilities Sector



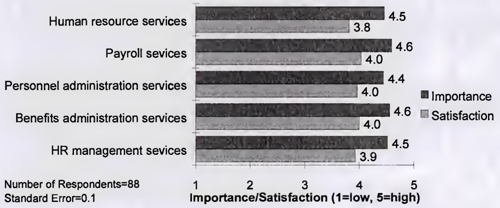
Source: INPUT

The largest gaps between importance and satisfaction are in the manufacturing sector.

In terms of company size, importance levels are similar across the board as Exhibits IV-7 and IV-8 show.

Exhibit IV-7

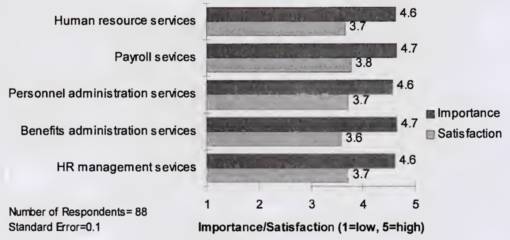
Satisfaction with HR Services by Service Type – Companies with Less than 1000 Employees



Source: INPUT

Exhibit IV-8

Satisfaction with HR Services by Service Type – Companies with More than 1000 Employees



Number of Respondents= 88
Standard Error=0.1

Source: INPUT

Large and small organizations also exhibit similar levels of satisfaction with HR services overall. Smaller companies are, however, generally more satisfied with the individual HR service areas than are their larger colleagues. This may reflect the fact that in smaller companies the HR function is likely to be closer to and more directly involved in the core management of the company than may be the case in larger organizations.

C

Satisfaction with Service Characteristics

A major thrust in the development of HR services is improved use of information technology. In order to test how important this actually is to those in HR, respondents were asked to rate IT related factors among a number of characteristics of HR services in terms of importance and satisfaction. Exhibits IV-9 and IV-10 show the results of this rating.

Exhibit IV-9

More Important Characteristics of HR Services

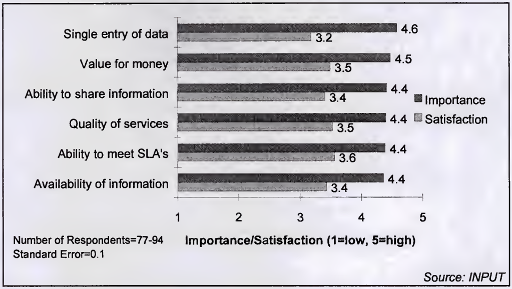
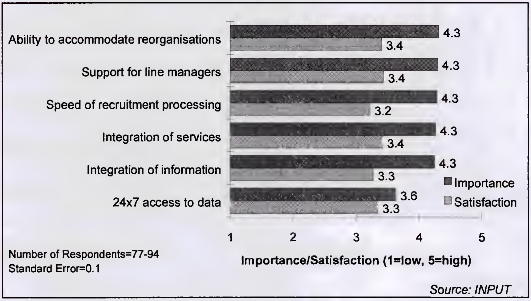


Exhibit IV-10

Less Important Characteristics of HR Services



Efficient input and management of information, as manifested in factors such as a single point of data entry and the ability to share information and distribute information are all ranked amongst the most important characteristics of HR services, suggesting that information issues are indeed key to the HR services agenda. They are also implicit in value for money, since efficient production and use of information are major contributors to this too. 24 hour x 7-day access to HR data is, however, the least important service criterion suggesting that HR is by and large an office hours activity.

Of the more service-oriented characteristics of the HR functions, quality of services to staff and the ability to meet service level agreements (SLAs) are deemed the most important.

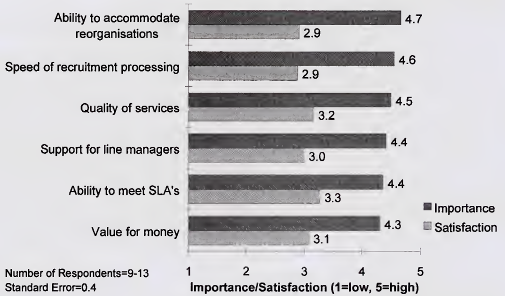
Overall, levels of satisfaction with the majority of these characteristics are quite low. The lowest levels of satisfaction are for single entry of data, speed of recruitment processing and integration of information, suggesting that efficient capture and manipulation of HR information has still to be achieved.

Satisfaction is also low with 24 x7 access to data. However, this is not currently regarded as an important feature.

The graphs by industry sector reveals some important differences in emphasis, as Exhibits IV-11 to IV-14 show.

Exhibit IV-11

Satisfaction with HR Service Characteristics – Finance Sector

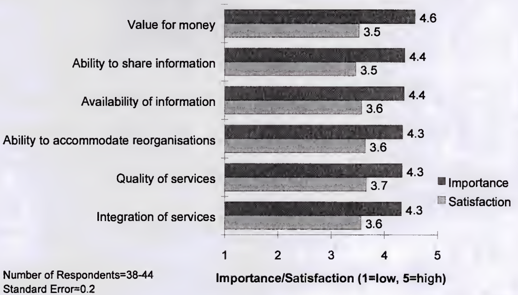


Number of Respondents=9-13
Standard Error=0.4

Source: INPUT

Exhibit IV-12

Satisfaction with HR Service Characteristics – Manufacturing Sector

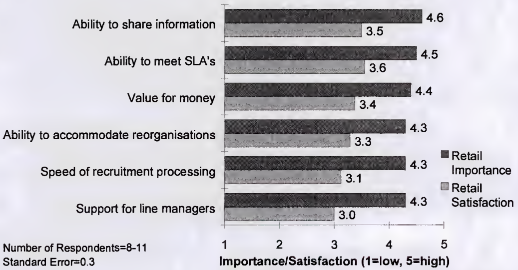


Number of Respondents=38-44
Standard Error=0.2

Source: INPUT

Exhibit IV-13

Satisfaction with HR Service Characteristics – Retail & Distribution Sector

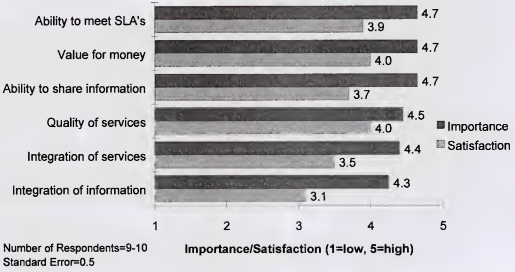


Number of Respondents=8-11
Standard Error=0.3

Source: INPUT

Exhibit IV-14

Satisfaction with HR Service Characteristics – Utilities Sector



Source: INPUT

It is striking that in contrast to their higher levels of satisfaction with HR services shown earlier, respondents in the finance sector are clearly less satisfied than their colleagues in other sectors with these specific facets of HR service performance. They also appear to have different priorities from those in other sectors, who generally focus on value for money, ability to share information and ability to meet SLAs. In the finance sector the greatest prominence is given to the ability to accommodate reorganization (reflecting perhaps specific competitive pressures in this sector) and speed of recruitment processing - both areas where the gap between importance and satisfaction is at its widest.

The existence of significant gaps between importance and satisfaction virtually across the board suggests that external service providers have the potential to obtain competitive leverage by focusing on these areas.

In terms of differences between larger and smaller companies, while both rank quality of services and availability of information in the top three, the former give greater prominence to single entry of data and the integration of services, both less of a problem in smaller companies. Larger companies are generally a little more satisfied than smaller companies.

This analysis suggests that addressing the key information management issues within HR services will not only deliver greater information efficiency but higher levels of service as well.

D

Satisfaction with HR Services Providers

Participants in the survey were asked to identify their main external providers of HR services and to assess their level of satisfaction with them.

As with the HR solutions providers, a wide range of suppliers were identified (around 18 in total). Levels of satisfaction with these vendors were typically reasonably high, averaging 3.7 on scale of 1 to 5. The most frequently awarded score was 4 out of 5, and 5 respondents (out of 97) gave their supplier full marks. Three companies awarded their supplier a score of 2 out of 5.

Only two companies, ADP and Ceridian, were identified as suppliers by more than one respondent. The average rating and number of mentions for each is listed in Exhibit IV-15. ADP achieved two of the five maximum satisfaction scores, but also two of the three scores of 2.

