

Benefits of Outsourcing HR Functions



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As the economy begins the long recovery process after the turbulence of the past couple of years, businesses across the country continue to look for ways to cut costs and boost their bottom line. Rather than slashing prices, laying off employees, and scaling back inventory, many companies are discovering the fiscal advantages of outsourcing their HR functions, prompting a spike in demand for Human Resources Outsourcing (HRO) providers. According to a study led by Gartner, a technology research company, the HRO market is expected to expand by nearly 25% by 2010.

Whether you run a small business or a global corporation, there will always be some core HR functions—such as employee training, payroll, and benefits administration—that serve a critical role in your organization. As a business owner, you have three main options for handling them:

- **Do it yourself.** Many presidents and CFOs of small businesses are tempted to manage all HR functions themselves, mistakenly assuming they'll save money by not hiring an HR specialist or outsourcing to another company. The reality is, with U.S. business owners spending up to 25% of their time managing paperwork, compensation, and benefits, keeping HR in-house can quickly become a drain on your productivity. Plus, by juggling all of the balls yourself, the risk of dropping one or more of them drastically increases.
- **Hire a full-time HR team.** While this approach will take a bulk of the employee management tasks off your plate, it also requires a sizable annual investment in salaries and benefits of your full-time employees. With the myriad of tasks and considerations demanding attention—employee relations, anti-discriminatory laws, worker's compensation, benefits administration, salary trends, payroll, and much more—you'll likely need to hire more than one HR employee. If the HR workload fluctuates throughout the year, you may end up paying for more time than you actually need. Also, you'll spend some of your own time managing the internal HR team.
- **Outsource HR functions.** There's a reason the HRO market is enjoying the highest level of demand it's seen in the 75 years since the business model was created. Significant time and costs can be saved by leveraging the services of a seasoned third-party provider. Most companies can expect to save up to 20% in worker's compensation payouts, up to 20% in employee benefits, and up to 10% in basic HR functions, such as payroll and compensation. This can easily result in thousands of dollars in cut costs each year, even after paying the outsourcing fees.

The Outsourcing Model

Anytime you use a third-party contractor to perform a business-related function, you're outsourcing. Commonly outsourced tasks include technology support, web design, copywriting, data entry, and employee management. As a general rule, any functions that are not part of your business' central focus can and should be delegated, freeing you up to focus on your core objectives and revenue-producing activities. As an added bonus, specialized contractors typically have a stronger skill set in the task at hand, adding more value to the project than you or another internal employee could.

In some cases, when a business regards Human Resources as a critical factor in their growth and development, they may choose to keep their existing in-house HR team and use third-party firm for certain administrative functions, such as payroll and benefits administration. This gives the internal HR personnel more time to spend on recruiting talented employees, building morale, promoting ancillary initiatives like health and wellness programs, and developing existing staff with ongoing training and education.

Benefits of Outsourcing

By enlisting the services of a third-party firm to handle your HR functions, you'll be able to:

- Stay up to date on the most recent state and federal regulations, ensuring that your company remains compliant
- Receive expert advice on best practices for employee management and benefits administration
- Provide employees with greater accessibility to HR representatives to get prompt, accurate answers to their questions
- Reduce the risk of lawsuits by minimizing mistakes and violations
- Pay a variable cost to cover only the HR functions that are absolutely necessary, rather than a fixed cost that doesn't fluctuate with the workload
- Save on the costs of hardware, software, and systems that would be required for an in-house HR team
- Have access to a full team of HR professionals, including benefits administrators, HR managers, payroll specialists, attorneys, and more
- Build employee morale by providing the tools, rewards, and motivations they need to succeed
- Receive professional documentation, such as employee handbooks, forms, and policies
- Spend more time on core business functions geared toward producing revenue, promoting your products or services, and building your brand
- Replace time-consuming manual recordkeeping with automated, efficient processes
- Receive professional reports of all HR initiatives, allowing you to quickly gauge your return on investment
- Access a much wider scope of tools, knowledge, and technologies, including state-of-the-art HR management software

Choosing the Right HRO Provider

Once you've made the decision to save time and money by outsourcing HR functions, it's important to choose the right vendor to suit your needs. Ideally, your provider should have an understanding of your industry, offer a diverse range of services, and strike a desirable balance between quality and value.

Before signing a contract with a third-party HRO provider, be sure to ask the following questions:

- Can they provide references of companies who have seen quantitative results after utilizing their services? A reputable vendor should have no reservations about providing contact information for satisfied clients.
- How long has the company been in the industry? Are they profitable and stable? Be wary of providers who are just starting out or have recently downsized or changed owners.
- What sort of resources does the vendor have on hand? Ideally, you want a company who has invested in a team of specialists, a professional office space, and the latest HR software and technologies.
- What's their pricing model? While it may be tempting to go with the lowest bidder, you'll likely enjoy greater benefit by striving for a desirable middle ground. Remember, value is not only measured by price, but also by the quality of service you receive and the amount of time saved.
- Will you have a dedicated point of contact for questions and requests? What is the vendor's desired mode of communication? How quickly will phone calls and emails be returned?
- Does the provider back up their work with a guarantee?

Human resource functions will always be an essential component of your business, but they don't have to be a drain on your resources. If you find yourself neglecting core business initiatives to spend time on employee paperwork, benefits, compensation, and recruitment, you owe it to your bottom line to consider the benefits of partnering with a reputable HRO provider.

Resources Referenced

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