



OUTSOURCING IN BENEFITS AND COMPENSATION SERVICES

A Survey of WorldatWork members by WorldatWork and Krannert Business School (Purdue University)

June 2003

Methodology

This report summarizes the results of a survey of WorldatWork members conducted jointly by WorldatWork and Purdue University in May 2003. The purpose of the survey was to obtain insight into the level of outsourcing of a variety of benefits and compensation services and to examine the effect of service characteristics on the decision to outsource. For a group of compensation services, the survey considered the effect of a variety of service characteristics on service satisfaction, the outsourcing decision, as well as the importance of online provision.

In May 2003, a representative random sample of 5,000 WorldatWork members was sent an e-mail containing a link to the online survey whose results are reported here. WorldatWork is a global association of professionals in the area of compensation, benefits and total rewards, and is based in Scottsdale, Arizona.

A total of 456 responses were received, a 9.1% response rate. Both the survey sample and the respondents are similar to the WorldatWork membership as a whole, and therefore, the results of the survey can be considered statistically representative of the membership. The typical WorldatWork member works at the managerial level or higher and works in the headquarters of a large North American company.

Summary of Findings

- Outsourcing is a very common practice among benefits and compensation managers. Just under two thirds (64%) of respondents reported at least some outsourcing of benefits and compensation functions.
- Not only is outsourcing common among responding firms, but it appears that many firms are poised to increase their levels of outsourcing going forward. Of the firms that are currently outsourcing some of their benefits and compensation services, better than 40% reported that they were considering outsourcing more services in the coming year while less than one in five said that they were considering bringing in one or more services that are currently outsourced (sometimes referred to as insourcing). As well, more than 85% of respondents were either somewhat or very satisfied with the overall level of service from their outsourcing vendors.
- Of the services studied, all were offered by the majority of the respondents' firms. In fact, better than 99% of responding firms offered benefits communications, medical/dental/vision claims processing, and health and welfare enrolment. Even the least likely services to be offered—stock bonus/stock option plan design and administration—were still offered by more than 60% of the responding firms.
- Some services were found to be almost universally outsourced. The services most likely to be outsourced were medical/dental/vision claims processing, long-term disability claims processing and FSA claims processing (outsourced by 96.5%, 93.5% and 84.9% of respondents respectively). On the other end of the spectrum, the least likely services to be outsourced were the administration of incentive plans, pay scale/salary structure, and sales force incentives.
- Better than half of respondents reported that their organization's primary motivation for outsourcing was either to access vendor expertise/technology (33%) or to gain administrative efficiencies (28%). When selecting vendors, organizations put the highest priority on cost (30%), customer service (29%), and experience (22%).



- The second section of the survey looked at a smaller group of individual compensation services. Decision making was highly centralized for all of the compensation services, with three quarters of the decisions for the services being made at the corporate headquarters.
- Not surprisingly, many organizations reported a strong role for technology in the provision of compensation services, although the results did vary significantly from service to service. At the high end, better than four fifths of respondents reported that online provision was important, very important or extremely important for the completion of compensation surveys and the administration of stock bonus/stock option plans. Even at the lower end, a full half of the respondents reported that online provision was important, very important or extremely important for job analysis.
- The study also revealed some interesting effects of service characteristics on the handling of compensation services.
 - Interestingly, the higher the level of outsourcing, the lower reported role of online provision in service provision.
 - In general, the best candidates for outsourcing are those that: (1) require fewer specialized investments by vendors; and (2) are not highly standardized. This suggests that outsourcing vendors have advantages in processing these non-standard activities. If firms tried to do these activities themselves, their costs would probably be higher than the outsourcer's costs.
- While the respondents generally reported high levels of satisfaction with their compensation services, several factors were found to have significant effects on service satisfaction:
 - Although decision making for compensation services tends to be highly centralized, those firms with more decentralization of the decision process reported higher levels of satisfaction with their ability to respond to problems or inquiries.
 - Strangely, those respondents who reported that they achieved cost savings by using the same people and software to provide multiple services actually reported considerably lower levels of satisfaction with quality, cost and responsiveness for compensation services.
 - Higher levels of standardization and unexpected fluctuations in demand for a service also tended to negatively affect overall satisfaction with any given compensation service. This is not surprising if people prefer customized services and if demand fluctuations hurt the ability to access the service in a timely manner.

