

HR OUTSOURCING: WHAT IT CAN DO FOR SMALL EMPLOYERS

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Dwindling human resources budgets. Rising health care costs. An ever-growing patchwork of employment laws and regulations. These are challenges that can overwhelm a business owner who's highly motivated but low on HR expertise.

It used to be that larger employers held an advantage over smaller ones when it came to meeting these challenges: the ability to outsource their human resources responsibilities. But small employers have learned that HR outsourcing has plenty to offer them as well. Many of them already have begun capitalizing on outsourcing as a success strategy. In fact, two-thirds of the smallest HR departments surveyed by BNA in 2008 – those serving between 10 and 250 workers – reported that they outsource at least one activity.¹

Why Small Companies Choose HR Outsourcing

In today's business environment, the case for outsourcing makes sense to small employers in a number of ways.

According to the Small Business Administration, the average owner of a small business spends between 20 percent and 40 percent of his or her time on human resources, benefits, employment concerns, and government compliance.² Nearly 90 percent of small employers surveyed by the National Association of Professional Employer Organizations (NAPEO) in 2007 said that employment regulations had grown considerably more complex over the last decade. More than half reported that they now spend at least 10 percent more time to comply with workplace laws and regulations than they did 10 years ago.³

Money is just as crucial a factor as time. According to Lynn Dessert, president of consulting firm Leadership Breakthrough Inc., small companies will be particularly vulnerable to the continuing downturn in the economy and shrinking corporate budgets, which might lead to a rise in outsourcing.

Dessert told BNA that cost-effectiveness is a top reason why small companies choose to outsource human resources. "If companies align themselves with the right type of outsource organization," she said, "what they buy is access to a broader range of skills and capabilities that they can tap into when they need them – and not have to pay for them on an ongoing basis."

But although small companies often choose outsourcing to divest themselves of time- and money-intensive processes, BNA's survey found that their top motivation isn't based on what they can send out but what they can bring in: valuable knowledge and expertise.

Goals for Outsourcing Benefits and Employee Services (10 - 250 employees)

Goal	2008	2007	2006-2005	2004
Access to Greater Expertise	71%	63%	56%	78%
Potential Cost Savings	14%	21%	38%	22%
Improved Service Quality	16%	24%	32%	36%
Shift in Strategic Priorities	13%	8%	13%	7%

Source: HR Department Benchmarks and Analysis 2004-2008, BNA

Access to greater expertise has ranked consistently high as the No. 1 motive for outsourcing among the smallest employers. By contrast, only 42 percent of employers with 1,000 or more employees cited the benefit as a major motivating factor in 2008. Similarly, the percentage of small employers citing strategic priorities as a top reason for outsourcing was more than twice as large as that of the largest employers.

The Advantages of HR Outsourcing

Problem

**Rising Costs;
Shrinking Budgets**



How HR Outsourcing Can Help

- Enables small businesses to convert fixed costs into variable costs, thus allowing them to invest greater capital in other areas of the business and revenue-generating activities.
- Allows businesses to take advantage of lower rates for services because they become a part of a larger employment base, which can significantly reduce costs.⁴
- Reduces the significant expenditures that may be necessary in the early stages of operating the business.⁵

**Limited Time for
Core Activities**



- Allows a small business to take advantage of the outsourcing firm's cost structure and economies of scale, which, in turn, gives small businesses a competitive advantage and ability to compete with larger firms.
- Enables businesses to save time and resources that would otherwise be needed to do HR tasks in-house, including providing proper training.⁶
- Improves efficiency because outsourcing provides a broader network of capabilities and information to the person who works onsite in the company's HR department.

**Lack of In-House
Expertise**



- Helps small businesses minimize the risk involved in handling business processes in-house.⁷
- Reduces the potential liability for a company that would otherwise have to retrain in-house employees or let them go from the job because their expertise is no longer needed.

