

HOW WINNING
SMALL BUSINESSES
THINK BIG &
SAVE SMART

In looking for ways to make operational and other processes more efficient and cost effective, many companies are choosing to outsource different functions in their organizations, including human resource processes.

For many traditional executives, outsourcing HR is a daunting idea; for other leaders, it's liberating. While some companies feel the need to retain their HR department because they want to maintain face-to-face contact with their employees, many others outsource their HR functions and hire generalists or assistants to manage the relationships with outsourced vendors.



MANY COMPANIES
OUTSOURCE THEIR
HUMAN RESOURCE
DEPARTMENT TO
INCREASE VALUE
AND EFFICIENCY,
AND REDUCE COSTS.

SINGLE-VENDOR SOLUTIONS PROVIDE COMPANIES WITH INCREASED EFFICIENCIES AND THE ABILITY TO FOCUS ON CORE BUSINESS.

MANY COMPANIES OUTSOURCE their HR department to increase value and efficiency, and reduce costs. Others simply want to hire specialized professionals to perform certain complex projects. For example, a small firm may outsource a project to redesign a pension system for its employees.

Along with looking for increased efficiency in today's economy, companies are trying to save money, but not at the expense of cutting value for their employees. Many companies outsource HR processes to a human resource consulting firm or hire a professional employer organization (PEO) to significantly reduce costs and add more value to the organization.

For many organizations, the goals of HR outsourcing are to:

- Contain HR costs
- Reduce administrative burden
- Minimize employer-related risk
- Create value for existing employees

Why should HR functions be outsourced? The simple answer: Business leaders did not enter into business to manage human resource functions, but rather to discover innovative ideas to improve market share, find better strategies of winning over their competition, and increase customer loyalty.

And HR management functions can be complex, requiring time, energy, and resources to handle in-house. Processing such functions as benefits planning, recruiting, training, managing personnel files, payroll, performance reviews, and managing leaves must also be handled correctly and efficiently.

Another challenge of managing HR functions in-house is managing multiple third-party vendor relationships. Company administrators need to manage a payroll vendor, tax authorities, health insurance brokers, health insurance carriers, voluntary benefits, recruiters, compensation data, employee policies, outplacement, legal guidance, and many others.

When it comes to benefits, many small businesses lack negotiating leverage with large insurance carriers and other vendors. This results in lack of control over escalating costs related to employee benefits.

When customizing an effective HR outsourcing strategy, the business leader must understand the company's goals and vision. Developing a plan to outsource HR functions requires strategic planning to establish the right scope and implementation to produce the desired return on investment.

OPTIONS TO PROCESS HR FUNCTIONS

Companies have three basic options to process their HR functions. First, they can do it all themselves and build an in-house human resource department. On the up side, companies control everything; on the down side, they don't have the time to do it all, nor do they want the liability of making costly mistakes through human error, missing deadlines, or non-compliance with respective laws. Business leaders need to focus on other priorities to grow their business.

Second, companies can opt for the multi-vendor solution, choosing one vendor for each task and area of expertise, such as payroll and benefits. On the up side, they can get experts to do the work, which saves the company from doing HR administration

tasks. On the down side, according to a 2006 study by Price Waterhouse Cooper, organizations using multiple vendors for payroll and HR-related services can spend more than \$100 US per employee per year just to integrate these processes and providers. That represents close to six percent of total HR and payroll budgets. Because of the cost of multiple vendors, many companies are moving towards a single vendor.

Third, companies can opt to use a single vendor, a professional employer organization (PEO). Many companies get increased efficiencies, an improved employment brand, and a renewed ability to focus on the core business. On the up side, they can manage a single relationship and gain HR expertise, the newest HR technology, and a qualified team to manage company HR functions.

CHOOSING THE RIGHT VENDOR

However, company leaders have to choose the right PEO, HR consulting firm, or HR vendor. First, they must look at the vendor's financial strength and quality of service. Second, the vendor needs to be flexible in pricing and fair in negotiating the contract or service agreement. Third, the vendor must be flexible with changes that the company will face as it grows or downsizes.

NEGOTIATING THE CONTRACT AND PRICING AGREEMENTS

Daniel R. Mummery, a partner in the law firm Latham & Watkins Silicon Valley, states that negotiating an HR outsourcing agreement requires that one understands the relevant business issues: "The key components of some service contracts should cover the following: statements of work, pricing details, service-level agreements (SLAs), a transition plan, governance requirements, and an exit plan."

HR outsourcing has proven to improve human resource functions in better streamlining and managing daily tasks for administrators, dramatically cutting costs and improving the company's bottom line, and adding value for employees, which affects the company's ability to retain and attract top talent.

Outsourcing HR consultants can save organizations massive amounts of money by keeping leaders up to speed in an ever-changing environment. HR professionals also help companies meet the challenges in a changing world by adopting and implementing the best human resources philosophies and methodology.

CONCLUSION

To be successful, leaders must be brave enough to make tough decisions and judgment calls. They need to embrace change and develop a new model of doing business. They need to take inventory of their costs and re-examine their work processes and procedures, and take action to reduce waste and ineffective processes.

Knowledge is one of the greatest commodities in today's business environment, but applying knowledge and being brave enough to drive knowledge make for great leadership. Outsourcing HR functions is an option business leaders take to make an impact on organizational success. Leaders will be faced with tough decisions and will face criticism, but where there is risk, there is reward, and leaders who are innovative and willing to take new approaches will succeed in the future.

DBR

Reprinted with the permission of Joshua Cook.
www.thinkingleaders.com

**OUTSOURCING
HR FUNCTIONS
IS AN OPTION
BUSINESS
LEADERS TAKE
TO MAKE A BIG
IMPACT FOR
ORGANIZATIONAL
SUCCESS.**