



INVITATION FOR SEMINAR 3 **THE GRAND FINALE**

HUMAN RESOURCES & FINANCES

Human Resource Management Next Generation



THE NETHERLANDS
CHAMBER OF COMMERCE
IN THE SLOVAK REPUBLIC

Breakfast Seminar

Netherlands Chamber of Commerce in the Slovak Republic

Seminar 1: Introduction. Cost & Revenue of the HR Function/Department, ROI **Friday May 7, Sheraton**

Seminar 2: Detailed financial reporting, insourcing versus outsourcing **Thursday June 3, Sheraton. Time: 08.30 till 12.00**

Seminar 3: Due diligence/partner selection, The Total Picture. **Friday, September 10, Sheraton. Time 08.30 till 12.00**

Introduction

LUGERA has taken the initiative to organize 3 seminars about HR & Finance and together with the Netherlands Chamber of Commerce. Friday September 10 the **Grand Finale** will take place. The third seminar will put everything together:

1. Profit & Loss of the entire HR Function and its functions such as payroll, recruitment, training etc.
2. Insourcing versus outsourcing, objective decision making processes,
3. Due diligence and partner selection. **THIRD SEMINAR!**

Mission

It is Lugerá's mission to constantly increase and use it's ability to add value for it's Customers, Candidates & Colleagues. Especially these seminars will give valuable information and tools for all HR Professionals and helps bringing the entire HR industry on the next level.

Reserve your seat for Friday, September 10 in the Bratislava Sheraton for the 3rd Seminar at one of the following persons.

NCC members: entrance free. Non-members pay a small contribution of € 25 for the Sheraton

Breakfast & all the fascilities.

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HR MATCHMAKERS

SPEAKERS

Marian Driensky & **accace**

Marian Driensky is Country Manager of the company **accace** in Slovakia. Since the beginning Marian has been working on several financial and management positions. In the year of 2009 he became partner of the **accace** Group which is active in 10 countries of Central and Eastern Europe. Marian studied University of Economics, Business Faculty in Bratislava. **accace** provides to international and local companies consulting and outsourcing services in the field of accounting, tax advisory and payroll agenda. **accace** also provides companies with special assistance in company establishment, setting up financial and accounting processes and support in implementation of ERP solutions (SAP, MS Dynamics Navision, and local software). See more on www.accace.eu.



Gerard Koolen

Gerard Koolen is Group Managing Partner of Lugera. He started Lugera in 1996 in Trencin and now Lugera is the third biggest independent HR Service Provider in the CEE with 16 offices in 8 countries. Gerard studied business school in Amsterdam and came to Slovakia in 1991. Lugera provides integrated HR solutions with the emphasis on temporary and permanent placements, recruitment software platforms, payroll & HR consultancy. Lugera is market leader in Romania for permanent and temporary recruitment and in Slovakia market leader in permanent recruitment.



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Seminar 3

Friday, September 10 we will summarize the two previous seminars. Next Gerard and Marian will present you several due diligence models giving you the tools to establish an objective view of which external supplier suits your needs best and compared with insourcing:

1. Which items/subjects are important in a due diligence for which HR Activity: we will cover in full detail Payroll and Recruitment and we will do jointly the Training Activity.
2. One practical case-study and its results.
3. The final conclusions.

The room is open from 08.30 and we will start at 09.00. Please be in time so you can enjoy the Sheraton Breakfast and we are looking forward to having you again with us.

In the week after this seminar you will receive the complete kit with all the spreadsheets so you can start implementing the HR Next Generation in your department as well!

Summary of Seminar 1

Why these 3 seminars?

It is our passion to increase the influence of the HR Department in the strategical and operational decision making process because we are convinced that excellent Human Resources Management can highly contribute to the company's profit and it's successful expansion. **For this the HR Manager needs effective financial tools. These seminars are the first step in providing these tools.**

What if you're only cost?

Why building financial know-how?