Detailed Findings

Figure 1- Is your organization currently either wholly or partially outsourcing some compensation and benefits functions?

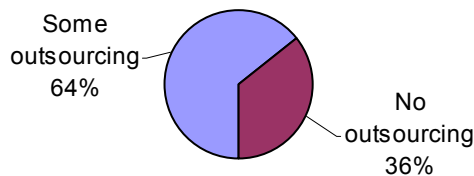




Figure 2- This figure shows the percentage of firms that outsource each service (for each service, calculations excluded firms that do not offer the service)

Service	Partially Outsourced	Totally Outsourced	Not At All Outsourced	TOTAL
Medical/dental/vision claims processing	15.7%	80.8%	3.5%	100.0%
Long-term disability claims processing	21.7%	71.8%	6.5%	100.0%
FSA claims processing	11.0%	73.9%	15.1%	100.0%
Defined benefit pension calculations	32.1%	48.4%	19.5%	100.0%
Short-term disability claims processing	24.6%	46.2%	29.2%	100.0%
Nonqualified plans	41.8%	26.1%	32.1%	100.0%
COBRA/HIPAA administration	23.8%	43.8%	32.3%	100.0%
Enrolment/eligibility-- defined contribution plans	25.5%	32.8%	41.7%	100.0%
Benefits statements	29.7%	26.4%	43.9%	100.0%
Benefits communications	47.6%	3.8%	48.6%	100.0%
Premium admin & reconciliation-- health & welfare	25.7%	18.7%	55.6%	100.0%
Enrolment/eligibility-- health and welfare	24.8%	18.8%	56.4%	100.0%
Stock bonus/stock option plan administration	27.3%	8.5%	64.2%	100.0%
Stock bonus/stock option plan design	21.6%	6.4%	71.9%	100.0%
Incentive plan design	22.1%	1.1%	76.8%	100.0%
Pay scale and salary structure design	18.3%	2.9%	78.8%	100.0%
Compensation survey completion	10.8%	6.5%	82.8%	100.0%
Job evaluation design	10.4%	3.9%	85.7%	100.0%
Sales force incentive design	12.6%	1.1%	86.3%	100.0%
Job analysis	8.3%	1.5%	90.2%	100.0%
Job evaluation administration	6.0%	0.7%	93.3%	100.0%
Incentive plan administration	4.2%	1.5%	94.3%	100.0%
Pay scale and salary structure administration	3.6%	1.8%	94.6%	100.0%
Sales force incentive administration	3.7%	0.5%	95.7%	100.0%

Figure 3- This table shows the number of sample firms that offer each benefit and compensation service.

Service	Percentage Offering service
Benefits communications	100.0%
Medical/dental/vision claims processing	100.0%
Enrolment/eligibility-- health and welfare	99.3%
Compensation survey completion	99.0%
Pay scale and salary structure design	98.6%
Long-term disability claims processing	98.3%
Pay scale and salary structure administration	98.3%
Premium admin & reconciliation-- health & welfare	96.9%
Job evaluation administration	94.4%
Short-term disability claims processing	94.2%
COBRA/HIPAA administration	93.8%
Job analysis	93.4%
Incentive plan design	93.4%
Incentive plan administration	93.0%
Enrolment/eligibility-- defined contribution plans	92.4%
Job evaluation design	91.9%
FSA claims processing	89.3%
Benefits statements	84.1%
Nonqualified plans	69.6%
Sales force incentive administration	69.2%
Sales force incentive design	68.8%
Defined benefit pension calculations	68.8%
Stock bonus/stock option plan administration	64.0%
Stock bonus/stock option plan design	63.1%

Figure 4- For all of the services that your HR department either partially or fully outsources, how many different vendors do you have? (If one vendor performs multiple services, count the vendor only once.)

