



Justifying a New HRMS/Payroll System

By George Brady, PDS Software

Traditionally, return on investment has been defined as displacing one set of hard costs with another. The costs of the old system are added up, matched against the proposed costs of the new system, and the difference is the return on investment.

It may be very difficult to justify a new human resources management system (HRMS) based solely on these “visible costs.” Therefore, when considering the return on investment (ROI) for a new HRMS, it is important to capture both the hard and soft costs in the current processing environment.

ROI Components

There are four primary components to the HRMS return on investment process:

1. **“Hard” versus “Soft” dollars:** “Hard” dollars are the direct savings or displaceable costs that a new system will provide. “Soft” dollars are the indirect savings, often associated with productivity improvements, e.g., data collection, editing and preparation competence levels, and employment engagement.
2. **Tactical and strategic gains of the new system:** A new system will provide many benefits to the organization. Some of the benefits will be tactical, such as reducing the amount of payroll adjustments each pay period. Others will be more strategic, such as develop-

ing a succession plan for each position. Quantifying these benefits is an important part of the return on investment process.

3. **Areas of risk reduction:** A new system will offer areas where exposure and risk to the organization can be reduced. Risk reduction opportunities should be quantified.
4. **Head count avoidance:** Many systems provide features that will allow the organization to maintain or, in some cases, reduce current staffing levels. Maintaining the status quo often results in having to increase technical and end-user head count to support the current system that is providing less value to the organization. Identifying and documenting those areas where head count additions can be avoided is key.

“Hard Dollars” versus “Soft Dollars”

A primary goal in investing in any system technology is improving productivity. This is clearly the case with HRMS technology. The last several years have seen the emergence of “enabling technologies” that dramatically improve HR productivity. These technologies are now an integral part of any effective HRMS solution. Examples include workflow, employee and manager self-service, reporting, Web access and electronic forms.

Many of these technologies did not exist years ago. Thus, in many cases, there is no direct cost replacement for these tools, e.g., one workflow technology is not being replaced by another. These technologies will, however, have a dramatic impact on employee productivity and the ability to distribute data throughout the enterprise. Although they do not provide hard dollar savings, the soft dollar impact of these technologies needs to be quantified and documented.

“Hard” dollars: Hard dollars are the direct costs that will be replaced by the new system. Examples include:

Software add-ons: The fees associated with purchasing standalone software products to provide functionality not available in the current system.

Third-party administrator fees: Fees paid to outside administrators for services that the new system will provide. Examples of these services are COBRA administration and open enrollment.

Technical support costs: The fees or charge backs paid to internal and external technical resources to support the existing system, e.g., fees for fixes, report writing, tax table support, etc.

“Soft” dollars: Soft dollars are the indirect costs that are associated with data collection, editing and preparation, system access and entry and reporting. “Soft” dollar savings are less tangible than “hard” dollars. Examples include:

Eliminating redundant data input: Today’s systems use the same data record throughout the system, which

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greatly increases data input efficiencies while reducing data errors.

Improved data integrity: An integrated database will ensure clean data, eliminate the need for HR to develop processes to ensure the data is accurate, and facilitate accurate reporting.

Process standardization: Standardization, in most cases, eliminates, or at minimum, dramatically reduces the need to have labor-intensive processes that could otherwise be automated.

Improved access: Allows the users to access the system when and where they need it.

Improved controls: Controls over the editing and validation of data, which results in a reduction in errors and adjustments.

Identifying Tactical and Strategic Benefits

The new system should provide both tactical and strategic benefits to the organization. Some of the areas where a new system can add value include:

- Improve service to employees,
- Automate benefit enrollments,
- Reduce forms processing,
- Accurate paid time-off tracking,
- Reduce payroll cycle time,
- Reduce benefit inquiries,
- Reduce exposure to wrongful termination,
- Generate benefit statements,
- Improve recruiting capabilities, and
- Reduce job vacancy costs.

Risk Reduction

Risk is not something that is often considered in traditional return on investment exercises. There is no direct saving associated with risk reduction. However, it should be factored into the overall ROI plan. There are three risk areas to be explored:

- **Technology** – The foundation for any successful HRMS is a stable technology platform that can be easily supported by the internal IS staff.
- **Employee litigation** – An effective HRMS can play a vital role in reducing the exposure to litigation by current and former employees. By having a unified system of record regarding an individual's employment history, and by documenting disciplinary actions, organizations can minimize the possibility of litigation regarding unlawful treatment.
- **Government compliance** – Ensuring that the policies, practices and processes of the organization are in compliance with federal, state and local government regulations is a critical task for every Human Resources department.

Head Count Avoidance

For many organizations, the current HR system is governed by the law of diminishing returns – more and more effort is expended on a system that is providing less and less value to the organization. These organizations should factor head count avoidance into their return on investment.

As systems age, they tend to need an increasing amount of IS support. Some reasons for this include manual application of fixes and updates, applying upgrades, supporting old modifications, creating new modifications, general systems administration, database upgrades, report writing and troubleshooting.

In addition to the increased technical support, older systems tend to create more administrative burden for the users. Non-optimal, and usually non-integrated processes, are created to replace system inefficiencies. Manual databases and HR subsystems begin to proliferate due to functionality issues. This hidden cost, while hard to quantify, is difficult to manage and correct, which leads to employee dissatisfaction, wasteful spending, incorrect data, and poor managerial decision-making.

The investment in a modern HRMS platform is a very important decision for any organization and will deliver benefits in terms of cost, business process improvement, managerial effectiveness, and employee satisfaction for many years to come.

About the Author

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