Usually HR Departments are considered as being only cost. Necessary cost, but still only cost. No revenues, no profits... and if you are only cost:

- Other people give you a budget
- Other people decrease your budget
- Other people allow you a budget
- Other people tell you what to do & not to do
- Those others are CEO's, CFO's, CIO's, COO's, CCO's

The real reason of our seminars are to build financial know-how, to give tools in order to express the HR function in Profit & Loss, in hard-figures showing substantial cost-savings, rational decisions about insourcing our outsourcing and much more...

After these three seminars you can change the role HR is playing in your company.

What if you're profit?

1. Invest € 100.000 to decrease the cost of absenteeism from € 500.000 to € 200.000. Profit is € 200.000.
2. Outsource payroll and save 10€ per pay slip per month.
3. Invest in recruitment SW and insource 95% of the recruitment. Pay € 20.000 per year, save € 200.000 per year.

WHEN YOU ARE PROFIT YOU RULE

WHEN YOU ARE COST YOU OBEY

How important is cost saving?

The Cost Saving Formula, what purchase professionals use...

This easy to use formula gives you fast and immediate information how important cost saving is taking into consideration the net profit and turnover.

Imagine, a company makes 5% net profit. This means that every € 10.000 of turnover brings 5% profit: € 500. It also implies that for every € 500 of net profit €9.500 of costs (including taxes etc) are made.

If we know the net profit of our company (and that is a figure every CFO can give you) we can calculate how much our cost saving would mean in terms of turnover.

In other words: how much extra turnover do we need to make in order to add € 10.000 to our net profit?

The formula in which our net profit is 5%:

€ 10.000 divided by 5% (= 0.05) equals € 200.000.

So in order to have an extra net profit of € 10.000 we need extra sales of € 200.000.

So if you save € 10.000 is costs this is the equivalent of € 200.000 in extra sales.

You can use from now on this formula to express the impact of every cost saving in terms of gross revenue of your company. Suddenly every € 1.000 of cost saving in your HR Department gets its real meaning.

We will use this formula in all our examples so you will become familiar with it...and maybe you will even start using it.

$$\frac{\text{Cost Saving}}{\text{Nett Profit\%}} = \frac{\text{€ 10.000}}{5\% (=0.05)} = \text{€ 200.000}$$

You need € 200.000 of turnover to earn net € 10.000, so a saving of € 10.000 has the same effect as an extra turnover of € 200.000.

You can use this formula for example to assess the investment for a sales training:

If the cost of the sales training is € 10.000 the result should be an additional sales of € 200.000 to have a break-even result (break-even is no loss, no profit).

To be profitable the extra sales should be more than € 200.000. If the extra sales are less than € 200.000 the training has resulted in a loss.

How important is PROFIT?

Cost saving is important but still very necessary as without costs you cannot make a profit. Imagine you decrease the cost of your company to zero it means you have no company anymore. Decrease the cost of your HR Department to zero and your HR Department does not exist anymore.

Simply said:

1. "no costs, no profit" (like people tell you in the fitness: "no pain, no gain").
2. Costs represent only 1 part of the business.
3. Only looking at costs is not relevant for your HR Department
4. Your HR costs become meaningful when related to their output/profit/results.

Examples:

Payroll Outsourcing

An external payroll provider offers you € 7,50 per pay slip per month. Is this expensive or cheap? Should you, based on this price do it yourself or outsource it?

You can only tell if you know your internal cost of producing a pay slip. If in a company of 1.000 employees the internal price is € 20,-- per pay slip per month you suddenly know that outsourcing is € 12,50 cheaper. For a company of 1.000 employees this represents a monthly saving of € 12.500 and a yearly saving of € 150.000 (= 12 times € 12.500).

When using our Cost Saving Formula our € 150.000 of yearly saving equals the effect of € 3.000.000 of extra turnover (€ 150.000 divided by 5%).

There will be not a single CFO in the world stopping you anymore from such an initiative.... Later on we will discuss this in more detail: how we calculate our internal cost, and to assess which other factors besides price are important.

