

PERSONNEL OUTSOURCING PROCESSES

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1. Introduction

The success of every company depends on fast and precise market orientation and the ability to react to future changes a little bit sooner than the competitors. The first step is to focus company's attention on its human factors [3] and its core business processes and refrain from monitoring operating details and additional operating activities. Outsourcing, respectively „selecting“ additional activities for an external provider on economically more advantageous terms than it is at one's own overhead costs, contributes to this.

The aim of the article is to present the possibility of using outsourcing in the field of human resources in a chosen company. We will try to define marginal costs of complex outsourcing and selective outsourcing for the field of personnel administration and payroll agenda.

the company's key abilities and its competitive advantages. It is just outsourcing that enables companies to transform their current way of doing business quickly and to achieve changes (reactions to changes) also in the cases when the standard method would require several years of consistent work. [4]

When applying outsourcing a company uses external resources to reach its own objectives. It does not need to invest to education and stabilization of specialized experts and at the same time these experts are available at a disposal. If there are increasing demands on technology equipment and human resources in a company it is not needed to look for additional resources immediately because these resources are provided by a supplier.

There are some economic as well as other specialist reasons for using outsourcing and cost

Tab. 1: Main reasons for using outsourcing

Improving the company's focus on its core activity	55%
Reducing and control of operating costs	54%
Freeing internal resources from activities not related to the core activity	38%
Acquiring access to top technologies and knowledge	36%
Shortage of internal resources	25%
Faster reengineering contributions – simplifying of managerial work, flattening organizational structure, growing specialization	20%
Faster market entering	18%
Dividing risks	12%
Disengaging from the responsibility for activities of difficult control	10%

Source: The Outsourcing Institute 2005. [online] <<http://www.outsourcing.com>> [7]

2. Reasons for Using Outsourcing

Outsourcing is one of the tools that can free a company's potential from areas that do not belong to its core activities. On the other hand choosing the right method of using outsourcing and choosing the right partner can strengthen

saving itself is not the only reason for that. The question is how to get substantially bigger value at the same or little bit higher costs. The other reason for using outsourcing is the fact that one company can only hardly keep top experts in activities that do not belong to its core competences whereas a specialized company providing one

Tab. 2: The structure of costs in a given company, for year 200X

Cost type	Costs (SKK)*	Share on overhead costs	Share on total costs
direct costs	428 583 690	-	54 %
overhead costs	365 291 899	100 %	46 %
from that:			
- production costs	149 195 818	40,8%	18,8%
- administrative costs	216 096 081	59,2%	27,2%
From that:			
-		x_1 %	y_1 %
- costs of a human resources department	4 727 782	1,3%	0,6%
- costs of informatics department	6 844 601	1,9%	0,9%
-		x_n %	y_n %

* Exchange rate 1 EUR = 32.395 SKK (National bank of Slovakia, 9. 4. 2008)

Source: own calculation

activity or service to several firms can have professional staff and know-how at a desired level.

Table 1 shows the answer to the question of three basic reasons for using outsourcing. The question has been answered by 1 110 companies from all industries using outsourcing services. The main reasons are mainly improving the company's focus on its core activity and reducing operating costs.

In theory as well as practice the terms of complex and selective outsourcing are used more and more often. We talk about complex outsourcing (full service) in a case when one complex area is outsourced (e.g. IT, maintenance, transport, human resources) and an external provider is given a complex responsibility for such an area.

Selective outsourcing tries to select only a part of a certain area (e.g. payroll agenda administration, partial transport providing, IT maintenance care ...), thus only some activities needed in a given area of a selected process.

Using outsourcing is very often connected only with the Information Technologies (IT) and Information Services area (IS). But it is possible to use it almost in every corporate area (e.g. *property protection, transport and distribution, human resources, legal consultancy, catering etc.*) [9, s.109]. For some company a certain activity can be the main one (the so called core business) whereas for some other company the same activity can only be considered as helping or supporting.

3. Cost Analysis of Activities Provided by a Human Resources (HR) Department

Economic dimension of outsourcing, i.e. cost saving, is one of the first criteria in a proposal for outsourcing certain activities of a company and also in its consecutive success evaluation. One of the main advantages of a practical outsourcing use is the decrease of overhead costs, by which it is very important to know their share on total costs and the structure of these costs. The table 2 shows the share of direct and overhead costs on total costs of a chosen company in a selected accounting period.

