

HUMAN RESOURCES MATTER:

*Improving Performance and Managing Costs through
Human Resource Outsourcing*



Building Better Business

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Real HR management is more than an automated payroll system, it is more than HR technology software, Real HR management is made up of professionals with hands on experience inside your business when you need them. Total HR helps small and mid sized businesses choose and implement Human Resource Outsourcing solutions (HRO) . We know that one size does not fit all and therefore not every company will benefit from a HRO solution. We do know that in order to make good decisions leaders need timely information and that is what we want to provide in this paper.

The following questions are critical to your understanding of HRO:

- What is Human Resource Outsourcing?
- What is the value of working with an HRO?
- How do HRO help companies deal with an ever changing business environment?

While we may be able to provide our services to your company the purpose of this paper is to inform you of the benefits and limitations of the various HRO products and services in the marketplace. We know that when business owners and executives like yourself better understand HRO the more likely you will be to look at HRO as a viable solution for your business.

INTRODUCTION

In today's challenging economy it is essential for companies to "do more with less". It is critical that all of your resources are focused on your core business. The changing business landscape is forcing business owners to look at Human Resources more critically as they search for answers to the following challenges:

Talent Acquisition and Retention

One of the keys to the long term success of any company is their ability to attract, retain and develop their employees. Over the course of the next twenty years millions of employees will be leaving the workforce. These demographic changes along with lifestyle changes that allow people to work on their own as "free agents" will create quite fierce competition for the talent in many fields.

"It's understanding where your real value added is and putting your best people and resources behind that. We converted our back room to someone else's front room and that is what outsourcing is all about." Jack Welch GE

Healthcare

The world of healthcare is going to change over the next several years. Already the administration of COBRA benefits has become more onerous. The cost of health insurance premiums continue to rise far above the cost of inflation. The continued rise in healthcare

premiums and the time consuming administration of plans are forcing business owners and executives to find ways to contain the spiraling costs.

Risk Management and Regulatory Compliance

Most small and mid sized businesses think that they are immune to employee lawsuits and litigation when in fact more than 70% of all litigation is targeted at small business. This is especially acute in recessions and downturns when employee claims rise 20% over the normal rate. Without the expertise to deal with the myriad state and federal regulations your firm can be exposed to costly fines and penalties with just one mistake or simple oversight. Labor regulations that are in constant flux and employee litigation are risks that must be managed vigorously.

Did you know that the IRS has a task force that examines small and mid sized businesses that use Independent Contractors (IC's). Over a period of six years they audited over 11,000 businesses resulting in 475,000+ misclassifications resulting in \$751,000,000.00 of back taxes and penalties.

Multiple Hat Strategy

Most small and even mid sized businesses end up employing a “multiple hat strategy” to deal with the many aspects of HR management. This means that somebody who is not an expert is trying to deal with the administrative burden of Human Resources. The result is that most of the time is spent dealing with routine tasks and not working on strategic HR objectives.

For most companies 35% of their operating expenses are associated with employee compensation and benefit programs. With so much invested in your workforce it is critical to find ways to improve performance, increase efficiencies and lower total overall cost. An HRO partner can help companies execute their strategy and capitalize on opportunities.

WHAT IS AN HRO?

A Human Resource Outsource solution provides an integrated approach for managing your organizations administrative and strategic HR activity. Many HRO systems can consolidate vendors, simplify processes and lower your cost of doing business.

Why do businesses outsource HR services?

- Average median cost to administer HR internally for companies with less than 250 employees is \$1469.00 per employee per year (US SBA)
- 2000% increase in employment litigation, since 1995 (US SBA)
- 60% to 80% of an employer's time is spent on non-productive administration (Forrester Research, Inc.)
- More than 40,000 pages of federal employment regulations plus state and local regulations (US SBA)
- The median jury award for employment cases in 2005 – \$276,711.00 (ABA)
- Average Attorney's fees for cases that settle before trial – 95,000.00 (ABA)

- # of harassment and intimidation cases against small companies filed with EEOC in 2006 – 8,650

These are just some of the numbers that small businesses are faced with, so why not let people with the expertise and technology help you deal with these challenges and turn these costs into productivity and greater profits.

HR is the classic back office department and in many small companies (less than 100 employees) Human Resources is either forgotten or poorly managed costing your company time and money. Here is what they are doing back there...

- Payroll Administration
- Benefits Administration
- Risk Management (Workers Compensation)
- 1099 Management
- Vacation, Sick Time, Expense Reimbursements
- Policy and Legal Compliance
- OSHA Administration
- Employee Data and Records Management
- Recruiting, Staffing and Resourcing
- Temporary Staffing
- Performance Management
- Training and Development
- Labor Relations and Employee Relations
- Employee Communications



Does it make any sense for an owner, founder, CEO, CFO, Controller, or Administrative Assistant to be handling this work when you can hand it over to a professional team with the experience to make a difference.

Not all HR Outsourcing is the same and one size does not fit all. It is important when selecting an HR outsource partner that you understand your options and choose accordingly.

Professional Employer Organization (5 – 150 Employees)

Smaller and rapidly growing companies (5 -150 employees) can reap great benefits by entering into a co-employment relationship with a PEO. Most small business owners don't realize that over 70% of employment lawsuits are filed against small companies. PEO's protect small business by uncovering compliance issues and building professional HR practices and policies. Professional Employer Organizations provide a risk sharing umbrella by placing your employees under their FEIN. In this arrangement your company is able to take advantage of their insurance and benefits programs resulting in lower costs and more flexibility for your employees. Companies also get the benefit of having Employer Practices Liability Insurance (EPLI) further protecting them from potential employee lawsuits. An HR manager is assigned to each client and supports the recruitment and selection, regulatory compliance and performance management for the company. When making a final decision on a PEO make sure that their HR account managers are certified and find out how many

accounts they manage. If they are trying to manage more than 35 accounts they may be overbooked.