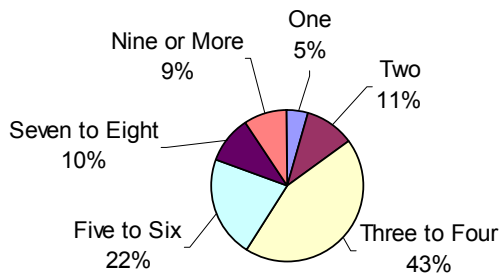


Figure 5- When selecting an outsource vendor or partner, which of the following is your organization's number one priority?

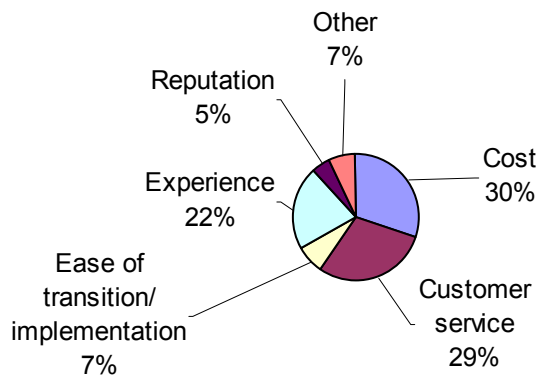


Figure 6- Within your organization, what has been the primary motivation to outsource-or continue outsourcing-one or more functions during the last 12 months? Outside of your organization, which of the following do you believe has been the primary motivation for other organizations to outsource HR functions during the last 12 months?

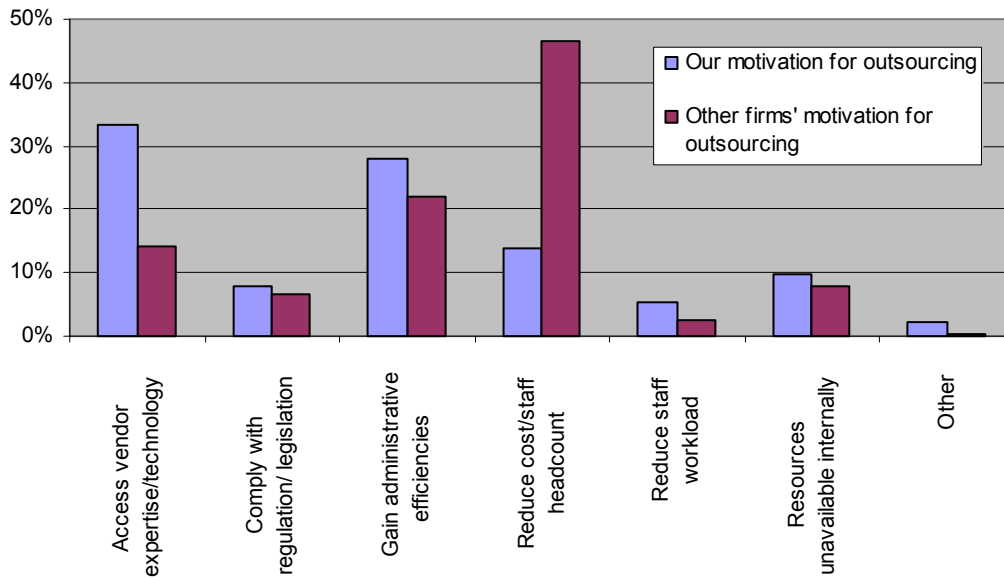


Figure 7- Please rate your organization's overall satisfaction with the outsource vendors that you have used during the past 12 months:

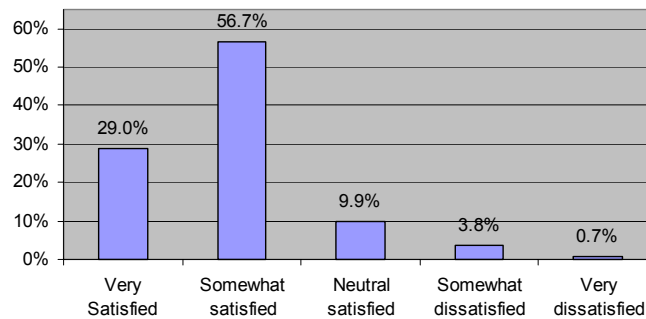


Figure 8- Is your organization currently considering new or additional outsourcing at this time?

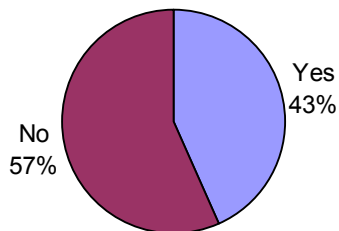
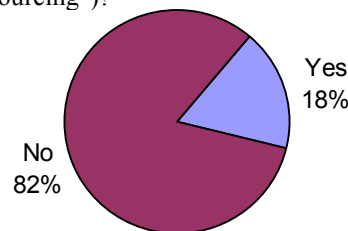


Figure 9- Is your organization currently considering bringing back in a certain function or functions that are currently outsourced (sometimes this is referred to as "insourcing")?





Survey of Individual Compensation Services

In this section, respondents reported the characteristics of a single compensation service. (Available services were: Job analysis; Administration of job evaluations; Compensation surveys; Administration of pay scales and salary structure; Administration of incentive plans; Administration of stock bonus/stock option plans; and Administration of sales force incentives)

Figure 10- Please indicate the importance of electronic or online provision in the delivery of each service as it is provided in your organization:

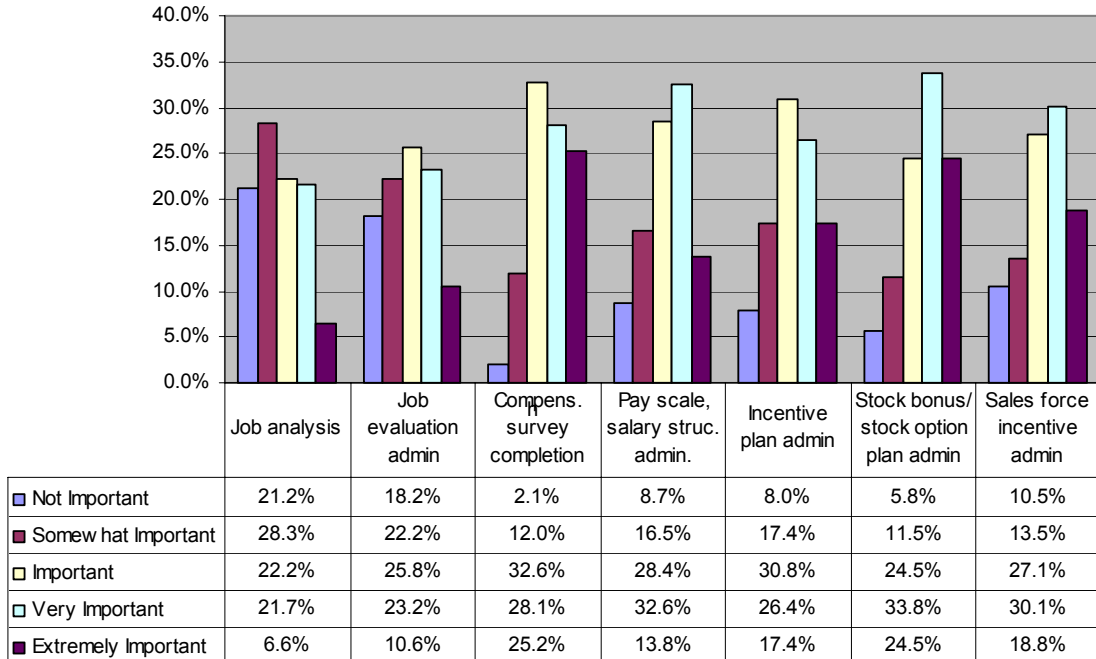


Figure 11- Which one of the following best represents how most decisions are made regarding the compensation service you selected above? (Services included: Job analysis; Job evaluation administration; Compensation survey completion; Pay scale & salary structure administration; Incentive plan administration; Stock bonus/stock option plan administration; Sales force incentive administration.)

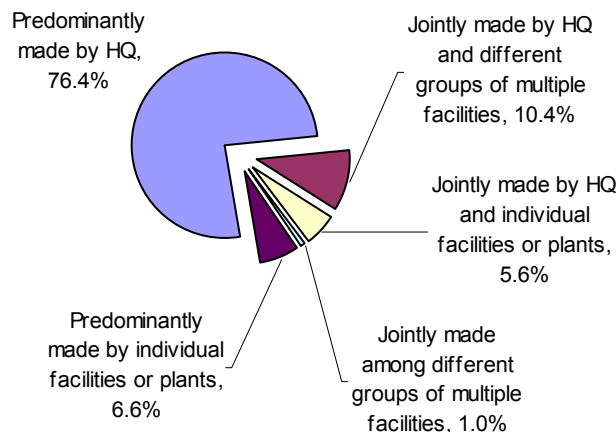




Figure 12- We achieve cost savings on this service by using the same people and/or software that we use on other services.

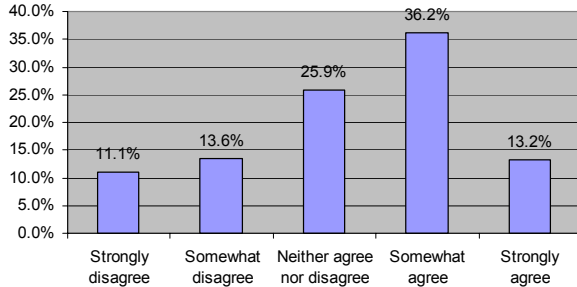


Figure 13- The quality of this service is improved when we administer it simultaneously with other services.

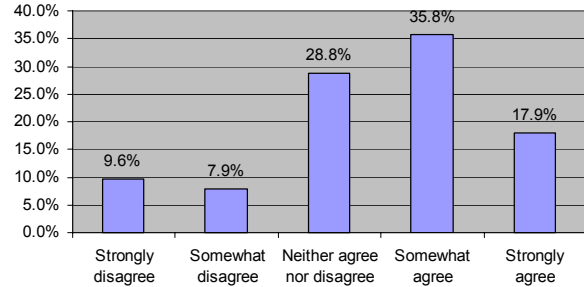


Figure 14- In order to outsource this service, a vendor had to (or would have to) make considerable investments in physical assets such as computer hardware and software designed specifically for our organization.

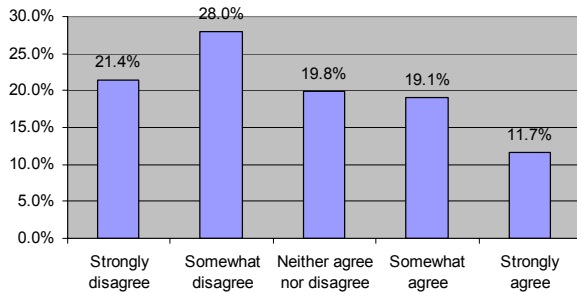


Figure 15- In order to outsource this service, a vendor had to (or would have to) make considerable investments in developing or learning business processes that are designed specifically for our organization.