Overhead costs represent 46% share on total company's costs, by which the share of the costs of a human resources area, the area important to us, represents 1,3% share on overhead costs. Thus in the year 200X the structure of costs in a given company was as follows (Tab. 2).

Personnel activities, which will be in the centre of our attention, are carried out by the HR department of the given company. The costs of this department constituted 2,19% share on total administrative costs of this company in a given accounting period, that was 4 727 782 SKK.

The structure of costs is also very important. Table 3 shows the costs which arise directly in the HR department (material consumption, personal costs, depreciations, telecommunication

Tab. 3: Overhead costs of a human resources department in the year 200X

Overhead costs	Costs / SKK*	Costs content
material consumption	204 302 SKK	helping material, safety aids, small property, and fuel
personal costs	3 287 944 SKK	wages, payroll transfers to social and health insurance companies, social fund, complementary pension insurance
depreciations	124 324 SKK	depreciations of long-term tangible property and long-term intangible property in a given centre
internal costs	145 678 SKK	telecommunication, heat, electricity, water rate
other costs	965 534 SKK	repairs, machines and cars maintenance, travelling expenses, entertainment expenses, telephone bills, mail charges, leasing, rent, training, other payments

* Exchange rate 1 EUR = 32.395 SKK (National bank of Slovakia, 9. 4. 2008)

Source: own calculation

fees) but also the costs which are allocated to the HR department by the means of cost allocation key. The key for cost allocation in the case of heating costs is the area of rooms in m², in the case of electric energy and water rate it is allocated according to the number of employees.

Total overheads of the HR department are further accounted by the means of cost centre accounting on main centres, and then they are included by the means of absorbing costing of the main cost centres into the prices of the company's final performances.

In the case when the given company decides for a **complex outsourcing form in the field of human resources**, the company must determine **total costs** of a selected activity or **costs for one employee**. Overhead costs of the HR department are calculated for one employee because external firms offering personnel activities outsourcing set their prices just in this way. Based on this fact a simple method of cost calculating for one employee has been introduced as follows:

$$CHR_{empl.} = \frac{CHR}{E} \quad (1)$$

where:

- CHR_{empl.} - costs of a human resources department for one employee
- NPO - total costs of a human resources department for a selected accounting period
- E - the number of company's employees

Table 4 shows the application of the previous method where the database consists of data taken from the previous Table 3 and the number of employees.

4. Cost Calculation for Providing the Activities of a Human Resources Department by the Means of Complex Outsourcing

To find out the preliminary price of an external organization providing complex outsourcing services in the field of human resources is a relatively exhausting and time taking activity. The companies offering these services protect their price policies very carefully and price offers are submitted only in the case of serious interest in co-operation.

Tab. 4: Cost calculation for one employee

total overheads of the human resources department	4 727 782 SKK/year
the number of employees in a company (average of year 200X)	522 employees
costs for one employee	754,80 SKK/month

* Exchange rate 1 EUR = 32.395 SKK (National bank of Slovakia, 9. 4. 2008)

Source: own calculation

Although we have succeeded to contact a multinational company with long-term experience in providing outsourcing services, we have not found out a concrete price offer. For this reason we have focused on calculating **marginal costs** of economic advantageousness of the **alternatives of providing personnel activities in the form of complex outsourcing**. These costs consist of two parts:

- **costs for a service** represent a concrete payment for outsourcing to a provider of this service;
- **co-operation costs** - they are additional costs associated with the provision of a given service (administration, wages and other costs of own overheads). These costs have been allocated in co-operation with the already mentioned outsourcing company. We have estimated the co-operation costs in the sum of 250 000 SKK /a year.

Marginal costs (MC) are calculated by two methods:

a) Total marginal costs for an accounting period (MC_{AP})

MC_{AP} = yearly costs of a human resources department/yearly co-operation costs

$MC_{AP} = 4\,727\,782 - 250\,000 = 4\,477\,782 \text{ SKK/ year}$

b) Marginal costs for one employee (MC_E)

MC_E = monthly costs for one employee - monthly co-operation costs for one employee,

$MC_E = 754,8 - (250\,000/522)/12 = 714,90 \text{ SKK/ month}$

The calculated marginal costs are then needed to be compared with the price offer of an external subject providing the activities of a HR department alternatively in the form of complex outsourcing. The decision about using critical margin a) or critical margin b) depends on the way of calculating the preliminary price offer in the case of co-operation.