Exhibit IV-15

Satisfaction with HR Service Providers

Supplier	No. of Mentions	Average Satisfaction Rating (Scale of 1 to 5)
ADP	13	3.5
Ceridian	3	3.7

Source: INPUT

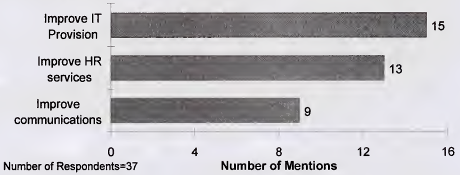
The factors that respondents like most about their suppliers are as follows (in descending order of frequency):

- Timeliness and speed
- Flexibility and responsiveness
- Good and reliable service
- Quality of products.

Respondents identified a number of ways in which their HR services provision could be improved. Those mentioned most frequently are set out in Exhibit IV-16.

Exhibit IV-16

Suggested Improvements to HR Services Provision



Source: INPUT

V

IT Support for Human Resource Services

A
Satisfaction with IT support for Human Resources

Information technology has an important role to play in supporting HR services now, and the importance of IT will remain high in all industry sectors over the next two years as Exhibit V-1 shows.

Exhibit V-1

Satisfaction with IT Support for HR Services by Industry Sector

Number of Respondents=67

Source: INPUT

IT support for HR services is particularly important in the finance and retail sectors now, and is expected to increase in importance over the next two years within the utilities sector.

There is however a shortfall in the current level of satisfaction with IT's part in supporting HR services, which will need to be made up if IT is to meet the level of expectation being set. This gap is most marked in the finance and manufacturing sectors.

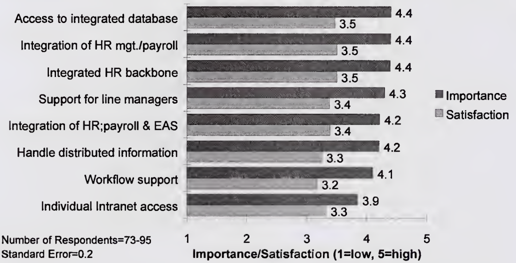
There is no current difference by company size in the importance attached to IT support for HR services, but smaller companies anticipate a small increase in importance by 2000 which larger companies do not. By contrast smaller companies are more satisfied with their current levels of IT support than their larger colleagues.

Comments which respondents added to their answers to this question suggest that for some organizations old technology is part of the problem, and that substantial programs of systems replacement are already underway.

Exhibit V-2 examines the overall level of satisfaction with individual characteristics of IT support.

Exhibit V-2

Satisfaction with Characteristics of IT Support for HR Services



Number of Respondents=73-95
Standard Error=0.2

Source: INPUT

The importance of integrating information both within HR systems and at the level of the corporate EAS (enterprise application system) is manifestly clear.

A considerable gap between the potential of IT and current satisfaction with it is present across the board, suggesting that while work on new integrated systems may well be underway it is not yet delivering the anticipated benefits – such as enhanced support for line managers.

The major conclusion is a low level of satisfaction with the current level of IT support for the HR function. The main challenges are the need for a much higher level of integration of IT and a means of providing access to this information to all relevant personnel.

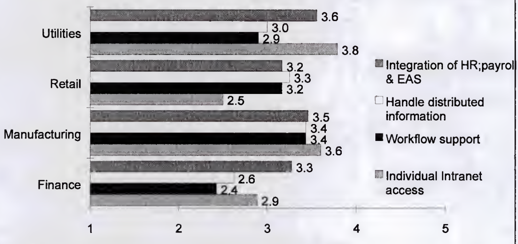
When the same factors are looked at by industry sector, all are agreed that the top four factors above are the most important. However, there are some variations in relative priorities.

While all sectors give the highest priority to access to an integrated database, respondents in the retail and distribution sector are less concerned with providing support for line managers than are their colleagues elsewhere, particularly in the utilities sector.

Satisfaction levels with the leading IT issues are generally low as shown in Exhibit V-3.

Exhibit V-3

Satisfaction with Characteristics of IT Support for HR Services by Industry Sector



Number of Respondents=68
Standard Error=0.3

Source: INPUT

Ability to access and manipulate distributed personnel data appears to be a particular problem for organizations in the finance sector, where considerably improved workflow support and Intranet data access are required.

Analysis of these issues by company size shows that both larger and smaller companies agree on the same top four issues shown earlier, but that further down the list larger companies give greater prominence to integration with the company-wide EAS, whilst smaller companies are more concerned with giving individual Intranet access.

In terms of satisfaction, larger companies are significantly more satisfied with the performance of their IT support, giving typical satisfaction scores of 3.2 to 3.7, than are the smaller companies. Typical satisfaction scores here are in the range 2.8 to 3.3, with the lower scores being allocated to areas such as workflow support and individual Intranet access.

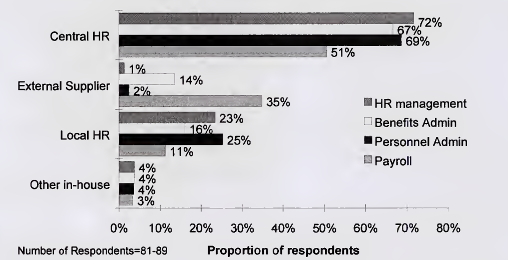
This suggests that these smaller companies would welcome the provision of such services by external service providers.

B
Human Resources Solution Sourcing

Exhibit V-4 shows the sourcing of HR solutions by application. When respondents were asked who developed their HR IT solutions, the central HR function emerged as the principal provider of current HR solutions across the span of HR activities. Payroll is the major externally sourced application used by around a third of respondents.

Exhibit V-4

Source of Current HR Solutions



Source: INPUT

Whilst 35% of organizations report use externally sourced payroll solutions, this falls to 14% for benefits administration solutions and to only 1% or 2% for HR management and personnel administration solutions.

It appears likely that many HR departments are currently using standard applications and databases such as Microsoft Office to build HR applications.

With only around a half of respondents reporting the use of externally developed solutions, there is a significant opportunity to increase the penetration of externally provided HR solutions across the board.

Around 30 different suppliers and a similar number of solutions were identified. It should be noted that in most cases no clear distinction was made between the supplier and the solution, and that respondents often mentioned either the name of the supplier or that of the solution, but not both.

The solutions most frequently cited are listed in Exhibit V-5.

Exhibit V-5

Most Frequently Cited Solutions

Solution	No. of Mentions
PeopleSoft	11
ADP	5
Cyborg	4
Geac/Dun & Bradstreet	4
Abracadabra	3
Ceridian	3
Horizon	3
Computer Associates	2
Integral	2
Microsoft	2
Pro Business	2
SAP	2

Source: INPUT

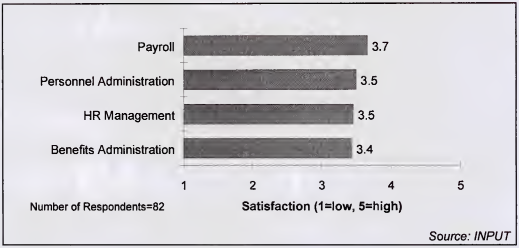
Remaining solutions each received a single mention.

C
Satisfaction with HR IT Solutions

Satisfaction with existing HR solutions falls between 3.4 and 3.7 on a scale of 1 to 5, which is generally marginally below the levels of satisfaction expressed with HR services themselves. Satisfaction with payroll solutions slightly outstrips other solutions as Exhibit V-6 shows.

Exhibit V-6

Satisfaction with Current HR Solutions



The graphs by industry sector which are shown in Exhibits V-7 to V-10, show that organizations in the retail & distribution sector express generally higher levels of satisfaction (average rating 3.9) than those in manufacturing (average rating 3.5) or utilities (average rating 3.5). The most variable results are in finance sector, where satisfaction with payroll solutions is higher than elsewhere, but satisfaction with benefits administration solutions is very low.