Administrative Service Organization (150 -500 Employees)

The ASO allows companies to leverage the expertise of a highly qualified HR department without entering into a co-employment relationship. Your company retains its FEIN identity, Benefits Plans and Workers Compensation but is managed by your HR vendor. Payroll Services are integrated with the management of these activities and a certified HR manager is assigned to provide strategic support to your company. HR managers typically will work with companies on recruitment and selection, performance management and regulatory compliance issues within the company thereby reducing overall operational costs and reducing exposure to risk. We have found this solution works best for companies with 150 - 500 employees where the PEO economies of scale are not as significant.

Single Process HRO (500 + Employees)

Companies that are using a payroll service to manage their payroll, or using a company that handles COBRA administration or using a temporary agency to help them fill out their staffing needs are taking advantage of Single Process HRO solutions. For larger companies with well developed HR departments using a Single Process HRO makes perfect sense. The HR department has the knowledge and skills to manage multiple vendors and at the same time leverage their internal resources to deliver value to their employees and company. The trend even for larger companies is to look for Multi-Process HRO solutions to better leverage internal resources as budgets become tighter. Small and Mid-Sized companies should evaluate their HR vendor relationships and take advantage of consolidating their activities in a Multi-Process HRO solution. Larger companies should look at consolidating vendors whenever possible to free up valuable time for HR managers to pursue more strategic activity.

THE VALUE OF AN HRO

Whether you are just starting out, been in business for several years or making the decision to grow, a common misconception is to believe that Human Resources are an expendable part of your business plan. As a company owner, you think that HR expenses can be avoided without causing too much overall disruption or damage to your profit margin. It is easy to make such a mistake but you may want to reconsider your perspective and think differently. The following numbers have been proven in recent studies — the Management of Human Resources greatly affects your bottom line:

By outsourcing your HR function and aligning your strategies with consistent and reliable HR practices you can increase productivity and profitability.

- **Increased Efficiency** – By consolidating multiple vendors you are able to save valuable time and

The HR Difference

66% Higher Return on Sales
20% Higher Return on Assets
20% Higher Return on Investment
13% Higher Return on Equity
47% Increase in Company Value

[1] Bruce Pfau and Ira Kay, *The Human Capital Edge*, New York: McGraw-Hill Companies, Inc. 2002

[2] Edward Lawler and Susan Mohrman, *University of Southern California, Center for Effective Organizations*, 1999

effort in managing HR administrative tasks. Consolidation results in lower costs, more focus and a reduction in duplicate processes.

- **Enhanced Benefit Programs** – One of the biggest challenges for small and mid-sized businesses is managing the costs of healthcare premiums. By outsourcing your HR to a PEO you have access to lower cost benefits programs due to their economies of scale. The recent changes in COBRA administration have made it even more difficult for companies to manage health care. In addition to healthcare programs, HRO's can offer Dental, Vision, Employee Assistance Programs and Retirement options for companies. By offering additional benefit programs companies build morale, lower overall cost of administration and enhance their ability to retain key employees.
- **Quality Risk Management** – HRO's initially work with you to maintain your employee files, provide updated employee handbooks, and work closely with management to ensure regulatory compliance. HR account managers work closely with client companies thereby reducing exposure to wrongful termination, discrimination and other employee lawsuits. Companies that outsource to a PEO gain access to affordable Employment Practices Liability Insurance, OSHA training, mandated Sexual Harassment Training, and Workers Compensation Claims Management. Better Risk Management results in greater efficiency and a better bottom line.
- **Strategic Support** – The time saved by using an HRO will enable your staff to focus on building markets rather than administrative capacity. The right HRO partner will work with you on long term recruitment strategies, performance management metrics, leadership development and workforce planning. As these processes are developed you gain a competitive advantage that results in lower costs of operation and more productivity. By aligning HR with your company objectives you get to focus on what matters most – the bottom line.

THE CHANGING BUSINESS ENVIRONMENT

The one thing we can be sure of is that change will happen. Whether they are changes in your industry or changes in the regulatory environment you need to be able to chart your next course. HRO services provide flexible and customizable solutions that help you navigate an ever changing business world. There is no need to build HR

capacity internally, no need to work with various vendors, no need for expensive calls to attorneys, and no need to worry about regulatory compliance. The successful business of today needs to be proactive in their thinking about where the next opportunity resides not reacting to the regulatory maze of Human Resources Management. HRO's provide instant expertise and is a committed strategic partner that helps you build a better business.

A corporation is a living organism; it has to continue to shed its skin. Methods have to change. Focus has to change. Values have to change. The sum total of those changes is transformation. - *Andy Grove Intel*

ABOUT TOTAL HR

Total HR provides an array of services designed to deliver a complete HR department for small and mid-sized businesses. Our comprehensive suite of solutions allow our clients the experience of working with a Fortune 500 HR department. The benefit is more focus, sustained growth, a motivated workforce, the ability to attract needed talent and a lasting competitive advantage. Build a better business with Total HR.

For more information, please visit our website at www.totalhrmgmt.com or call 800-975-5128