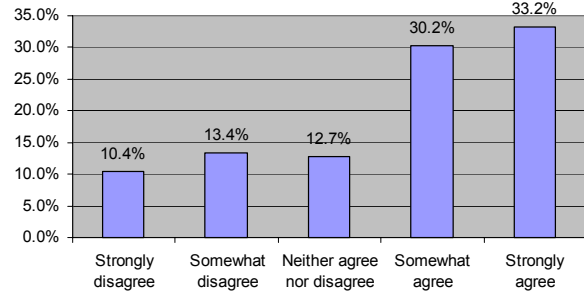


Figure 16- In order to outsource this service, a vendor had to (or would have to) make considerable investments in training employees specifically to provide this service to our organization.

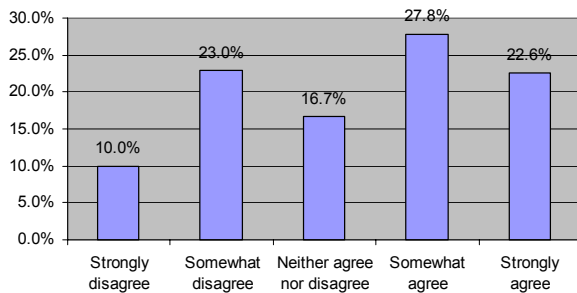


Figure 17- In order to provide this service to our organization in a cost efficient and quality manner, a vendor had to (or would have to) have offices and/or personnel located near our organization.

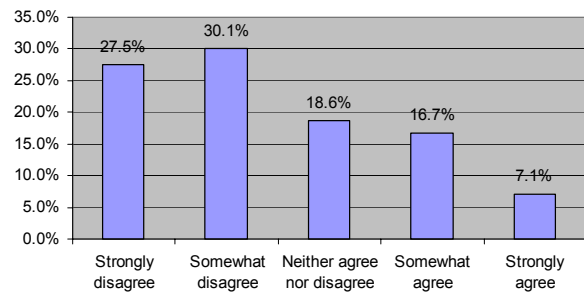




Figure 18- If an HR manager in our organization moved to our location from another location, they would have to undergo considerable training in order to provide this service.

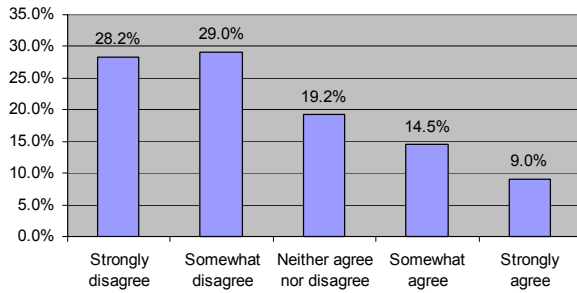


Figure 19- Timely delivery of this service is crucial to its perceived quality by my organization.

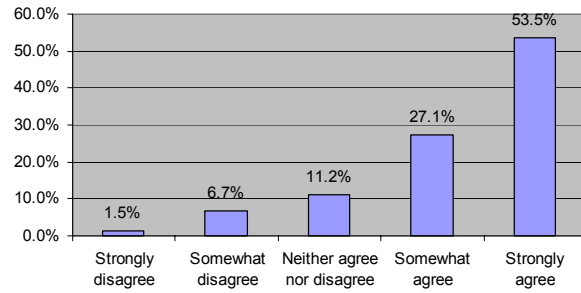


Figure 20- Compared to other compensation services, the provision of this service is highly standardized from user to user.