Exhibit V-7

Satisfaction with Current HR Solutions - Finance Sector

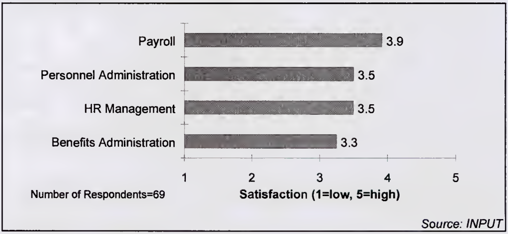


Exhibit V-8

Satisfaction with Current HR Solutions -Manufacturing Sector

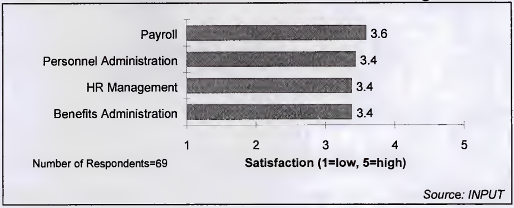


Exhibit V-9

Satisfaction with Current HR Solutions - Retail & Distribution Sector

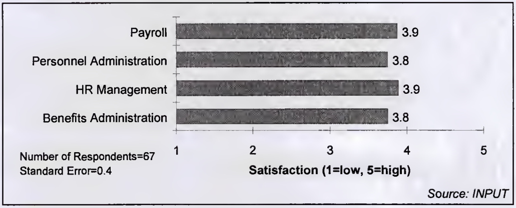
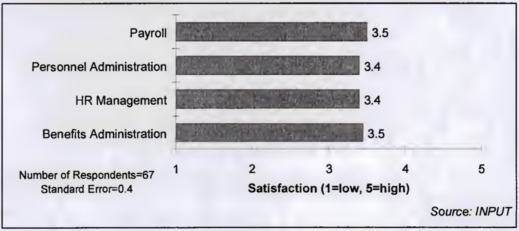


Exhibit V-10

Satisfaction with Current HR Solutions – Utilities Sector

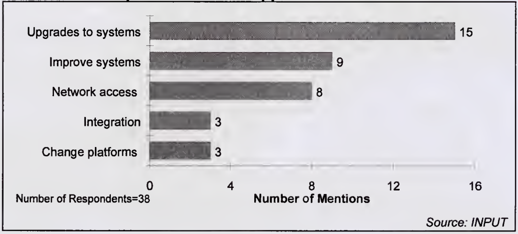


Smaller companies (less than 1,000 employees) are generally more satisfied (average rating 3.7) than the perhaps more demanding and complex larger companies (average rating 3.4).

Although a wide range of possible improvements in IT support for HR services are identified, these tend to fall into a number of key categories as Exhibit V-11 shows.

Exhibit V-11

Most Frequently Suggested Information Technology Improvements to Support HR Services



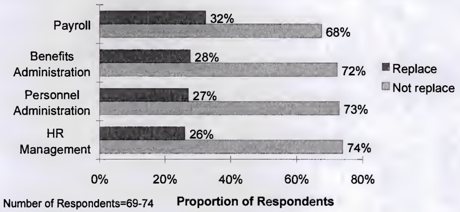
D

IT Solution Purchasing Intentions

Up to a third of those taking part in the survey intend to replace their HR IT solutions by 2000. Although the highest level of replacement activity is in payroll systems, there is significant activity planned or underway in all the main areas of HR activity as Exhibit V-12 shows.

Exhibit V-12

Intentions to Replace HR IT Solutions by 2000



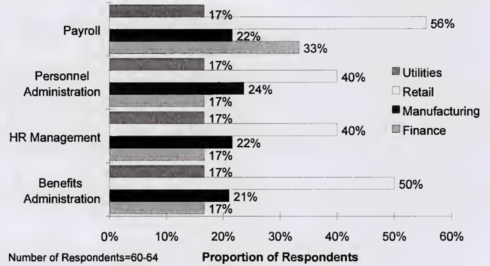
Source: INPUT

This high level of replacement activity may be a reflection of the fact that many organizations are implementing new enterprise application systems now to avoid some of the systems problems associated with Year 2000. Looking at these high levels of replacement activity in association with the low levels of interest in outsourcing, suggests that many organizations may be following a strategy of systems replacement rather than service outsourcing to address some of the productivity and performance issues they face.

Looking at what is happening in the different industry sectors shows that there are significantly different levels of replacement activity here. The picture by industry sector is represented in Exhibit V-13.

Exhibit V-13

Intentions to Replace HR IT Solutions by 2000 by Industry Sector



Source: INPUT

Those in the finance and utilities sectors are the least likely to be implementing replacement solutions before 2000 - perhaps because they are already the most advanced in terms of take-up of second generation HR systems. Those in the finance sector are however much more interested in new payroll systems than other application areas.

The opportunity is greater in the manufacturing sector with approximately one in four planning replacement systems and where there is scope across the board.

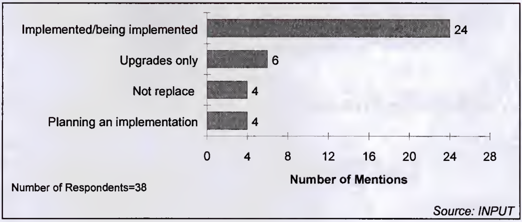
The most active sector is retail & distribution with particularly high levels of activity in payroll and benefits administration systems. Some care is needed here, however, because of the relatively small sample in this sector.

Levels of systems replacement activity are higher in smaller companies. 42% of respondents in companies with less than a thousand employees are undertaking replacement activity, compared to 31% of those in large companies. Perhaps the smaller companies are more able to implement new EAS-based systems within the Year 2000 timeframe than their larger colleagues.

Comments from the respondents, encapsulated in Exhibit V-14, make it clear that many organizations have already moved beyond the planning stage into active implementation.

Exhibit V-14

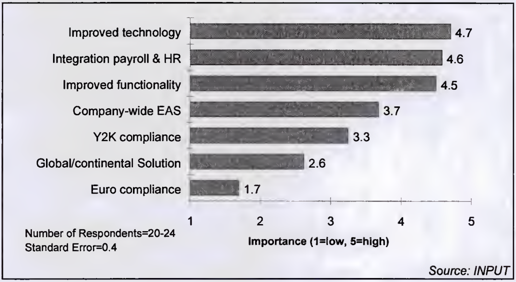
Current Status of IT Solutions Replacement Activity



Decisions to replace HR solutions are being driven by reasons that are internal to the efficient operation of the HR function, and not by Y2K compliance or broader corporate EAS strategies, as Exhibit V-15 shows.

Exhibit V- 15

Relative Importance of Factors Driving the Change of HR Solution



The importance given to providing an up to date, integrated IT solutions platform with enhanced functionality, which significantly outstrip any other factors, reinforces the overriding message of integration recurrent throughout this study.

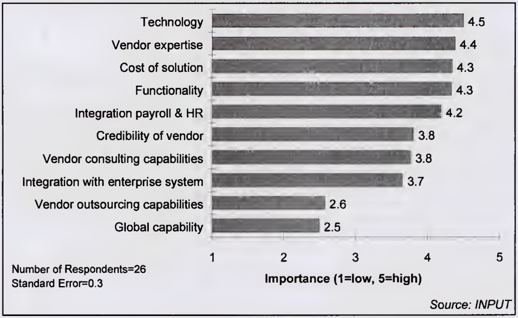
The lack of emphasis given to compliance issues may reflect the fact that the majority of respondents are from HR, and see such issues as the domain of the IT function. Clearly at present the coming of the single European currency does not impinge upon many respondents, despite the international nature of many of their businesses. This reflects the common perception that those not directly involved are unaffected.

E
Vendor Selection Criteria

The most important selection criteria for HR solutions vendors are closely linked to the most important motivating factors driving a change of solution: the need for improved technology and functionality and for integrated payroll and HR systems all score highly here too as Exhibit V-16 shows.

Exhibit V-16

Relative Importance of Selection Criteria for HR Solution Vendors



Added to these are criteria relating to the vendor's expertise, with expertise in HR being the most important. The focus is on the expertise reflected in the solution rather than that demonstrated by consulting capability, which is given less prominence. The cost of the solution is also a leading factor.

The lack of interest in global capability seen elsewhere in the survey is also present here. The lack of interest in a vendor's outsourcing capability is consistent with the generally low level of interest in outsourcing. This must be discouraging news for solutions vendors with plans to move into outsourcing of either transaction processing or the management of the associated HR process.

