



# Why Are Businesses Flocking to Outsource Human Resources

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It's simple. Companies outsource Human Resources to save money and improve efficiencies.

Parts of HR have been outsourced for decades. Benefits, payroll, workers compensation, and recruiting have been prime targets. But as complexity in the HR world goes up and the ratio's of internal HR resources to number of employees moves from a comfortable 1 per 100 to a staggering 1 per 1000, the pressure to find new and better ways to accomplish HR is enormous.

New capabilities to perform HR applications are becoming available at an astounding rate. Automated systems now exist in such areas as applicant tracking, EEO/Affirmative Action, job posting, candidate screening, on-boarding, performance management, and HRIS just to name a few. Plus, legislative compliance and related employment law suits are expanding almost exponentially. Because the rate of change is so high, only the largest and most sophisticated HR teams stand a chance of staying current and cost effective. With people and people related expenses being the number one cost in most businesses, getting HR right carries a huge premium for those who make the investment.

To find relief, many employers are turning to outsourcing as the solution. But, management needs to be careful not to unintentionally lessen their HR capabilities in the process of outsourcing. Most outsourcing firms are specialist providing capability in only one or two of the 100's of sub-functions of HR. Admittedly, these companies provide great products at economically attractive rates. However, they do not necessarily combine well with other capabilities. It is like having puzzle pieces that do not fit together. Each piece looks great, but you can never see the whole picture. When this happens, costs can actually go up; employees can suffer, and productivity can falter. What's needed is outsourcing that takes responsibility for the whole as well as the parts.

Larger companies need to retain HR strategy internally. HR should "sit at the table" with executive management to ensure that the right people and processes are available to the company when needed and to manage all the related HR systems to keep costs low and quality high. Larger companies should also retain the "employee relations" function internally to provide the "high touch" to support the other "high tech" HR solutions. Keeping these two functions inside will help management stay in touch employee needs and promote employee engagement and productivity. Depending on size, leadership on other HR functions such as benefits, compensation, and talent acquisition should also be retained in the fabric of the company. However, smaller companies (typically fewer than 1000 employees) may be able to outsource all or most of even these functions to an outside HR management company.

If you outsource, the best solution is an integrated supplier that provides HR oversight and core HR capabilities as well as manages the other HR vendor relationships for the company. However, such companies are hard to find and you may end up paying a premium for the privilege. However, if you choose wisely, you can have access to HR expertise that could not otherwise be afforded. This type of HR expertise will drive down the costs of employment and drive up employee productivity.

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Done well HR outsourcing (particularly in small and mid-sized businesses) will reduce HR infrastructure costs by 25% or more, secure and retain the right employees for your business, and increase organizational effectiveness and employee productivity. Any outsourcing should be predicated on ample due diligence to ensure that the optimum mix of costs and capabilities are secured and sustained over time.

Is it worth the effort? That depends on where your business is in the business cycle. If you are growing, HR needs to be scalable to support growth. If you are cutting cost, HR needs to deliver core capabilities, but with minimum expense. One of the greatest outcomes is to have predictable, scalable, repeatable practices to keep the employees happily supported. If you are in a high turnover environment, HR needs to find cost effective solution to manage all the attendant recruiting, training, regulatory compliance costs.

Many research studies have shown a strong positive correlation between a motivated and engaged workforce and sustained profitable growth. But, it does not just happen. It must be planned, well executed, and continuously nurtured. Here is where HR can really add to a company's bottom line. Larger companies can do much of this internally with judicious outsourcing of HR sub-functions. Small and mid-sized companies need to seek out and engage the right outsourced HR resources to give them quid pro quo capabilities to compete in an ever more challenging competitive market.

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