Personnel Leasing = Cost?

Actually the correct english wordings are temporary staffing (short term and flexible employment services) and contracting (long term flexible employment services).

Often CFO's and HRM's look at temporary staffing as a cost-increasing service as the agency's fee seems to increase the total salary cost. Here under an example of real cost & revenue.

500 temps @ € 1.000 monthly		
A	Total Monthly Salary Cost	€ 500,000
B	Temps agency monthly fee 12%	€ 60,000
C	Total monthly cost	€ 560,000
D	Direct Savings	
E	Payroll & Personnel admin. € 20 pp	€ 20,000
F	Monthly Recruitment 5% and € 350 pp	€ 8,750
G	Financing 45 days @ 8%	€ 4,932
H	Total Direct Savings	€ 33,682
I	Real Cost Personnel Leasing (B - H)	€ 26,318
J	Potential Financial Risk (%=risk factor)	
K	Redundancy (3% from A)	€ 15,000
L	Absenteeism/sick leave (3% from A)	€ 15,000
M	Production fluctuation (3% from A)	€ 15,000
N	Potential Financial Monthly Risk	€ 45,000
O	Total monthly cost saving (N - I)	€ 18,682

The result of our Cost Saving & Revenue multiplier is € 18.682 times 12 months and the total divided by 0.05 (5% net profit) Is € 4.483.680. It means that the yearly cost-saving of using 500 temps have the same result as an increase in turnover of € 4.483.680.

Is Training Profitable?

Imagine your company makes 5% net profit.

You invest € 15.000 in Team Building.

How much should be the extra output/revenue/turnover for the company to be breakeven?

Imagine you invest every month € 5.000 in Production Quality Training.

How much should be the yearly increase in output/savings in increased quality (= decreased claims/guarantees/product rejections)?

NOTHING HAPPENS UNTIL SOMETHING MOVES
(Einstein)

Seminar 2

Detailed financial reporting, insourcing versus outsourcing

Here under you find an example and a guide how you could calculate the cost of your HR Department. Every CFO can produce you the input for this and they will certainly have some more ideas. Please mind that each and every company have differences in their cost structure and not always costs are booked per department or cost center.

In this example a company with:

Employees	1000	
HR department Total Headcount	13	
Payroll department Staff	5	
HR Indirect (HRM & Assistant & HR Generalist)	3	
Training & Development Staff	2	
Recruitment Staff	2	
Comp & Ben, Legal and Union Matters Staff	1	10 direct HR personnel

In this HR Department 13 persons are working from which 10 persons Direct and 3 persons Indirect.

Direct means that these persons produce a certain activity and they are accountable for a certain well-defined activity and output. In this case this is Payroll, Recruitment, Training and Compensation & Benefits. Indirect means the HR Manager, an Assistant and an HR Generalist. So 10 Direct HR Professionals and 3 Indirect.

Further the following rules apply:

1. Departments invoice each other for their services
2. They invoice each other at market prices. These are prices obtained from external prices.
3. The difference between the internal price and the market price is the loss or the profit of the HR Department. If the internal price is higher than the market price the HR Department makes a loss. If the internal price is lower than the market price the HR Department makes a profit.
4. The cost of the Indirect HR Professionals is divided over the Direct HR Professionals.
5. The prices of the external HR services providers is an estimation of prices in Slovakia.

Cost overview example. THE FOLLOWING SPREADSHEETS WILL BE EXPLAINED DURING THE SEMINAR. WE WILL PLAY WITH THE FIGURES AND UNDERMENTIONED FIGURES ARE AN ESTIMATION. YOUR COMPANY WILL BE DIFFERENT!!!