F

Perceived Vendor Suitability

Despite the plans of around 1 in 3 respondent companies to replace their HR solutions by 2000, very few were prepared, or perhaps able, to volunteer the names of the vendors they would consider for new payroll/HR management systems. The most popular choice of those that did reply was PeopleSoft, as Exhibit V-17 shows.

Exhibit V-17

Vendors Considered for New Payroll/HR Management Systems

Vendor	No. of Unprompted Mentions
PeopleSoft	5
SAP	2
Andersen	1
Ceridian	1
Cronos	1
Hyperion	1
IBM	1
Lawson	1
Oracle	1

Source: INPUT

This low level of awareness suggests that solutions vendors have some work to do in raising awareness of their products within the HR community.

Participants in the survey were also asked to assess the suitability of named solutions vendors

There was a higher level of response to this prompted question, which also put PeopleSoft at the top of the list.

Exhibit V-18

Vendor Suitability for New Payroll/HR Management Systems

Vendor	No. of Mentions	Rating 1-5
PeopleSoft	22	3.8
SAP	15	3.3
ADP	22	3.0
Oracle	16	2.4
IBM	19	2.2
Ceridian	18	1.8
Baan	14	1.2
Loga	12	1.1
Meta 4	12	1.1

Source: INPUT

As would be expected the strongest vendors are those with a strong HR product offering coupled with a broader enterprise base, such as PeopleSoft and SAP, or with a very clear HR focus, such as ADP.

VI

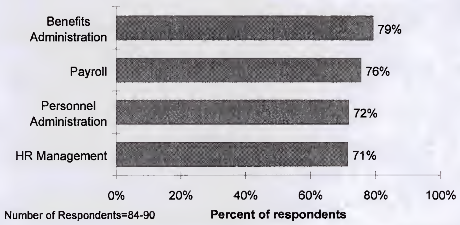
HR Services Purchasing and Vendor Selection

A
Approaches to HR Services Purchasing

This theme of integration is carried through into the purchasing of HR services as well as HR solutions. Around three-quarters of all respondents expect to purchase all areas of HR services on a bundled basis, as demonstrated by Exhibit VI-1.

Exhibit VI-1

Proportion of Respondents Expecting to Purchase HR Services on a Bundled Basis



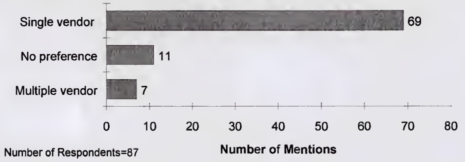
Source: INPUT

This high level of bundled purchasing is likely to be influenced by the continuing high levels of internal rather than external services provision, where bundling is probably a natural result of an integrated HR function or shared service center.

Consistent with the expectation of bundling of services is a preference for a single rather than multiple vendors. Exhibit VI-2 shows that more than two thirds of respondents prefer a single vendor.

Exhibit VI-2

Preference for Single vs. Multiple Vendors of HR Services



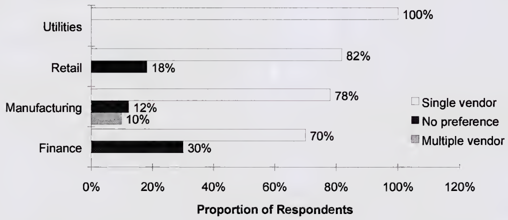
Source: INPUT

Whilst the bad news for service vendors was low levels of planned outsourcing, the good news is that is possible to bid on a broad basis.

In terms of industry sectors, the preference for a single service supplier is most marked in the utilities sector, where 100% of respondents go for this option. This drops to around 80% in the retail and manufacturing sectors, and down to 70% in the finance sector as shown in Exhibit VI-3.

Exhibit VI-3

Preference for Single v. Multiple Vendors of HR Services by Industry Sector



Source: INPUT

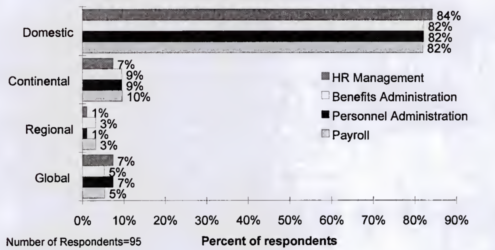
The fact that the manufacturing sector is the only one to give any endorsement to the concept of multiple suppliers suggests that there is little desire for competitive tension within HR services supply. The desire for integrated IT solutions is reflected in the desire for a single service provider.

Responses by size of company showed little variation, although smaller companies were marginally more enthusiastic about using multiple suppliers (9% compared to 6% of larger companies).

HR services are primarily organized on a domestic basis, and this preference for domestic organization is reflected in the pattern of HR services sourcing shown in Exhibit VI-4.

Exhibit VI-4

Level of Future HR Services Sourcing



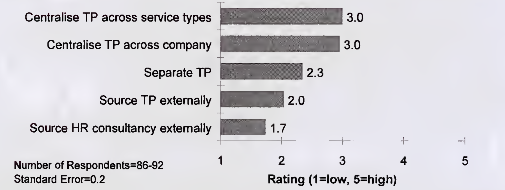
Source: INPUT

Domestic sourcing dominates all the HR service areas, outnumbering continent wide purchasing by a factor of 9 to 1. Only a tiny minority opt for regional purchasing, and there is a small, but not insignificant number, who go for global purchasing. These results also show that the approach to services purchasing is consistent across the HR service areas; what holds for one area of activity will hold for the rest.

Despite the enthusiasm for shared HR service centers, respondents are only lukewarm about centralizing transaction processing (TP) either across service types or across the company. They also see no reason to separate TP from the consultative and advisory role of HR. Sourcing either TP or HR consultancy externally is definitely not seen as attractive, as Exhibit VI-5 shows. The lack of enthusiasm for sourcing HR consultancy and advice services externally is unsurprising since this comes closer to the added value role which the internal HR function would like to claim as its own, and the lack of interest in sourcing TP externally is in line with the general lack of interest in outsourcing demonstrated elsewhere in this research.

Exhibit VI-5

Appropriate Approaches to Managing and Sourcing HR Services

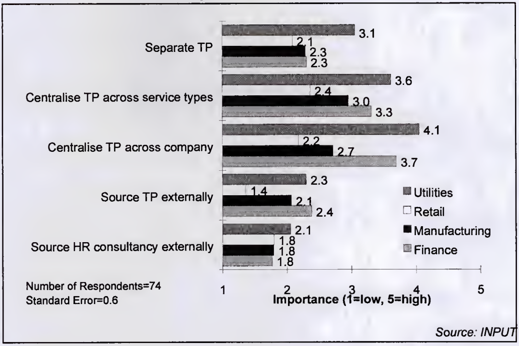


Source: INPUT

The graphs by industry sector, shown in Exhibit VI-6, shows that there is some variability between the sectors: respondents in the utilities and finance sectors give greater endorsement to centralizing TP than those in manufacturing and retail and distribution. The utilities are also more positive about separating TP from HR's consultant and advisory role: they may be better prospects for a shared service center approach.

Exhibit VI-6

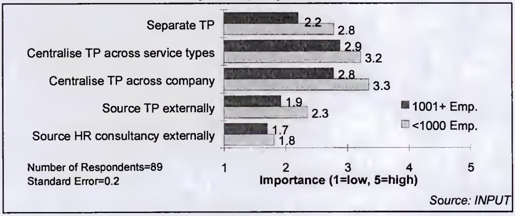
Appropriate Approaches to Managing and Sourcing HR Services by Industry Sector



Analyzing responses by company size shows that smaller companies are a little less unenthusiastic about centralizing TP, separating it from consultancy and advice, and sourcing it externally, as shown in Exhibit VI-7.

