

Choosing an HR Option for Your Business

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What exactly is HR? The Human Resources function once consisted primarily of overseeing payroll and benefits, and recruiting and orienting new employees. Today, HR professionals must also stay current with ever-increasing state and federal regulations, monitor company compliance with these regulations, develop strategies to maintain safety in the workplace, create employee manuals, produce employee communications, build morale, identify and address employee productivity problems, align HR issues with the company's strategic business plan, and the list goes on and on.

As the job description has expanded, it has become increasingly difficult for an individual or individuals handling multiple job responsibilities to adequately manage the HR function. Companies with more than 100 employees typically have a position dedicated to HR, but many smaller companies simply add HR responsibilities on to the job description of the CFO, controller, office manager or administrative secretary. Often this person is unaware of compliance issues, uncertain how to handle employee behavior and productivity problems, and unsure about how to use HR resources to further the goals of the organization.

Calling in HR Expertise

The industry standard suggests one HR professional for every 100 to 125 employees. For New Hampshire organizations with fewer than 100 employees, it is tempting to conclude that the company is not big enough to need a full-time HR person. There is a

perception that HR duties can be successfully wrapped into the job description of employees with other responsibilities.

Generally, this strategy stops working when one – or all – of the following three things happen:

- The staff member assigned HR responsibilities does not have the expertise or resources to bring HR into alignment with business strategies.
- Compliance issues are not consistently addressed or are overwhelming to the employee assigned HR duties.
- HR responsibilities are taking up so much of a staff member's time that he or she is having trouble attending to other job commitments.

At this point, it is time for a company to bring in HR expertise.

Trend Toward Outsourcing

Organizations can enhance their HR capabilities in two ways: hire in-house personnel, or outsource some or all of their HR responsibilities. A 2002 study released by Accenture, an international management consulting and technology services organization, found that Fortune 1000 companies are increasingly outsourcing their human resources functions as a cost-cutting measure. Top reasons for outsourcing were cost savings; higher service quality; access to expertise and technology; and flexibility so that in-house human resource executives could focus on strategy, decision-making and planning.

As in the rest of the nation, many New Hampshire companies turned to outsourcing to reduce overhead during the recent economic downturn. Functions most likely to be

outsourced include activities that require special expertise and/or sophisticated technology.

Medical insurance claim administration, short- and long-term disability programs, employee assistance programs, employee recruitment, specialized training programs, and web-based workplace programs such as open enrollment management are particularly popular functions to outsource. Increasingly, however, New Hampshire businesses are also turning to outside companies to provide central HR functions such as performance appraisals, employee relations and organizational development. These companies are finding that a third party can provide an impartial viewpoint that is invaluable when evaluating a whole organization and its dynamics.

Companies that have successfully outsourced HR responsibilities have reported benefits that include increased efficiency, better use of organization resources, technological advantages and cost savings. In the Accenture survey, companies that retained HR staff while outsourcing some functions found that HR executives had more time to focus on strategy and become an integral part of decision-making and planning. The time-saving aspect of outsourcing has become particularly appealing as HR begins to assume a more prominent management role in helping an organization achieve strategic objectives.

In-House Staff vs. Outsourcing

Which choice will deliver the greatest long-term benefits: hiring and training internal HR staff, or turning to external experts and specialized services? The answer depends upon the organization.

In-house HR functions are indicated if an organization has a culture and business practices that are so unique that the learning curve to “train” an outside expert would be prohibitive. Organizations that place a priority on face-to-face access to HR representatives would probably also want to keep at least their employee relations functions in-house. Similarly, some organizations simply want in-house expertise in various HR functions and have no interest in hiring outside experts.

A report issued by The Conference Board on HR outsourcing trends found that the most common internal barriers to outsourcing were questionable cost/benefit justifications; inadequate readiness of people and systems; organizational resistance from within HR; and inability to manage relationships with outside sources.

On the other hand, outsourcing is ideal for organizations that are too small to justify a full-time HR position, yet need the expertise of an HR professional. Outsourcing is the answer for businesses that need flexibility to respond to financial or organizational uncertainties. Outsourcing is also the solution for businesses that do not have, cannot afford, or cannot find in-house expertise in specialized human resource areas such as behavioral risk management and employee development. Outsourcing may be particularly helpful for organizations that want to use HR to accomplish strategic objectives without conflicts caused by internal “turf battles” or preconceived notions.

Of course, the decision does not have to be an “either/or” proposition. The very best solution may be a combination of in-house and outsourced capabilities. Companies retain in-house those functions that are most integral to the organization, and outsource everything else.

The Secret to Successful Outsourcing

Before considering outsourcing, an organization's management must set goals for HR. Those goals will help define outsourcing relationships. If outsourcing does seem appropriate, figure out how the outsourcing relationship will fit in with any existing HR structure and the company's overall organizational goals. Make sure that widespread company support exists for the outsourcing decision, and that objectives are clear.

Next, find the right outsourcers. Look for companies or consultants that have proven track records, highly qualified staff, resources to provide the desired level of support and services, and a compatible corporate culture. Ask for recommendations and talk to past clients of the outsourcer to determine their satisfaction with the vendor. Take the time to interview a variety of vendors to find those that are the best match for your organization.

Some organizations contract with one vendor for all of their outsourced HR needs, but many use multiple vendors for everything from benefits administration to corporate coaching. Small companies frequently start by contracting with a company to provide an employee assistance program (EAP). An EAP helps employees resolve personal problems that are affecting their work life. The best EAPs also offer supervisory training to help managers learn appropriate methods of helping employees with personal issues.

As companies grow, they often need additional services such as risk management programs, crisis services, and organizational and individual performance assessment, training and coaching. Look for a firm that provides a broad base of expertise that can address a variety of needs as an organization grows.

Once you have established an outsourcing relationship, it is critical to educate employees about the arrangement and how it will benefit them. Clearly explain the reason

for the outsourcing arrangement, the impact that the arrangement will have on their lives, and, if appropriate, how they can use services.

Re-Evaluating the HR Function

Particularly during economic downturns, HR is often viewed as a drag on the bottom line. As businesses continue to cut costs by reducing overhead, the HR function can be in jeopardy because it is not a direct revenue generator. When companies opt to cut spare HR expenses by consolidating HR responsibilities onto a staff member handling other duties, it may be pennywise, but it could end up being pound foolish.

When companies scrimp on HR, they increase their exposure to risk. By staying up-to-date on compliance issues, addressing employee conduct issues, and dealing with employee grievances, HR services can spare employers from costly litigation or disruptive workplace events.

As a risk management function alone, HR is too big a job to throw onto the lap of an untrained staff member. Through strategic outsourcing agreements, even the smallest and most cost-conscious of organizations can take steps toward controlling their risk and increasing the satisfaction of their employees.

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