



Introduction

Picking through the white noise about outsourcing can be time consuming and tedious. And while you're busy doing all that research, your company's payroll and benefits problems aren't going anywhere. You need to outsource—but you're not clear on the alternatives available to you.

Who Should Read This?

You will want to read this document if you are evaluating HR outsourcing alternatives for a company between 1-100 employees.

Companies Face Several Alternatives

Outsourcing isn't the only answer. Most small companies face a complicated decision path when deciding what to do with business non-core functions.

This is because small companies, even more so than their larger counterparts, need to focus on their core competency with laser-like precision. Any function that doesn't directly relate to that core competency distracts the workforce from developing the company's product or service.

When faced with human resource challenges, companies have three alternatives:

Create or Improve the In-House Infrastructure

Pros: Creating an in-house infrastructure gives business owners the confidence that they are building the HR processes that are right for their company, and psychologically it offers a sense of control. It allows a business owner to create a company culture from the "ground up" by hiring employees who oversee the general environment, character, and personality of the company.

Cons: A smaller company may not have the time and resources to build such an infrastructure. That time may better be spent on developing the company's product or service. It's also possible that the right HR provider—which forms a true "match"—may indeed be able to contribute to the company's internal culture by streamlining processes and offering high-level HR expertise.

Multiple Vendors

Pros: If the decision is made to outsource the HR function, companies may choose to seek out providers that handle disparate functions. For example, they may select a benefits broker and a separate payroll provider. The advantage to this approach is cost driven; a company can generally spend less on providers that specialize in handling one particular function. That's because single-function providers tend to do large volumes of business in order to keep their price point low.

Cons: The time and effort of managing multiple vendors can often offset the up-front cost savings. This is particularly true if the vendors deal with related functions—such as payroll and benefits—but use separate systems or databases to do so. These means that the functions aren't integrated and can often prove extremely difficult to manage properly. In addition, "large volume" providers may not offer the individual attention or the range of services that the company truly needs, undermining the attractiveness of the lower cost.

Single Vendor

Pros: The HR outsourcing landscape offers the ability to outsource to a single provider. These "integrated" providers offer payroll and benefits together on a single platform, as well as high-level HR expertise in the form of on-site staff. Single-vendor providers can act as a company's entire HR department and prevent the need for in-house staff or infrastructure.

Cons: The primary disadvantage of an integrated outsourcing provider is that the service may be overkill for a company that only needs to offload a single HR function. For example, if payroll is the primary problem, the company probably only needs a payroll provider rather than an end-to-end service. In addition, an integrated provider may offer a degree of flexibility in its service but may not be able to accommodate specific requests from its customers (for example, building electronic timesheets into its online services).

Recommendations for Due Diligence

Points to consider when evaluating HR providers:

Does the cost of the provider's services lead to other time and cost savings, such as reduced administrative staff, decreased employee oversight, etc.?

Does the provider have customers willing to provide references?

Is the provider's fee structure easy to understand, enabling a cost analysis of outsourcing fees versus in-house investment?

Does the provider leverage Internet delivery for time and cost savings?

Does the provider offer a call centre for employee questions?

What is the provider's set-up process? How fast can it be completed?

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