		Month
Office Expenses HR Department	€	7 000
Rent	€	3 000
Stationary	€	500
Telephone	€	500
Equipment/furniture	€	1 000
Internet	€	50
Subscriptions	€	50
Memberships	€	200
Software Licences	€	100
Gas, Electricity, Water	€	100
Depreciations	€	500
Repair & Maintenance	€	1 000
Travelling Expenses HR Department	€	1 400
Cars	€	500
Car insurance	€	100
Petrol	€	200
Repairs & Maintenance	€	100
Other transportation means	€	500
Overhead Contributions	€	5 250,00
Home Office Expenses/Corporate	€	1 500,00
IT Support	€	750,00
Legal Support	€	1 000,00
Financial Dept Support	€	1 000,00
Marketing	€	500,00

Other	€	500,00
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Personnel Expenses	€	13 049,85
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Indirect HR Personnel (3 staff)

Gross Salaries	€	7 500,00
Bonuses	€	750,00
Insurance	€	375,00
Taxes	€	2 887,50
Purchased training expenses	€	437,50
Purchased Payroll servies	€	22,50
Purchased comp & ben services	€	77,35
Temporary Staff	€	1 000,00

Total Cost Overhead & Indirect HR	€	26 699,85
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Direct Personnel Payroll & Admin 5 staff	€	15 850,03
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Gross Salaries 5 payroll & admin. officers	€	7 500,00
Bonuses	€	750,00
Taxes	€	2 475,00
Training expenses	€	500,00
Temporary Staff	€	1 000,00
Payroll Software license	€	400,00
Extra stationary etc.	€	1 000,00
Other	€	500,00
Legal Advice	€	500,00
Other consultancy	€	250,00
Purchased Services Recruitment Dept. Recruitment	€	100,00

Purchased Services Recruitment Dept.Assessment	€	16,94	
Purchased Services Training Dept	€	729,17	
Purchased Services Comp & Ben	€	128,92	
Proportional share in HR Overhead Cost C52			
Sales for payslips and pers.admin 1.000 employees			€ 7 462,50
Savings or (Extra Expenses)	€	(8 387,53)	€ 15,85

Direct Personnel Recruitment (2 staff)	€	27 620,73	
Gross Salaries 2 recruiters	€	4 000,00	
Bonuses	€	400,00	10%
Taxes	€	1 400,00	35%
Training expenses	€	800,00	
Advertising	€	1 500,00	
Internet Advertising	€	1 000,00	
Recruitment SW license	€	500,00	
External Recruitment Agencies	€	10 508,33	
Extra Stationary	€	400,00	
Cost of Recruitment Errors	€	5 254,17	
Other	€	1 500,00	
Purchased Services Payroll	€	15,00	
Purchased Services Training Department	€	291,67	
Purchased Services Comp & Ben Department	€	51,57	
Proportional share in HR Overhead Cost C50			
Sales for Recruitment & Ass & Hogan			€ 21 016,67
Savings or (Extra Expenses)	€	(6 604,07)	

Training & Development Department (2 staff)			
	€	101 559,90	
Gross Salaries 2 trainers	€	4 000,00	
Bonuses	€	400,00	
Taxes	€	1 540,00	
Training expenses	€	1 000,00	
Printed Materials	€	1 000,00	
External Training Facilities	€	2 000,00	
Catering	€	1 000,00	
External Training Companies	€	87 500,00	
Internal Training Facilities	€	2 000,00	
Other	€	1 000,00	
Purchased Services Payroll	€	15,00	
Purchased Services Recruitment	€	53,33	
Purchased Services Comp & Ben	€	51,57	
Proportional share in HR Overhead Cost C50			
Sales for Training		€ 145 833,33	
Savings or (Extra Expenses)	€	44 273,43	
Comp. & Benefits Department (1 staff)			
	€	6 795,00	
Gross Salaries 1 specialists	€	2 500,00	
Bonuses	€	250,00	10%
Taxes	€	962,50	35%
External HR and Salary Benchmarking Reports	€	1 000,00	
Literature	€	250,00	
External Legal Expertise	€	1 000,00	
Proportional share in HR Overhead Cost C51			

