When Should You Outsource HR?

By Gretchen Lee

If you outsource some or all of your company’s human resource functions, you’re in good company — the research and analysis firm Gartner Group has found that HR ranks number one among outsourced business processes nationwide.

Of course it’s easy to see how behemoth companies can claim tremendous savings by farming out some or all of their HR tasks, especially if it allows them to cut back on expensive in-house staff and reduce demands on company-wide computing systems. Likewise, recruiting needs at these companies are often so great that the organization is best served by an outside firm that can help attract new talent from a nationwide, rather than a local, pool.

On the flip side, smaller firms benefit from outsourcing precisely because their needs are not so great. When you don’t have enough HR tasks to warrant hiring someone full time to handle the job, you can see how you would do well to hire a specialist firm to take on those tasks. Nowhere is this more evident than in small companies where the HR person is someone who wears more than one hat — maybe they’re also the office manager or the business owner, for example. It’s not about the money so much as it is about the expertise and the personal bandwidth available.

So how do you decide when it’s time to outsource some or all of your HR functions? Ask yourself the following questions.

Are we wasting valuable staff time on HR tasks?

Take a look at specific areas of responsibility, like payroll and benefits administration, staff recruitment, training, managing annual reviews, and so on. If you’re not currently outsourcing payroll, for example, someone somewhere in your company is spending several hours per pay period printing checks, calculating deductions, etc. How much does this person earn per hour? If they were not performing HR tasks, could they be working instead on tasks that generate income for the company?

Too often, it’s the small business owner who takes on the mundane but highly sensitive tasks like preparing payroll. But this is seldom a cost-effective approach, especially when you consider the boss’s rate of pay and calculate that expense against “lost opportunity” costs associated with keeping the owner behind a desk rather than out in the field. It does cost something to hire a payroll service, but it could be money well spent if it frees up valuable staff time for higher-level functioning.

Likewise with benefits and policy administration. When a new person joins the company, is it a simple matter to get them onto the insurance plan? Do you have the right materials at hand so that you can easily answer their questions about workplace policies like sick leave or vacation pay? Do you have a safety program already in place? Or do you find that you’re inventing the wheel each time a new person comes on board — researching your insurer’s requirements and leafing through the employee and safety training manuals (if they even exist, that is)?

Some HR professionals work with small companies on a contract basis to provide as little or as much help as is needed to implement and manage key programs. Hiring an expert to guide these programs — even if only to streamline and improve processes already in place — can be well worth the money if it means your staff can function more efficiently.

Are we facing a big investment in HR computer systems and equipment?

When you manage HR functions like payroll in-house, you can expect every so often to have to upgrade your software and purchase new computing equipment. This can represent a significant investment to a small firm, not just in terms of money spent but in time and energy devoted to researching new options. It’s at this juncture that many companies take a good hard look at their current practices and decide whether to continue providing these functions in-house or outsource them instead.

If the cost of upgrading is too steep, you could save money overall by pursuing a tactic of cost avoidance rather than cost reduction. That is to say, you might spend the same amount each year on the service itself that you would have spent on in-house staff, but you won’t have the outlay of cash for the software and hardware upgrades — that’s the outsourcing company’s responsibility.

Are we adequately meeting the needs of our employees?

All cost considerations aside, remember that the real reason for providing most HR functions has to do with maintaining worker satisfaction. It’s no easy task to find and keep good employees. Just as you have certain expectations of your workforce, so do they have expectations of you. Namely, that they get a paycheck when they’ve earned it and that they are afforded industry standards in terms of health care coverage, vacation benefits, and so on. Similarly, they expect to be treated fairly and have opportunities for advancement.

It’s pound-wise but penny-foolish to skimp on human resources. You owe it to your employees (and to the continued success of your company) to develop sound HR policies, create effective training and safety programs, and administer industry-standard benefits.

Remember that there’s an accountability factor when managing HR functions. Whether you’re managing resources in-house or outsourcing all or part of them, you set the standards for your company and its employees. Be sure to set clear, measurable goals for any company you hire, and be prepared to switch if the firm you’ve hired is not meeting your expectations. Or take the reins yourself and devote the resources necessary to making sure your employees are well cared for.

They’ll reward you well for your effort!