Exhibit VI-7

Appropriate Approaches to Managing and Sourcing HR Services by Company Size



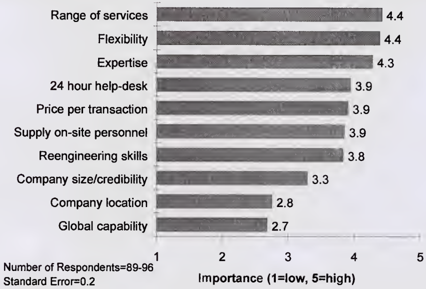
B

Vendor Selection Criteria

Given the relatively low level of interest in external services provision exhibited elsewhere, it is perhaps a little perverse that respondents make the ability to offer a range of HR services and flexibility to meet unique requirements their leading selection criteria. This does accord, however with the expressed preference for single rather than multiple service providers. Exhibit VI-8 ranks service vendor selection criteria.

Exhibit VI-8

Relative Importance of Selection Criteria for HR Services Vendors



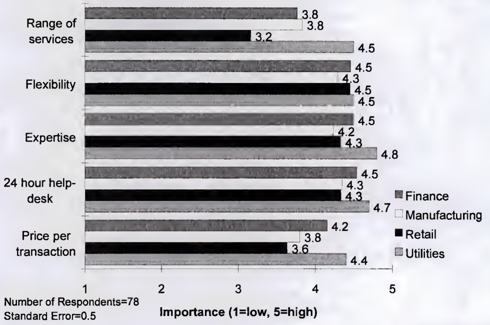
Source: INPUT

The high level of importance attached to HR expertise is common to the selection of both solution and service vendors, and customers are clearly seeking high levels of direct support through helpdesks and on-site personnel, but all at a competitive price per transaction. The importance attached to the ability of a supplier to re-engineer HR services suggests that customers are also looking for an added-value contribution on the part of service vendors. The demand for good direct support means that customers are less concerned about the vendor's own location.

Looking at the picture by industry sector in Exhibits VI-9 and VI-10 reveals that it is those in the utilities who are generally the most demanding.

Exhibit VI-9

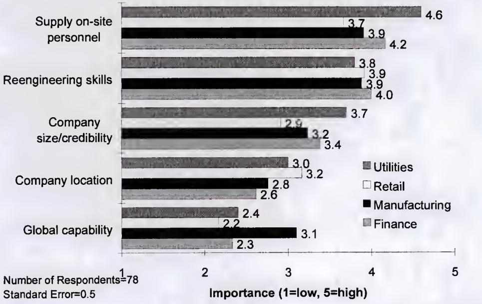
Most Important Selection Criteria for HR Services Vendors by Industry Sector



Source: INPUT

Exhibit VI-10

Less Important Selection Criteria for HR Services Vendors by Industry Sector



Source: INPUT

While the results by industry sector are broadly similar for the majority of criteria, there are some where differing sector priorities do appear. Offering a range of HR services is more important to the utilities sector and less important to the finance sector; manufacturers and retailers are less concerned about price per transaction, and retailers are less concerned about the vendor's size and credibility.

The manufacturing sector gives greater prominence to global capability, reflecting perhaps the greater importance of international capability to this sector.

There are only minor differences in the ratings given to services vendor selection criteria when analyzed by company size; the only significant difference is in the score given to global capability, which is rated 2 out of 5 by the smaller companies, but 3 out of 5 by the larger ones.

Additional commentary from the respondents suggested that the ability to integrate services and company stability are important additional selection criteria.

C
Perceived Vendor Suitability

When asked whether they would consider using particular vendors for HR services, PeopleSoft and ADP received the strongest endorsement from the survey participants, as shown in Exhibit VI-11.

Exhibit VI-11

Vendor Suitability for HR Services

Vendor	% Respondents who Would Consider

PeopleSoft	46
ADP	41
Ceridian	22
Pay-Chex	21
IBM	20
Andersen Consulting	19
EDS	11
ABR Information Services	10
CSC	10
Coopers & Lybrand*	5

** The research was conducted before the merger of Coopers & Lybrand and Price Waterhouse.*

Source: INPUT

Those achieving the most positive ratings fall into two clear categories: vendors with a strong HR service proposition, such as ADP, Ceridian and Pay-Chex, and those with strong HR product offerings, such as PeopleSoft and IBM.

Companies coming into HR services from a background in IT outsourcing, such as EDS and CSC, appear to have some way to go in winning over HR personnel.

VII

Vendor Positioning

A Market Size and Growth

The current size of the United States market for externally-provided HR services is estimated at some $15bn and to be growing at 20% p.a. The bulk of expenditure is on payroll processing and tax filing, the latter being a particular feature of the U.S. market resulting from the universal system of taxation self-assessment.

Growth in the HR services market is broadly similar to that for the outsourcing market as a whole.

The highest levels of growth are in payroll-related services. Pensions and other forms of benefits administration are growing relatively rapidly, but from a much smaller base.

Full outsourcing of HR administration to a single vendor, including the transfer of administrative staff, has not been a feature of the U.S. market as it has in Europe. There are the first signs of such a market starting to emerge, represented by Kmart's recent full outsourcing contract with Ceridian.

It is difficult to reconcile the picture of a vigorously growing market which emerges from the performance of the leading vendors (ADP, Ceridian and PayChex all grew revenue and profit by more than 20% in fiscal year 1998), with the low levels of outsourcing and low expectations of further outsourcing reported by those participating in INPUT's customer survey.

Part of the answer may lie in the fact that the U.S. HR services market is heavily weighted towards the SME sector at the present. Some 95% of U.S. businesses are reported to have less than 20 employees, and these form the bulk of the market for payroll related services. They also represent much of the current growth, as vendors seek both to broaden the range of services they offer to this market and to deepen their basic service offering (for example through offering Internet-based data entry and reporting). Such companies represented less than 5% of INPUT's survey respondents.

It remains to be seen whether a market for managed HR services will emerge in the U.S. corporate sector to the same extent as it has in the United Kingdom and to a lesser extent elsewhere in Europe. The customer survey suggests that medium to large enterprises are at present putting their energies into upgraded HR systems, but vendors must be hoping that Kmart proves to be a trendsetter rather than a pioneer. The rapid growth of Pro Business Services Inc, which focuses on large companies and grew by 69% in fiscal 1998, suggests that their hopes may be fulfilled.

Another factor influencing the highly conservative views of the survey respondents may be that they are predominantly HR professionals, who may well at this stage of market development view outsourcing as a threat to their authority. The pressure for outsourcing may well be coming from the information management and finance functions in the corporate sector, who have previous experience of outsourcing and who are keener to see the administration of routine functions hived off in order to increase concentration on core competencies.

B

Market Drivers

Vendors of HR solutions and services identify a number of factors that are perceived to be driving the market for HR services. Those most commonly cited are:

- The increasing complexity of federal and state legislation on conditions of employment, benefits provision, and employee monitoring is driving many companies to outsource, particularly those who are too small to engage their own HR professionals.
- The increasing complexity of the labor market, represented for example by much larger numbers of part-time, contracted and freelance personnel has a similar effect. Increases in flexible working arrangements, particularly within professional groups, are driving demand for more flexible people tracking and resource planning systems, and their associated services.

- A key driver is major change in the requirement for employers to provide and administer employee benefits This applies not only to health insurance, but also to the shift towards sharply increased private pension contributions as the government seeks to address the developing gap between payments into and from state-run pension schemes.

- The development of Professional Employer Organisations (PEO's) who 'co-own' a company's employees and provide and administer all the company's HR services is a key development in the SME sector. The number of people co-employed by PEO's has risen from ten thousand in 1986 to three million in 1998 and is continuing to grow at a current rate of 30% p.a. Leading HR services providers, such as PayChex , have jumped onto the PEO bandwagon, increasing its credibility but also prompting the fiscal authorities to take a good look at what is going on.

- As confidence in its security increases, using the Internet as a payroll front end is becoming an important market driver, since it allows large HR service providers to leverage their existing infrastructure to offer low cost services to small companies.

- Using the Internet and intranets to provide employee 'self-service' kiosks and information and feedback services for line managers is reducing the HR administrative workload, making it more attractive for HR departments to hive off the rump of administrative activity in order to concentrate on more strategic issues. The high penetration of office and home PC's and low telecommunications costs in the United States mean that it is ahead of other markets in developing such services.

- Partnerships between enterprise application system vendors (particularly PeopleSoft, SAP and Oracle) and HR service providers gives customers the option of first installing new HR and other systems and then outsourcing the routine administration and processing.