**Complex Employment
Regulations**

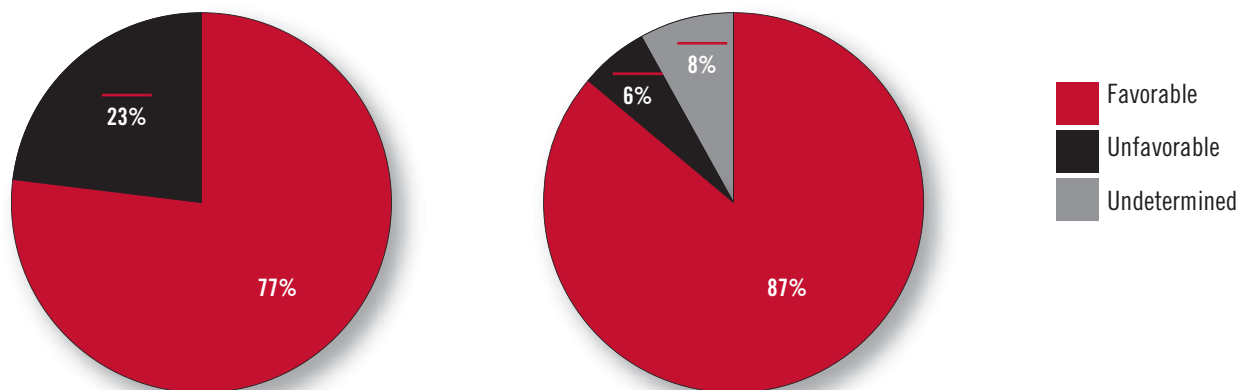


- Enables small businesses to minimize frustrations of dealing with increasingly more complex regulations and possibly potential legal liability for noncompliance.

Rating HR Outsourcing Success

BNA's research shows that companies that outsource generally give the practice a big thumbs-up. Of companies that switched from in-house benefits administration to outsourcing, more than three-quarters (75 percent) have found their outsourcing experience a favorable one. Those who chose to outsource their benefits activities from day one are even more satisfied: 87 percent rated their outsourcing experience as favorable, while only 6 percent rated it as unfavorable.⁸

Overall Ratings of Outsourcing Benefits Activities (All Size Employers)



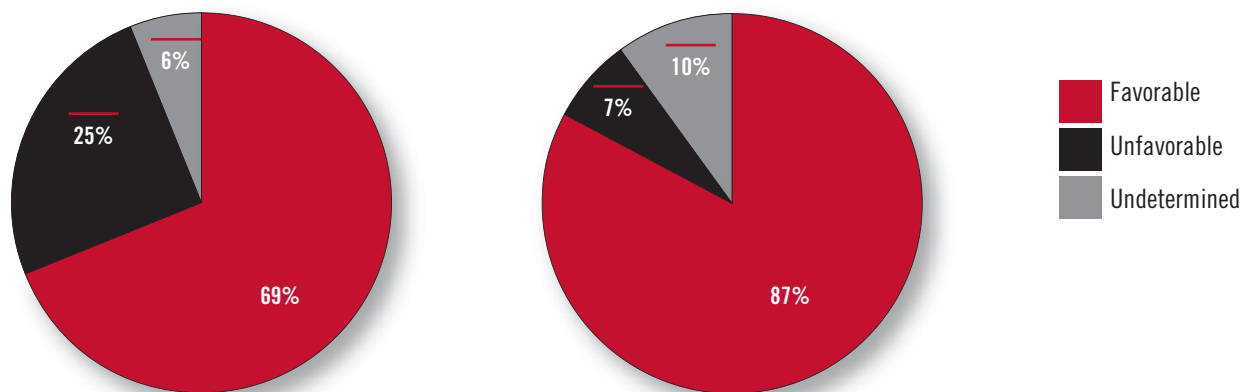
Performed in-house before outsourcing

Did not perform activity in-house

Source: HR Department Benchmarks and Analysis, BNA 2008

Similar levels of satisfaction were reported by employers that outsource their employee services activities. 69 percent of employers that switched from in-house administration rated outsourcing as favorable, and 83 percent of those that have outsourced from day one did the same.⁹

Overall Ratings of Outsourcing Employee Services Activities (All Size Employers)



Performed in-house before outsourcing

Did not perform activity in-house

Source: HR Department Benchmarks and Analysis, BNA 2008

BNA's research also demonstrated that 90 percent of surveyed small employers view HR outsourcing initiatives favorably in the first year of outsourcing. In years two through nine, this number decreases slightly to 82 percent. However, all surveyed small employers tend to view HR outsourcing as favorable after 10 or more years of outsourcing.¹⁰