Training expenses	€	145,83	
Purchased Services Payroll	€	7,50	
Purchased Services Recruitment	€	33,33	
Purchased Services Training & Development	€	145,83	
Sales Comp & Ben Services			€ 25 783,33
Other	€	500,00	€ 25,78
Savings or (Extra Expenses)	€	18 988,33	

For producing such an overview and monthly report you:

1. Need a dedicated person from your financial department delivering you the input
2. Do regular price benchmarks at external providers
3. Analyzing into detail the results of your investments into HR

The result of these overviews and monthly reporting will be:

1. A rationalized investment decision making process
2. Increase of influence in the companies strategic and operational decision making process
3. The HR Department becomes an equal partner next to Sales & Marketing, Finance, Production and IT
4. The HR Department will be a positive power to the companies profits and expansion

Summary & Examples

	Total Cost	Total Revenue	Result
HR Department Total	€ 178 525,51	€ 200 095,83	€ 21 570,32
Payroll Department	€ 15 850,03	€ 7 462,50	€ (8 387,53)
HR Department Indirect	€ 26 699,85		€ (26 699,85)
Recruitment Department	€ 27 620,73	€ 21 016,67	€ (6 604,07)
Training & Development Department	€ 101 559,90	€ 145 833,33	€ 44 273,43
Comp & Benefit Department	€ 6 795,00	€ 25 783,33	€ 18 988,33

Revenue examples of the Indirect HR Department

Total Turnover of the Company per month	€ 3 500 000,00
Average output per employee per month	€ 3 500,00
5% net profit per month	€ 175 000,00
Average net profit per employee per month	€ 175,00
Average total salary cost per month per employee	€ 1 500,00
Monthly average absenteeism	8%

Calculating the Cost of Absenteeism

80 employees

Admin, payroll, replacements, training etc.	€ 39 600,00	33%
Uncovered Overhead Expenses	€ 15 312,50	35% of all cost
Unrealized Profits	€ 14 000,00	
Total Monthly Cost Absenteeism	€ 68 912,50	per employee: € 68,91
Total Yearly Cost Absenteeism	€ 826 950,00	
Non-Absenteeism Bonus, Motivation Programs, Working Environment Improvements,		
Investments in decreasing absenteeism in %	In Euro	Decrease in %
10%	€ 82 695,00	€ (82 695,00)

Other Factors: LEVERAGE

Besides price we also make our insourcing or outsourcing decisions based on know-how availability, easiness of purchase, perceived risks, quality level etc. We suggest in this example to base your decision on objective criteria only:

PRICE, QUALITY AND RISK FACTORS

Leverage for payroll (example):

Price	35%
Quality	40%
<u>Risk</u>	<u>25%</u>
Total	100%

The leverage means that we give price, quality and risk each a level of importance which can be different per company. In times of crisis the price can be of utmost importance. In times of expansion quality and risk can play a more dominant role. In the examples during the seminar you can play with this. In the under mentioned examples the scores and the items are taken as an example. For your company this can be different.

Payroll		
Price	Leverage 35%	
	Insourced	Outsourced
Price from our calculation	15,86	7,5
Indexed	0,68	0,32
Quality Factors	Leverage 40%	
	Insourced	Outsourced
Level of Confidentiality	0,8	0,2
In-time delivering of Payslips	0,7	0,3
Software system	0,6	0,4
Reporting possibilities	0,7	0,3
Actual up-dates of legislation changes	0,7	0,3
Control mechanisms	0,8	0,2
Accuracy level	0,6	0,4
Error level/# of monthly corrections	0,6	0,4
Additional management time spend	0,7	0,3
Flexibility	0,2	0,8
Speed of Correction Processing	0,2	0,8
	0,60	0,40
Risk Factors	Leverage 25%	
	Insourced	Outsourced
Legal Liability toward Tax Authorities	0,9	0,1
Delivery Disruptions	0,7	0,3
Data Security	0,7	0,3
Location: remote versus inhouse	0,3	0,7
Supplier Trust Level	0,4	0,6
	0,60	0,40
Final Score Payroll	0,63	0,37