- As was mentioned in section A, whole function outsourcing, where the customer's staff transfer to the service provider, is a relatively new concept in the United States but large corporations are starting to look at this as a means of reducing costs and focusing on core competencies.

Other factors that may influence the market are as follows:

- The demand for integrated payroll and HR management systems, which was identified by the survey respondents, is driving high levels of systems replacement. Many companies may take the opportunity to review their administrative arrangements in parallel with new systems implementation.

- Increased demand at the very high end of the market for HR systems, and particularly payroll systems, which support international and multi-national businesses by providing both local country compliance and consolidated reporting in a common currency, is influencing the somewhat rarified market for global solutions and services.

C

Current Market Segmentation

Historically, the United States market for HR services has been segmented by company size. With the bulk of the market (by company volume and overall value) being in the SME sector, the focus has been on local bureau services for small companies. As well as being independent service providers, local banks have also operated payroll services divisions.

Dedicated and long-standing independent service providers such as ADP, Ceridian and PayChex, have either focused on the SME sector (as PayChex does) or have segmented their service offerings into those for large, medium and small companies.

There are now signs that this traditional segmentation by size is breaking down.

The emergence of many small professional services companies with highly skilled employees (many of them servicing the demand for outsourced business activities of one kind or another) has meant that the "small = simple" equation no longer holds, and that small companies with complex e.g. time and attendance needs, represent a new market segment.

Increasing legislative complexity also means that simple bureau services are becoming less attractive, resulting in the sale of many such businesses, as well as bank payroll divisions, to the larger players such as ADP and Ceridian.

Others are transforming themselves into Professional Employer Organizations (PEO's). This may become a major market segment, if the fiscal authorities, which are currently reviewing the status of PEO's, satisfy themselves that they do not represent a regulatory problem. The PEO's are themselves busy forming links with providers of health and retirement benefit schemes to extend the scope of their service offering.

This concentration of supply means that new market segmentations, based on industry sectors, are starting to emerge. This is also linked to the emergence of sector-specific variants of enterprise application systems and HR information systems.

Traditionally, the major vendors have offered both HR solutions and HR services based on these products. This has reinforced the market segmentation by company size, since different platforms have been used to support the different solutions. All the major vendors also operate through large networks of local service centers across the U.S. The use of the Internet, however, as a vehicle for data entry and customer reporting, means that the underlying platform and its location are becoming increasingly transparent. This creates the opportunity for vendors to reduce service costs through more efficient use of their infrastructure.

This will be accelerated if whole function outsourcing, including the transfer of capital and human assets, takes off, since part of the deal to the corporate customer may well be offering to reduce their costs through 'selling off' spare infrastructure capacity to other customers. New companies, such as Pro Business Services Inc, have emerged to address the corporate sector, and existing vendors have set up specialist divisions focused on large company needs.

The market remains dominated, however, by the two historic heavyweights of HR services: ADP and Ceridian. Although there are potential threats to their position from specialist providers such as Pro Business Services, from PEO's, and possibly from the enterprise application solutions vendors (see section E of this chapter), their own continuing strong performance and international expansion plans, suggest that they will continue to shape, as well as respond to, the market.

D
Vendor Positioning

ADP Inc.

ADP's HR solutions and services are delivered by its Employer Services division. It reported Employer Services revenues of $2.2bn for fiscal 1998 and can undoubtedly validate its claim to be the 'world's largest provider of payroll services and HR information systems'. Revenue growth in Employer Services was 21% in 1998 and profits were up 15%. Employer Services has 400,000 customers in the United States, of whom three-quarters have less than 100 employees.

In addition to payroll services and HR information systems, ADP offers benefits administration, tax reporting and depositing, time and attendance, pension administration and unemployment compensation management services.

ADP continues at present to segment its service offering by company size into National Accounts (1000+ employees), Major Accounts (100-999 employees) and Emerging Business Services (less than 100 employees).

Many of its customers have been with ADP, which was founded in 1949, for a very long time. Within National Accounts, for example, average client tenure is more than ten years and rising. In the Major Accounts segment ADP claims 65% of the total base of companies who have opted to outsource their payroll related services.

ADP has used a strategy of acquisition to expand its HR services activity in the banking sector and to accelerate its entry into the benefits administration market.

Recent initiatives include the introduction of a secure internet-based payroll solution for small businesses and a new full-service payroll outsourcing service for medium sized businesses called PayExpert.

ADP has also formed alliances with the leading enterprise application vendors. It is working with PeopleSoft to offer an integrated international payroll solution for large, multinational companies, and with Oracle and SAP to provide services that allow customers to integrate HR and EAS-generated data and systems.

Outside the U.S., ADP is extending its HR outsourcing service to all countries of operation and is seeking new partnerships to address the

SME sector in particular country markets and to develop and market advanced time and attendance systems.

It is also planning to develop solutions and services for temporary staff agencies as part of its move towards an industry-oriented approach.

Ceridian Corporation

The Ceridian group was founded in 1932 and was the first payroll bureau in the United States. Today it has revenues of about $1.2bn with net earnings of some $120m.

Ceridian's HR systems and services are provided, like ADP, through a division called Employer Services. In order to sustain a 'largest' proposition, Ceridian focuses on its systems rather than its services and thus claims to be 'the largest HR systems provider in the U.S.' and to offer 'the broadest range of HR management solutions in the industry'. These include payroll processing, tax filing, HR information systems, automated time and attendance systems, and employee self service kiosks. Ceridian also offers solutions for applications such as recruitment, training, benefits administration, and what it calls 'workplace effectiveness'. Employer Services has some 100,000 customers.

In the corporate sector, Ceridian is offering 'full service' outsourcing, involving the transfer of staff and physical assets. Its first major customer for this service is Kmart.

Ceridian has historically segmented the HR services market by company size, but is now moving towards sector based product and service initiatives. It has also recently formed alliances with Oracle and with SAP to offer integrated solutions and services, and will be announcing further partnerships over the next few months.

Recent initiatives include an Internet-based payroll, HR and tax filing service for small companies, and a new employee self service solution which also uses the Internet. Ceridian, like ADP, is acquiring payroll businesses from banks, and has set up links with Aetna US Healthcare to offer a web-based integrated benefit system.

Other new service developments are planned in time and attendance (which clearly an increasingly important service area market wide), and in employee development.

IBM Global Services

IBM hopes to become a major force in the U.S. corporate sector through the expansion of services associated with its HR Access product suite (brought to IBM through its acquisition of French company CGI) into full outsourcing

It is also developing greater service activity around HR Access on a worldwide basis (most of its HR Access business is still in France, but with increasing penetration in the United States and elsewhere in Europe) in order to be able to offer it to the market as a full software and service solution

IBM is also forming partnerships with consultancies with an HR focus such as Hay Management, KPMG and PwC.

PayChex Inc.

PayChex processes the payrolls of more than 270,000 customers 'making it the second largest payroll accounting firm in the U.S.' behind ADP. It also provides automatic tax payments, direct deposit and check signing services.

PayChex focuses on the SME sector and particularly on very small companies - its average customer has 14 employees. In total, PayChex processes pay checks for some 4 million people per month.

Founded in 1971, PayChex grew through joint ventures and franchising, before being consolidated into a single organization in 1979. Revenues today are around $800m and grew by 24% in fiscal 1998. PayChex attributed its growth to increased customer numbers, high levels of retention, higher customer take up of ancillary services and its ability to command higher prices in a fast-growing market.

PayChex entered the Professional Employer Organization market in 1991 and levered this substantially through acquisition in 1996. It now has 6,000 PEO customers, and is planning to both broaden and refine its service offering here.

Recent initiatives include a Paychex Access card, where an employee's pay is credited directly to his or her MasterCard account, allowing credit card payments and cash withdrawal through ATM's. This is targeted at employees unwilling or unable to hold a bank account.

Pro Business Services Inc.

Founded in 1986, Pro Business Services is a relative newcomer compared to its long established competitors. Pro Business Services focuses on large companies 'within diverse industries' and claims 1,450 customers. It is based in California, with offices in Pleasanton, Los Angeles and Seattle, and its core customers are high technology companies in Silicon Valley such as Dell Computers. It provides outsourced payroll processing, payroll tax and benefits administration services, as well as PC-based HR information systems.