5. Cost Calculation for Providing a Selected Process of a Human Resources (HR) Department by the Means of Selective Outsourcing

Selective outsourcing means selecting some process (processes) out of a complex area and

their provision by an external subject. Also in this case the economic dimension of decision making plays an important role in which it is needed to calculate the overheads of a selected process as first. Subsequently, it is possible to re-calculate these costs for one employee and then to compare them with the price offer of an alternative provision of the process.

To calculate the overheads of individual processes is a very difficult task which can influence the whole decision making process to a great extend. In this case it is possible to use a method of the so called ABC calculation - Activity Based Costing, which is based on classical absorbing costing. **The ABC method is based on a main idea that the activities within the whole process, and not individual operations, are the real causes of arisen costs** [6, s. 59], related e.g. to an order which requires knowledge of activities operations and processes within a company. The ABC methodology is a flexible and progressive tool for measuring and evaluation of activities, products, services on this basis for measuring and evaluation of firm efficiency [2, s. 99].

In our case the whole process of calculation and marginal costing consisted of several steps. Following the ABC costing method presented in [10, s. 121], it was needed to adapt this method to the conditions of a particular company in order to perceive the principle of absorbing costing method.

- **detailed identification of processes and activities in a human resources field (executed by a HR department),**
- **cost calculation in a human resources field (see the issues of complex outsourcing),**
- **setting the cost-allocation base (of time fund) of individual processes,**
- **absorbing costing (rates) of identified processes overheads (as a share of overheads and cost-allocation base),**
- **overhead costs calculation of individual processes (by absorbing costing to the amount of cost-allocation base of processes).**

5.1 Identification of Personnel Processes and Activities

In this step, based on the scientific methods of analysis and synthesis, there were identified

Tab. 5: Processes and activities performed by a human resources department

Process	Main Activity	Additional Activities
Filling the positions in a company	Identification of re-requirements on labour force	<ul style="list-style-type: none"> - identification of a need to recruit new workers – anticipation of reducing or creating new jobs, - job analysis, - job description, - job requirements specification.
	selection of workers	<ul style="list-style-type: none"> - recruitment campaign (advertising) - pre-selection (sorting out CVs), - addressing applicants, - enquiries preparation, - enquiries examination, - testing applicants, - interviewing applicants, - references examination, - medical examination, - making decision about the selection, - informing applicants about the decision.
	awareness training	<ul style="list-style-type: none"> - information about labour law (HR department), - information about work safety, hygiene and fire prevention, - information about collective agreement, - information about organizational structure, - information about quality providing.
Securing well qualified labour force	adaptation process	<ul style="list-style-type: none"> - elaboration of an adaptation process program, - adaptation process evaluation, - personal interview with an employee.
	employees' assessment/ performance reviews	<ul style="list-style-type: none"> - elaboration of assessment process schedule, - assessment realisation, - decision-making resulting from employees' assessment.
	education	<ul style="list-style-type: none"> - selection of educational organization, - training, - education activity evaluation.

Source: own

all activities performed by a HR department of the given company. Activities referred to similar areas were grouped together into a main activity and similarly also main activities were grouped together. Subsequently, a process was created out of these main activities. By this way we have come to four processes which are provided by a HR department (Table 5 and Table 6).

5.2 Cost-Allocation Base (of Time Fund) of Individual Processes

In this step the modified application of ABC costing has demonstrated itself. To set the time

fund of individual processes we used available scientific methods of observing and interviewing people. By the assistance of this department's director as well as employees themselves we have obtained data presented in a Table 7.

By the help of a planned fund of one employee's working time, the employees' involvement in providing the individual processes given in % was recalculated to the time that is spent on the execution of individual processes by the employees in a time period of one year (Table 8). The calculation of the planned fund of one employee's working time in a HR department can be set from the following data:

- the number of employees in a HR department: 6 employees
 - working time period: 7,5 hours/day
 - nominal fund of working time: 248 days
- Real working fund for one employee =
= 1 860 hours/year.
Planned working fund of all employees =
= 11 160 hours/year.

