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HR Costs

Human Capital Isn't Free, and Most HR Pros Are Worried About the Costs, Study Reveals

Businesses tend to “grossly underestimate” the costs of human capital management, and over half (54 percent) of HR directors worry daily about whether their organization can afford its workforce, according to a new study from the ADP Research Institute.

While keeping costs low is always important for business leaders, many might not know the total cost, or “big number,” of managing a company’s employees, Joe Algerio, divisional vice president of ADP, told Bloomberg BNA March 20.

The “Total Cost of Ownership Study,” released March 10, found that 22 percent of survey respondents do not analyze their workforce costs at all. The study featured more than 1,000 U.S. employees at mid-size companies, having responsibility for one or more of the following areas: payroll, time and attendance, HR management, employee benefits administration and talent management.

Algerio said that those HR departments that don’t pay attention to costs may simply be too busy with other areas. In most cases, he said, HR departments are extremely busy and HR professionals are spending a lot of their time and resources on ensuring that they are compliant and aligned with an organization’s overall business strategy. “They have this responsibility for insulating the organization against the complexities of compliance, which are only getting more complex,” he added.

ADP found that four out of the six top concerns cited by survey respondents were about HR-related costs. Those concerns include the company’s overhead cost, the cost of managing employees, the cost of hours spent manually entering employee data and the nuances of health care legislation that could result in penalties for non-compliance.

According to Algerio, HR expenses reside in different “pillars” of the business: payroll, time and attendance, benefits administration, HR administration and talent management. “Each of these areas are very complex in their own right,” he said.

Furthermore, each of the HR functions have labor and non-labor costs, vendor costs and supplies costs, he said.

Algerio recommended that organizations must figure out their big number. The first step is to identify costs and map them out, he said. “This is a systematic and methodical approach to incorporating all the elements of costs to help HR identify this big number,” Algerio added.

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The study is available for download at http://www.adp.com/solutions/midsized-business/insights/insights-detail.aspx?id=DD206EBC-E296-4FC6-894D-EA0DCB723B5F&campid=7014000000chtG&promid=MASFY15TCOPR&elqCampaignId=858&cid=DZ_PR_MAS_TCO14_858.