Pro Business Services reported revenues of $46m in fiscal 98, up 69% over 1997, suggesting that the market is moving its way. It made a loss of $6.5m, however, as a result of 'ongoing strategic investment in client acquisition costs', suggesting that making the market move its way is at present very expensive.

Pro Business Services recently acquired Benesphere Administrators to extend its benefits administration offering. Other market initiatives include alliances with Oracle and SAP, and with Sheakley Uniservice (who provide unemployment cost control services) and with HR information system vendor PDS.

E
New Market Entrants

In addition to new market entrants from the emerging Professional Employer Organizations, the greatest threat to established HR services providers probably comes from the enterprise application solutions vendors.

At present, these vendors are chasing their tails trying to fulfill the order backlogs built up by customers seeking to beat the Y2K deadline. Those, like SAP and PeopleSoft, who have concentrated on the corporate sector, are also eyeing up the SME sector and developing more competitive offerings for these markets. Once the Y2K bulge has passed through, however, it is possible that they will tread the time-honored path from product provider to service provider, since this is where the ongoing and higher margin revenues usually prove to lie. In due course, the ERP vendors may move on not only to implementation and support services for their products, but also to the provision of outsourcing services based on them.

It is striking that the most frequently mentioned and highly rated HR service as well as solution provider is PeopleSoft, suggesting that a service 'halo effect' already exists.

At the moment, the ERP vendors are content to form partnerships with the service providers in the HR services area, but increasing competition in the HR sector is also likely to put pressure on them to develop more services of their own. Lawson Software has announced plans to enter the HRIS market in 1999, and so in addition, may Baan.

PeopleSoft has already created an Outsourcing Division in the United States with a brief to develop partnerships that will offer a full outsourcing option to users of PeopleSoft software. In addition to its partnerships with ADP, Ceridian and Pro Business, which allow users of SAP solutions to integrate their ERP and HR systems, SAP has also announced its first outsourcing partnership with Matrix Marketing Inc.

If full HR service outsourcing does start to take off in the United States, then this could bring could the large information technology outsourcing companies into the picture, since this is a service model with which they are familiar. The relatively low suitability scores given to such companies suggests, however, that they have yet to establish their service credentials with the HR function.

F
Role of Partnerships

The emergence of lots of partnerships is a characteristic of a market in transition. Given that many of these partnerships are between the established HR services vendors and the ERP vendors, the scale of the impact of enterprise application systems on the HR solutions market becomes clear.

Since the beginning of 1998 there has been a storm of partnership activity:

- PeopleSoft with ADP to address the multinational market and potentially with others to exploit new outsourcing opportunities
- Oracle with everyone primarily to integrate Oracle Applications with the HR information systems of the major HR service providers
- SAP with Ceridian and Pro Business to integrate their service offerings with clients own SAP systems, and also potentially to offer outsourced SAP solutions on the German model.

Other areas where partnerships are indicative of market turbulence are the emerging alliances between payroll service providers and benefits administration providers, and between the HR service providers and time and attendance systems specialists. In both these cases, partnership could be relatively short-lived and effectively a precursor to merger and/or acquisition.

What will be interesting in the longer term will be to see whether these partnerships do prove to be a function of market transition, and will disappear as each of the partner groups gradually consolidates its own position and no longer needs the other; or whether the accelerating pace of product and service development will mean that partnership is a feature of the HR services marketplace that is here to stay.

A

Questionnaire

Study Title: ______________________________

Type of Interview:

❒ Vendor ❒ **Telephone**

❒ **User** ❒ On-Site

❒ Other ❒ Mail

Company: ____________________

Address: ____________________

____

____

____

____

City/State: ____________________

Zip: ____________________

Telephone: ____________________

Fax #: ____________________

Project Code/Catalog No. ____

Interviewer Initials __________

Interview Date. __________

QC Initials __________

QC Date __________

Data Entry Initials __________

Data Entry Date __________

Company Type: __________

Annual Revenue: ______

Employees: __________

Total IS Budget: __________

Total # IS Staff: __________

Respondent(s):

Name Title Phone/Ext.

Role in Project:

Referrals:

Industry (User Interviews Only):

	Discrete Mfg.		Wholesale		Federal Government		Process Mfg.
	Banking/ Finance		State & Local Government		Transportation		Insurance
	Consumer/ Home		Utilities		Medical		Other Industry Specific
	Communica -tions		Services		Cross-Industry		Retail
	Education						

Introduction

This survey is to determine **your satisfaction with**, and **improvements you would** like in the provision of human resource services. Human resource services include payroll services, personnel administration , benefits administration (welfare - medical, disability and death, pensions, financial savings plans and benefits in kind (e.g. car schemes) and HR management (compensation planning, headcount, job levels, careers, competencies, recruiting and training). The survey will also enable us to analyze how best practice is developing within human resource services.

You will be provided with an executive summary of the results of this survey.

A. Current Usage of Human Resources Services

1. a Are you the person who is most able to **evaluate the use of human resources services** on behalf of your organization. If not, to whom should I speak? (Close the interview and contact the specified person.)

   b. How many people are there in total within your company?

   ______

   c. How many of these people are covered by the personnel function for which you are responsible?

   ______

2. Please rate on a scale of 1 to 5 (1 being low and 5 high) the current importance of the HR function to the future success of your organization? How important will the HR function be in the year 2000?

   Rating
   ___ 1998
   ___ 2000

   Comments:

3. Is your company part of a group? Yes/No______

3b.Does this group have an **I**nternational presence or just a **D**omestic presence? ______

3c. If international, what is the origin of the group?
North American ______
European ______
Asian ______
Other ______

3d. How many employees does the company have in Europe? ______

4. How is the human resources function organized within your company? Is it primarily **c**entralized or decentrali**z**ed? ______

   If centralized, is it centralized at a **d**omestic, **c**ontinental or **g**lobal level? ___

4b. Which of the following HR services are currently centralized at a **g**lobal, **c**ontinental or **d**omestic level and which are decentraliz**e**d at present?

________ Payroll
________ Personnel Administration
________ Benefits Administration (including Pensions)
________ HR Management
________ Other (please specify________________________)
________ Other (please specify________________________)

4c. How do you expect this to change in future? Why?

4d. Which of the following HR services do you expect to be centralized at a **g**lobal, **c**ontinental or **d**omestic level by Year 2000?

________ Payroll
________ Personnel Administration
________ Benefits Administration (including Pensions)
________ HR Management
________ Other (please specify________________________)
________ Other (please specify________________________)

5. What are the key reasons for centralizing particular human resources services?

B. Current Sourcing of HR Services

6. Who currently provides your organization with operational HR services for each of the following:? (Interviewer: Please classify the internal functions as Central HR function(**C**), Local HR function (**L**), Other in-house department e.g. accounts (**O**). Also classify External service provider (**E**).) Could you please identify any external service providers?

Source supplier		Name of external
________	Payroll	________________________
________	Personnel Administration	________________________

________ Benefits Administration ____________________
________ HR Management ____________________
________ Other (please specify_____)____________________

7. What proportions of the following services are executed externally now and what proportions do you expect to be executed externally in the Year 2000

Now		Year 2000
________	Payroll	______
________	Personnel Administration	______
________	Benefits Administration	______
________	HR Management	______
________	Other (please specify_____)	____________________

Comments

7b. What proportions of the following HR related activities are executed externally now and what proportions do you expect to be executed externally in the Year 2000

Now		Year 2000
________	HR related transaction processing	______
________	HR department outsourcing	______
________	Other (please specify_____)	____________________

Comments

7c Please rate on a scale of 1 to 5 (1 being low and 5 high) the extent to which you **favor** the concept of shared services centers for HR functions:

Extent favored: _____

Comment

8. What are the key reasons for retaining particular human resources services in-house?

9. What are the key reasons for subcontracting or outsourcing particular human resources services?

C. Current Cost of Human Resources Services

10. What are your total costs per year for each of the following services? (Total costs includes all related personnel time, IT investment and operations etc.)

________ Payroll
________ Personnel Administration
________ Benefits Administration
________ HR Management
________ Other (please specify________________________)
________ Other (please specify________________________)

10b. What are your total costs per employee for each of the following services? (Total costs includes all related personnel time, IT investment and operations etc.)

