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Why Outsourcing HR May Be the Smartest Decision Your Business Makes

HR may sound boring, but it's important. Learn how venture-backed small businesses can benefit from doing it right.

According to a [Harvard Business School study](#), as many as 75 percent of startups fail. Essentially, the companies in the study couldn't generate a profit in order to pay back their investors. As many business owners know, being profitable is not just about creating a successful product or solution and selling it, but also sorting out how to efficiently and effectively manage day-to-day operations, like human resources (HR), within a budget, which in turn affects the bottom line.

Developing a value proposition, gaining traction in the market and trying to make sense of the overall business model is tough. Having the right people on your team eases these challenges. Although HR can be difficult for businesses of any size, the growing complexity of managing HR processes today presents a significant challenge for small companies starting out – in particular, because these companies have fewer resources.

Scope and Complexity of HR

HR is not only about hiring and firing. It's also about offering benefits that attract and help retain workers, such as healthcare benefits, retirement plans and workers' compensation insurance; procuring time, expense and payroll management tools that keep employees paid and happy; and complying with employment law. HR has become even more complicated in the past 20 years due to regulatory compliance issues like the Affordable Care Act and the Lily Ledbetter Act. Noncompliance with these acts can cost companies dearly in expensive legal fees and penalties.

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Options for Managing HR

Employers can try to manage HR themselves, but such internal HR handling distracts from managing core business matters. Employers, particularly those with limited resources, find it hard to keep apprised of the latest HR laws when their attention is needed elsewhere. Although hiring someone full-time in-house is an option, it may not be cost effective for a small company.

To minimize the challenges posed by HR management, startups can turn to HR outsourcing companies. HR outsourcing companies can take care of services such as payroll administration, employee benefits, and HR management like recruiting, hiring and firing. They also provide risk management tools in connection with compliance, legal and related risks such as workers' compensation, employee practices liability insurance and company policies. In addition to providing more time to address issues outside HR, outsourcing HR helps employers stay current with state and federal regulations and reduces the risk of employee litigation. At its best, HR outsourcing organizations operate as a strategic and aligned business partner with the company, which in turn allows the company to better plan for future growth.

Here are some numbers to consider. According to a Small Business Administration study, the average small business owner spends 25+ percent of his or her time handling employee-related paperwork. This average can increase to a staggering 35-45 percent if the tasks include recruitment, hiring and training of new employees. HR outsourcing companies save business owners time by taking on this burdensome responsibility, while helping them remain compliant.

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Even better, outsourcing HR can save companies money. For example, HR outsourcing companies are often able to offer their customers healthcare discounts of roughly 2 to 5 percent. Savings can jump even higher when HR outsourcing companies bundle a variety of HR services (e.g., healthcare, payroll and staffing) for customers.

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Types of HR Outsourcing Providers

If a startup company decides to make the move to an HR outsourcing provider, it's important to know that such providers come in a few varieties. Some offer comprehensive packages, while others allow you to pick and choose what you need. Most fall into these four basic categories:

- Professional employer organization (PEO): assumes full responsibility of human resources administration, essentially becoming a partner of the company. It becomes a co-employer of a company's workers. Employer responsibilities are shared or allocated between the company and the PEO. This includes legal requirements for employers and responsibilities for hiring, firing and financial compensation. As full-service providers, they often provide services like on-call consulting, sending consultants who

will come in to train staff or even settle a dispute.

- Business process outsourcing (BPO) organization: encompasses outsourcing in all fields, not just HR. BPOs either put in new technology or apply existing technology in a new way to improve processes. A BPO makes sure a company's HR system is supported by the latest technologies, such as self-service access and HR data warehousing.
- Application service provider (ASP): hosts software on the Web and rents it to users. This includes both packaged and customized software to manage payroll, benefits, etc.

Keep in mind that even while using outsourced HR, it's possible to maintain some of the HR in-house. A company might choose to keep hiring in-house while outsourcing payroll or expense management, if it suits the company's needs.

HR presents a complex set of challenges to businesses, especially to small and growing ones. There is no one-size-fits-all approach to outsourcing HR, so a company should be sure to research its choice carefully. Not only will such a company's employees be thankful, but its investors will too, when they see the potential cost effectiveness of HR outsourcing and the ability of the company's internal team to concentrate on managing the core business.

(See [related TriNet white paper.](#))

About the Author



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