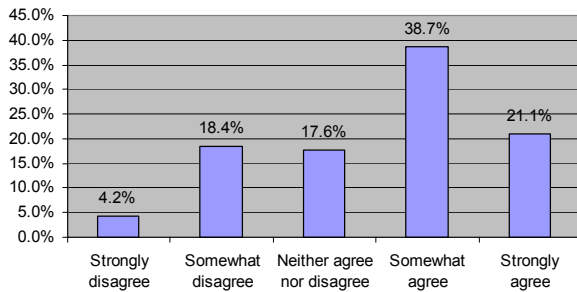


Figure 21- A move to either outsource or further outsource this service would put our organization at risk to lose proprietary knowledge or technologies.

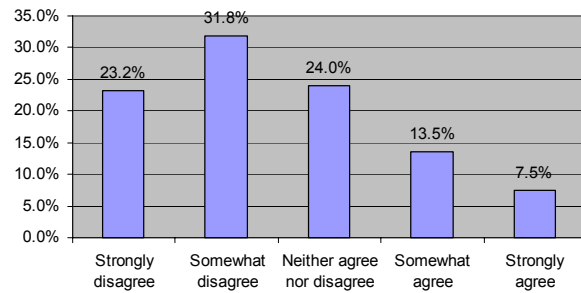


Figure 22- This service is closely related to the services or products that our organization provides or produces for others.

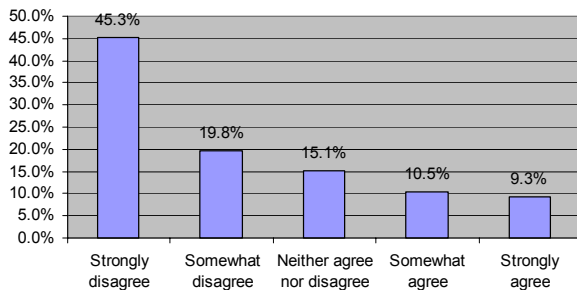


Figure 23- The desired characteristics of this service are frequently changed or modified.

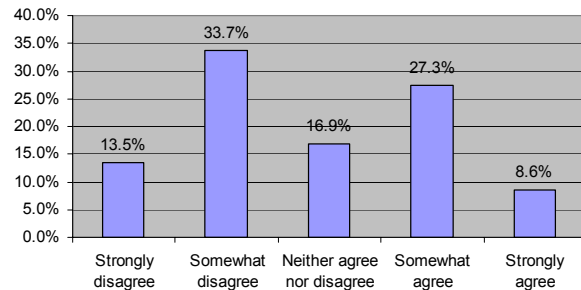




Figure 24- There tend to be significant and unexpected fluctuations in demand for this service.

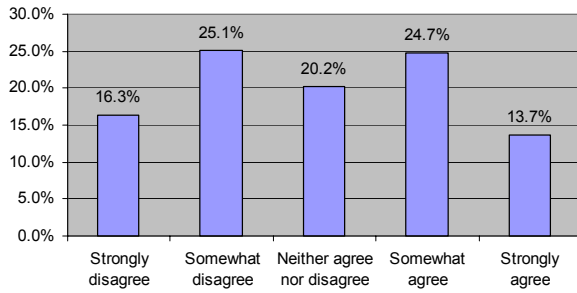


Figure 25- We are satisfied with the overall cost required to deliver this service.

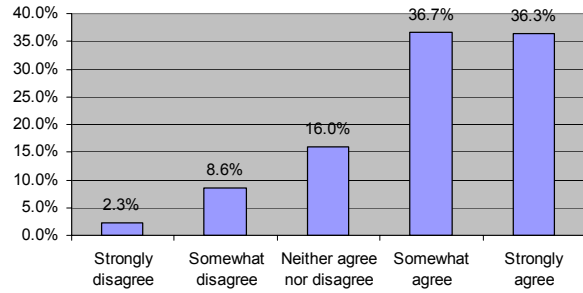


Figure 26- We are satisfied with the overall quality of this service.