________ Payroll
________ Personnel Administration
________ Benefits Administration
________ HR Management
________ Other (please specify________________________)
________ Other (please specify________________________)

11. Please rate on a scale of 1 to 5 (1 being low and 5 high) the importance of:

Rating
________ Improving the quality of HR services
________ Reducing the cost of HR services
________ Improving the visibility of HR services

12. What steps do you expect to take by the Year 2000 to improve value for money from human resources services?

D. Satisfaction with Human Resources Services

13. What benefits do you expect to derive from your current human resources services? Please rate on a scale of 1 to 5 (1 being low and 5 high) the importance of each of these benefits and the extent to which you currently achieve each of them.

    Benefit______________ Importance _____ Satisfaction _____
    Benefit______________ Importance _____ Satisfaction _____
    Benefit______________ Importance _____ Satisfaction _____
    Benefit______________ Importance _____ Satisfaction _____
    Comment:

14. Please rate on a scale of 1 to 5 (1 being low and 5 high) the importance of human resource services to your organization and your overall satisfaction with your current services:
    Importance: _____ Satisfaction: _____

    Comment

14b. Please rate on a scale of 1 to 5 (1 being low and 5 high) the **importance** of payroll services to your organization and your **overall satisfaction** with your current services:
Importance: _____ Satisfaction: _____

Comment

14c. Please rate on a scale of 1 to 5 (1 being low and 5 high) the **importance** of personnel administration services to your organization and your **overall satisfaction** with your current services:
Importance: _____ Satisfaction: _____

Comment

14d. Please rate on a scale of 1 to 5 (1 being low and 5 high) the **importance** of benefits administration services to your organization and your **overall satisfaction** with your current services:

Importance: _____ Satisfaction: _____

Comment

14e. Please rate on a scale of 1 to 5 (1 being low and 5 high) the **importance** of HR management services to your organization and your **overall satisfaction** with your current services:

Importance: _____ Satisfaction: _____

Comment

15. Who are your main providers of human resource services? Please rate on a scale of 1 to 5 (1 being low and 5 high) your satisfaction with them?

Satisfaction	Suppliers
____	____________________
____	____________________
____	____________________
____	____________________
____	____________________

16. What do you currently like about the service from your human resources service providers?

Comment

17. How could your human resources service provision be improved?

Comment

18. Please rate on a scale of 1 to 5 (1 being low and 5 high) the **importance** of each of the following characteristics of human resource services to your organization and your **current satisfaction** with them:

	Importance:	Satisfaction:
Integration of human resource services	____	____
Ability to share information across units	____	____
Value for money	____	____
Ability to meet service level agreements	____	____
24x7 access to personnel data	____	____
Integration of information	____	____
Single entry of data	____	____
Availability of information	____	____
Support for line managers	____	____
Speed of recruitment processing	____	____
Quality of services to staff	____	____
Ability to accommodate reorganizations	____	____

Comment

E. Technology & HR Solutions

19. Please rate on a scale of 1 to 5 (1 being low and 5 high) the **importance** of information technology in supporting human resource services to your organization and your **current satisfaction** with information technology support for human resource services. How important do you believe information technology support will be in the Year 2000?
Importance 1998: ____ Satisfaction 1998: ____ Importance 2000: ____

Comment

20. Please rate on a scale of 1 to 5 (1 being low and 5 high) the **importance** of each of the following characteristics of information technology support for human resource services and your **current satisfaction** with each of these characteristics of information technology support:

Importance:

Satisfaction:

Integration of HR management with payroll _____ ____

Integration of HR & payroll with an EAS* _____ ____

Access to integrated personnel database _____

____

Individual Intranet access _____

____

Workflow support for recruitment _____ ____

Support for line managers _____

____

Integrated HR backbone _____ ____

Ability to handle distributed information _____

____

*EAS = enterprise application solution (includes ERP solutions)

21. Who developed the IT solutions for each of the following:? Are there any other vendors that provide your company with HR solutions?

Interviewer: Please classify as Central HR function(**C**), Local HR function (**L**), Other in-house department e.g. accounts (**O**), or External service provider (**E**).

Source Used Name of external supplier External Software

________ Payroll ______________ ____________________

________ Personnel Admin _____________

____

________ Benefits Admin __________________________________

________ HR management ______________

____

Comment

22. How satisfied are you with your current solutions for:
    ________ Payroll
    ________ Personnel Administration
    ________ Benefits Administration (including Pensions)
    ________ HR Management

23. How could your use of information technology to support human resource services be improved?
    Comment

24. Do you intend to replace your IT solutions in support of human resources in any of the following areas by the Year 2000?
    ______ Payroll
    ______ Personnel Administration
    ______ Benefits Administration
    ______ HR Management

Comment

If not replacing any systems, go to Q.29

25. How important is each of the following factors in driving the change of solution? Please rate on a scale of 1 to 5 (1 being low and 5 high) the importance of each of the following criteria?

Importance
____ Need for improved functionality
____ Need for integration between payroll and HR
____ Need for company-wide EAS Solution
____ Need for improved technology
____ Need for a global or continental solution
____ Y2K compliance
____ Euro compliance
____ Other (please specify ______________)

26. How important is each of the following criteria in selecting a solution vendor? Please rate on a scale of 1 to 5 (1 being low and 5 high) the importance of each of the following criteria?

Importance
____ Functionality
____ Integration of payroll and HR
____ Integration with an enterprise-wide system
____ Technology
____ Vendor expertise in human resources
____ Vendor consulting capabilities
____ Vendor outsourcing capabilities
____ Cost of the solution
____ Global capability
____ Credibility of vendor

27. Which vendors would you consider if you were to adopt a new payroll/HR management solution?

Comments

28. To what extent do you favor each of the following vendors? Please rate on a scale of 1 to 5 (1 being low and 5 high) the suitability of each of the following vendors?

Suitability

____ ADP
____ Baan
____ Ceridian
____ Oracle
____ PeopleSoft
____ SAP
____ IBM-CGI
____ Loga
____ Meta 4

F. HR Services Purchasing and Vendor Selection

29. Please indicate whether or not you would consider using each of the following vendors for human resource services.

	Consider (Y/N)
ABR Info Services	____
ADP	____
Andersen Consulting	____
Ceridian	____
C&L	____
CSC	____
EDS	____
IBM	____
Peoplesoft	____
Paychex	____

Other (please specify)____________________

30. Would you prefer to select a single vendor to carry out a range of human resource services or would you prefer to select a separate vendor for each service type?

___ **S**ingle vendor ____ **M**ultiple vendors

30b. Which combination of the following services would you expect to purchase in bundled form?

________ Payroll
________ Personnel Administration
________ Benefits Administration
________ HR Management

31. Will each of the following services be sourced **r**egionally, **d**omestically or at a **c**ontinental or **g**lobal level in future?
Source
________ Payroll
________ Personnel Administration
________ Benefits Administration
________ HR Management

32. Please rate on a scale of 1 to 5 (1 being low and 5 high) the importance of each of the following criteria in selecting a HR services vendor?

Importance
____ Ability to offer a range of HR services
____ Ability to supply on-site support personnel
____ 24 hour help-desk
____ Price per transaction
____ Ability to reengineer HR services
____ Flexibility to meet unique requirements
____ Company location
____ Company size/credibility
____ Vendor expertise in HR
____ Global capability
Comment (other)_

33. Please rate on a scale of 1 to 5 (1 being low and 5 high) how **appropriate** it is for your organization:
____ To separate transaction processing services from consultancy and advice services
____ To centralize transaction processing services across service types
____ To centralize transaction processing services across the entire company
____ To source transaction processing services externally
____ To source HR consultancy and advice services externally

34. As I mentioned, we will be sending you an executive summary of this data as part of a Buyer's Guide. Who would you say is the most appropriate decision maker in your organization to receive this free guide? Would you have the email address for this person?

Name/Title:

Phone #:

Email Address:

35. Would you be interested in taking part in some of our upcoming research or could you refer us to your CIO?
___ You may call me again

CIO: ______________________________ Phone: ________________________

Thank you for your time and consideration.