Tab. 6: Processes and activities performed by a human resources department

Personnel processes administration and payroll agenda	administration agenda and record keeping	<ul style="list-style-type: none"> - providing administration agenda – in the case of recruitment, position change or discharge, - personal documentation and record keeping, drawing contracts, employment contracts changes, letters of resignation, employment termination notices, - complete National Labour Office and health and social insurance correspondence and administration, - monthly issue of attendance cards of a HR department employees, - employment and income certificates.
	payroll agenda administration	<ul style="list-style-type: none"> - calculation of average earnings – quarterly, - record keeping and payroll agenda, - activities connected with payroll administration, - sickness benefits accounting, - calculation of complementary pension insurance according to age, monthly, - monitoring of payroll deductions, - processing of statements for insurance companies and National Labour Office, statements of deductions, printing of payroll sheets, - making annual financial statement, - making annual accounting of income tax of a physical person.
Safety and health protection at work	care about employees' safety at work	<ul style="list-style-type: none"> - control of machine equipment safety, - provision of protective clothing.
	care about employees' health	<ul style="list-style-type: none"> - preventive medical examinations, - convalescent stays, - therapy and treatment.

Source: own

Tab. 7: Employees' involvement in providing the individual processes in %

Processes	Employees					
	1.	2.	3.	4.	5.	6.
Filling the positions in a company	-	-	-	-	70%	30%
Securing well qualified labour force	-	-	-	-	20%	60%
Personnel administration + payroll agenda	-	100%	100%	100%	10%	10%
Safety and health protection at work	100%	-	-	-	-	0%

Source: own calculation

Tab. 8: Time fund of individual processes (data in hours/year)

Processes	Employees						Total time fund of a process
	1.	2.	3.	4.	5.	6.	
Filling the positions in a company	-	-	-	-	1 302	558	1 860 hours
Securing qualified labour force	-	-	-	-	372	1 116	1 488 hours
Personnel administration and payroll agenda	-	1 860	1 860	1 860	186	186	5 952 hours
Safety and health protection at work	1 860	-	-	-	-	-	1 860 hours
Total time fund							11 160 hours

Source: own calculation

5.3 Setting the Calculation Rate of Overhead Costs

As it is claimed by Kupkovič [5], the authors of the ABC costing method - Cooper and Kaplan - used the knowledge from absorbing costing, by which in our case the function of a rate is created by the so called costs carrier (time fund of processes). To set the calculation rate of overheads it is possible to use the relation 2 and the structure of overhead costs of a HR department is given in the Table 3.

Rate = volume of overhead costs/cost-allocation base (2)

rate of overhead costs of a HR department=
= 4 727 782/ 11 160 = 423,63 SKK/hour

Overheads costing for individual processes

By using the overheads rate and data about the time spend on providing individual processes we have calculated yearly costs for the processes of a HR department.

Using the cost analysis of individual processes of a HR department we have come to the conclusion that the most costly process provided by a HR department is the process „personnel administration and payroll agenda“ (PAaPA). The yearly costs of this process calculated by us are in the sum of 2 521 484 SKK and therefore we have decided to consider this process by the alternative of its providing in the form of selective outsourcing.

In Slovakia there are several companies which offer payroll agenda outsourcing and related per-

Tab. 9: Overhead costs of individual processes (data in SKK)

Processes	Employees						Overhead costs of a process
	1.	2.	3.	4.	5.	6.	
Filling the positions in a company	0	0	0	0	551 575	236 389	787 964
Securing well qualified labour force	0	0	0	0	157 593	472 778	630 371
Personnel administration and payroll agenda	0	787 964	78 7964	787 964	78 796	78 796	2 521 484
Safety and health protection at work	787 964	0	0	0	0	0	787 964
Overhead costs of processes of a human resources department							4 727 782 SKK

Source: own calculation

sonnel administration outsourcing as well. We will present an offer of a closely non-specified company that operates in this business field and which offers its services to approximately 100 entrepreneurial subjects. The company offers these services to the teams of experienced payroll accountants with long-time experience in the field, accountants who improve their qualification all the time and who always follow the current situation of particular legislation, by which the company offers the following basic activities:

- calculation of wages,
- calculation of wages compensations, sickness benefits and travelling allowance,
- payroll transfer to social insurance fund, to health insurance companies and to pension funds management companies,
- making out income certificates to employees, credited service sheets, ...
- represents a client at all negotiations and controls by the respective state administration bodies, and prepares all documents for these controls at the same time.