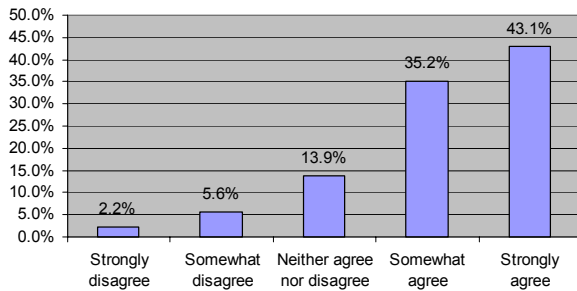


Figure 27- We are satisfied with our own ability (or our vendor's ability) to quickly respond to problems or inquiries regarding this service.

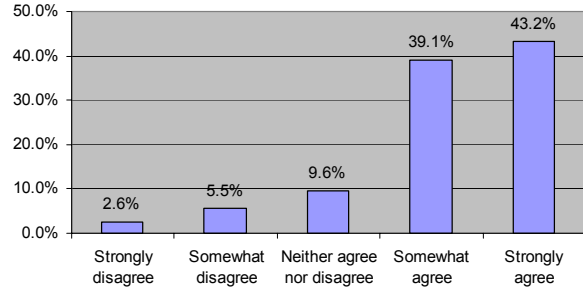
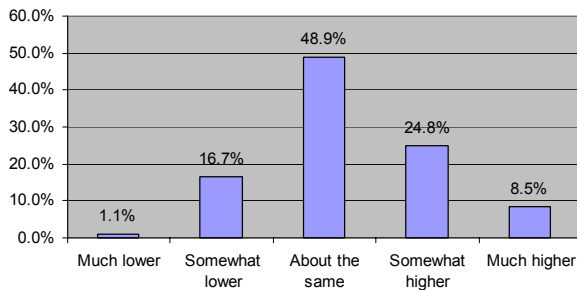


Figure 28- If we used this service on a larger scale, the increased volume would make the cost of providing this service:





Respondent Demographics

Although many of the respondents were from large companies, the sample organizations varied widely in terms of size and also the industries in which they compete. Although the annual budget for respondents' HR departments ran as high as \$150 million and employed better than 20,000 people, the average annual budget was \$8.25 million and employed 155 people. The typical organization allocated the equivalent of about one percent of annual revenues to the HR department. However, this amount varied widely from hundredths of a percent to more than ten percent of annual revenues.

Figure 29- Please indicate the number of people employed by your firm.

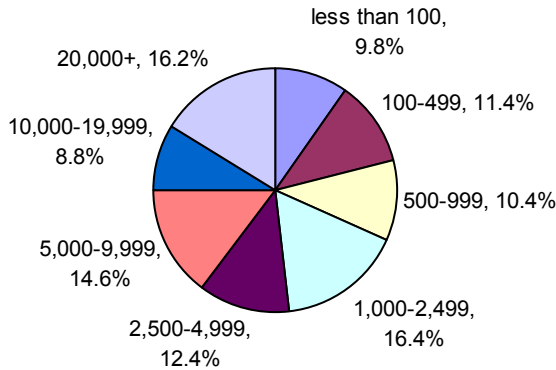


Figure 29- Please indicate the primary industry in which your organization competes.

Industry	Percentage of Respondents
Agriculture, Forestry, Fishing & Hunting	0.3%
Mining	0.7%
Utilities	8.6%
Construction	0.3%
Manufacturing	21.7%
Wholesale Trade	1.0%
Retail Trade	0.7%
Transportation & Warehousing	3.0%
Information	3.0%
Finance & Insurance	19.4%
Real Estate & Rental & Leasing	0.7%
Professional, Scientific & Technical Services	11.5%
Management of Companies & Enterprises	0.0%
Administrative & Support & Waste Management & Remediation Services	0.0%
Educational Services	2.3%
Healthcare & Social Assistance	11.2%
Arts, Entertainment & Recreation	1.0%
Accommodations & Food Services	1.0%
Other Services (except Public Administration)	4.6%
Public Administration	3.6%
Other	5.6%