RECRUITMENT		
Price		
	Leverage 35%	
	Insourced	Outsourced
Price from our calculation	25908	23416
Indexed	0,53	0,47
Quality Factors		
	Leverage 40%	
	Insourced	Outsourced
Level of Confidentiality	0,8	0,2
In-time delivering of Candidates	0,7	0,3
Recruitment Software	0,9	0,1
Reporting possibilities	0,8	0,2
Labor Market Know How	0,8	0,2
Number of Candidates in TalentBase	0,8	0,2
Recruitment Errors	0,6	0,4
Additional Management time spend	0,7	0,3
Flexibility	0,5	0,5
Selection know-how	0,5	0,5
Quality of candidates	0,7	0,3
	0,71	0,29
Risk Factors		
	Leverage 25%	
	Insourced	Outsourced
Delays in delivery of candidates	0,5	0,5
Quality of candidates	0,5	0,5
Confidentially	0,5	0,5
Financial concerning retainers	0,1	0,9
Replacements	1	0
	0,52	0,48
Final Score Recruitment	0,60	0,40

Training & Development

Price	Leverage 35%	
	Insourced	Outsourced
Price from our calculation	101566	145833
Indexed	0,41	0,59

Quality Factors	Leverage 40%	
	Insourced	Outsourced
Training Environment	0,6	0,4
Training Duration	0,5	0,5
Training Results	0,4	0,6
Training know-how	0,5	0,5
Training Innovation	0,9	0,1
Company know-how	0,1	0,9
Training Acceptance	0,6	0,4
Additional Management time spend	0,8	0,2
Flexibility	0,7	0,3
Range of Training Topics	0,7	0,3
Trainers Skills	0,7	0,3
	0,59	0,41

Risk Factors	Leverage 25%	
	Insourced	Outsourced
Training Capacity	0,7	0,3
Training Errors	0,3	0,7
Confidentially	0,2	0,8
Continuity	0,7	0,3
Consistency	0,1	0,9
	0,40	0,60

Final Score Training	0,48	0,52
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Compensation & Benefits

Price		Leverage 35%	
		Insourced	Outsourced
Price from our calculation		6795	25783
Indexed		0,21	0,79

Quality Factors		Leverage 40%	
		Insourced	Outsourced
Expertise		0,6	0,4
Innovation		0,6	0,4
Capacity		0,6	0,4
Commitment		0,4	0,6
Flexibility		0,3	0,7
Creativity		0,6	0,4
Legal Scope		0,7	0,3
Databases		0,7	0,3
Benchmark		0,7	0,3
Software		0,7	0,3
Additional Management Time Spend		0,3	0,7
		0,56	0,44

Risk Factors		Leverage 25%	
		Insourced	Outsourced
Financial Burden		0,1	0,9
Legal Liability		0,9	0,1
Confidentially		0,3	0,7
Continuity		0,6	0,4
Consistency		0,6	0,4
		0,50	0,50

Final Score Comp & Ben	0,42	0,58
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Summary

1. The HR Department is divided in Direct and Indirect Personnel
2. The Direct Personnel output is compared with the market prices from external suppliers
3. The difference in internal and external price is profit or loss
4. But price is not the only deciding factor for an objective decision between outsourcing or insourcing
5. 2 other factors are decisive: Risk and Quality
6. We gave this 3 factors Price, Quality and Risk a Leverage Factor, a level of importance
7. We have indexed all these scores and we came to an objective score which tells us whether it makes more sense to incur or to outsource
8. Further the financial information helps us to define the total HR Activity in Profit & Loss
9. We also know what the impact is on saving cost and what the impact is on the company's profit & loss statements
10. Not always companies ask their future suppliers in tenders relevant questions
11. Not always companies understand the real assets of the HR activities and their suppliers
12. We provide an overview of the real quality factors to determine which supplier is most suited,
13. The total Picture is complete and clear: 1. We know our P&L, we know whether we should insource or outsource and we are able to select the best supplier.