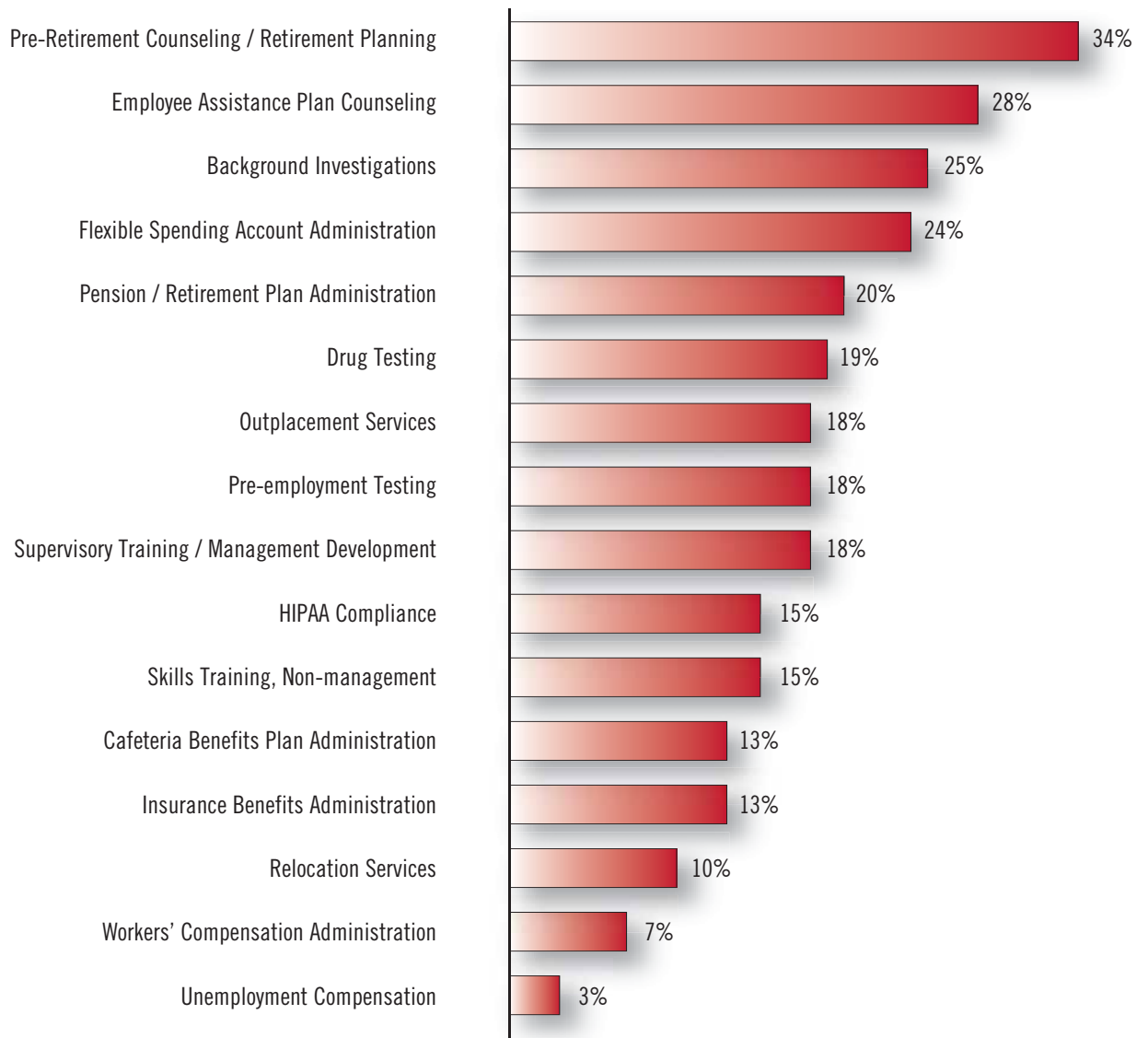
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HR Functions Outsourced

According to Dessert, companies outsource functions that are administrative in nature, such as benefits administration, while keeping more personal functions, such as employee discipline, in-house.

Below is a list of HR Functions that are commonly outsourced by small businesses, according to the BNA survey.

2008 Top Outsourced Activities (10 - 250 employees)



Source: HR Department Benchmarks and Analysis, BNA 2008

¹ HR Department Benchmarks and Analysis 2008, BNA, 2008.

² Solnik, Claude, "Rising Tide of Regulations Promotes HR Outsourcing, Consulting," Long Island Business News, 7 October 2005.

³ HR Department Benchmarks and Analysis 2008, BNA, 2008.

⁴ Taylor, Jacqueline, "Small Business: Outsourcing Can Defray Cost," The Houston Chronicle, 9 May 2004.

⁵ "The Benefits of Outsourcing for Small Business," AllBusiness.com, Inc. 2008.

⁶ HR Department Benchmarks and Analysis 2008, BNA, 2008.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.



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