The price for administration is set according to individual needs of payroll and administration agenda of a client. The rate for a service of agenda administration for one employee varies from 190 SKK to 275 SKK per one month. Since the intension and scale of payroll and personnel agenda is considerable, we will count with upper price limit, i.e. 275 SKK for an employee. As in the case of complex outsourcing, the co-operation costs were calculated by a qualified estimation in the amount of 200 000 SKK per a year.

6. Conclusion

The Comparison of economic advantageousness of an alternative for providing the process „personnel administration and payroll agenda“.

The comparison of yearly costs of an alternative for providing the PAaPA process with the own overheads is presented in the Table 10. By outsourcing the PAaPA process to an external subject a company can save almost 600 000 SKK a year by which there is always a room for negotiating the price with an external organization that can positively influence the given savings by the number of 522 employees.

On the ground of defining a preliminary price offer by an external company expressed as a monthly payment for agenda administration for one employee we also calculated the needed data for this value. At the same time it is possible to consider this value to be the level of marginal costs of economic advantageousness of **alternatives of a selected process by a human resources department in the form of selective outsourcing.**

In our case it is a value of **307 SKK/per month for one employee.** Based on this criterion it is possible to come to an opinion that it is economically more advantageous to provide a selected process by the means of outsourcing than to do it at one's own costs. The monthly costs arisen by preferring the form of selective outsourcing are lower by 95,50 SKK for one employee which means savings of a considerable sum of financial resources per a year that can be used for other purposes. In this case it is also possible to think

Tab 10: The comparison of annual costs for providing the PAaPA process

Own overheads	Costs (SKK/year)*	Outsourcing	Costs (SKK/year)
Annual costs for providing the PAaPA process	2 521 484 SKK	Annual payment for providing the PAaPA** process	1 722 600 SKK
		Co-operation costs per a year	200 000 SKK
Total costs	2 521 484 SKK 402,5 SKK/month	Total costs	1 922 600 SKK 307 SKK/month

* Exchange rate 1 EUR = 32.395 SKK (National bank of Slovakia, 9. 4. 2008)

** yearly payment for providing the process = yearly payment for one employee, i.e. 275 SKK x 522 employees x 12 months

Source: own calculation

about the possibility of saving wage costs put on present provision of this process. This application of the organisational changes on human potential in a company is a base of efficiency of the company [1].

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ABSTRACT**PERSONNEL PROCESSES OUTSOURCING****Marek Potkány**

Outsourcing is a way to manage business processes more effectively. The main aim of this work is to specify the marginal costs of alternative personnel processes by a form of selective and complex outsourcing in a company. The paper also deals with the presentation of methodology for cost calculation of particular activities (ABC model) by which marginal costs for a particular activity can be assessed. This can take responsibility for a total part of activities in a company taken by an external organization.

In this paper we have tried to consider the possibility to use complex and selective outsourcing in a chosen company. Our attention has been paid to a human resources field and we have been considering the possibility of using complex outsourcing for the provision of the whole area. Since due to objective reasons we were not able to calculate the costs related to the outsourcing of a personnel field, we have limited ourselves to marginal costs calculation that describes the possibility of its economic advantageousness or disadvantageousness. We have been also considering the possibility of selective outsourcing for the process of „personnel administration and payroll agenda“, by which the achieved results should serve as a basis for using the method of outsourcing in a given company. But it is necessary to make a detailed, time costing and financially demanding analysis of individual activities and processes in a given area. This reality was a base for applying of methodology for Activity based costing. It was needed to adapt this method to the conditions of a particular company in order to perceive the principle of absorbing costing method. This methodology of ABC costing consist from the following parts:

- detailed identification of processes and activities in a human resources,
- cost calculation in a human resources field,
- setting the cost-allocation base (of time fund) of individual processes,
- absorbing costing (rates) of identified processes overheads,
- overhead costs calculation of individual processes.

Key Words: outsourcing, costs, ABC costing, absorbing costing, personnel processes

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