



When and How to Outsource Human Resources Management

**Opportunities for big efficiencies
at small businesses.**

Executive Summary

A successful human resource management system (HRMS) is more than systems, procedures, and compliance checklists. Expertise in HR helps companies put these pieces together in a way that meshes with company values and needs. Human resource requirements, regulations, and employee expectations can challenge even the largest companies staffed with dedicated professionals. These challenges become more acute in smaller businesses that may not have the internal expertise or staffing and resources. Delegating HR administration to outside experts can help businesses establish and maintain an effective HRMS.

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What Is HRMS?

“Employee management system,” “personnel management system,” and “human resource management system” are used interchangeably to refer to a system for managing the employee-employer relationship and overall compliance with HR regulations. The basic components of an HRMS include recruitment, payroll, employee benefits, and regulatory compliance.

Hiring Employees

Employees may be a business's most important resource, so recruiting, hiring, and retaining strong performers helps keep a company on top of its game. It's important to remember, however, that the hiring process is about much more than a successful interview. A toxic or unproductive employee can cost a business significantly. *HR World* offers a calculator that helps to quantify the hard costs of employee turnover.¹

Employees can make all the difference when it comes to growing a company. They produce, deliver, and manage products and services day in, day out. That is why an HR recruitment strategy should extend well beyond the job interview. Opportunities for training and recognition can help keep employees stimulated and their company thriving. Research shows that well-motivated employees are more productive and more creative. What motivates employees can be as different as the employees themselves. A formal employee recognition program with rewards such as time off, compensation, or a certificate of achievement can help increase employee morale and decrease turnover.

Paying Employees

Setting up a payroll system, calculating an employee's hours worked and regular pay rate, taking deductions from the employee's pay, and getting the money into the employee's hands are critical and demanding activities.

Paying employees accurately and on time may be the foundation of HR responsibilities; however, the date and dollar amount on the paycheck are just the basics of employee compensation. Payroll practices must comply with federal, state, and local laws and agency regulations, including maintaining records as stipulated in applicable statutes. Complete and accurate records can also mean more efficient tax preparation for employers and employees.

While many workers attest that satisfaction at work is “not about the money,” ensuring that employees are paid seamlessly can go a long way toward keeping them happy and on the job.

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Administering Benefits

A comprehensive benefits package can be essential to attracting and keeping quality employees. A start-up business with a few employees might not be thinking about including benefits such as training opportunities, section 125 and retirement plans, or employee assistance programs. However, loyal employees can make the difference between a business that struggles and one that succeeds.

Business owners who understand that employees are interested in more than wages alone may achieve a competitive edge by offering their employees benefits that will protect them today and prepare them for tomorrow. Employees with a variety of benefit choices can experience the comfort of economic security and a heightened sense of job satisfaction.

Workplace benefits are valued so highly these days that 57 percent of respondents to an Opinion Research Corporation survey said they would be willing to take a salary cut or do without a raise or a bonus in order to keep the same level of benefit coverage.²

Benefits for employees mean benefits for employers too, and contributions made for benefit premiums are often business tax deductible.

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Meeting Regulations

A solid HRMS may help companies meet the demands of regulatory compliance by easing the burden of remaining compliant with the Americans with Disabilities Act (ADA), the Fair Labor Standards Act (FLSA), COBRA, and the American Recovery and Reinvestment Act (ARRA) — just to name a few of the laws that businesses must understand and follow.

Whether a business has one employee or 100, compliance with labor laws is the business owner's responsibility. Federal, state, and local laws govern everything from workers' compensation to on-the-job safety and health. Compliance is not just a matter of following the law. In many cases, it's as much about avoiding costly errors that negatively affect a company's bottom line. High compliance standards help show employees they are working for a company that cares.

Do It Yourself or Outsource?

A look at hard capital costs may show that it makes more sense to outsource HR functions. Outsourcing allows small businesses to plug into solutions offered by a professional HR partner, often at a fraction of the cost of supporting in-house HR functions. Benefits of outsourcing may include:

- **Speed** – HRMS providers have infrastructure in place to help meet goals.
- **Expertise** – HRMS providers have professionals experienced in compliance and implementation.
- **Access to benefits** – Existing relationships and buying clout help make benefits available at optimal pricing.
- **Accuracy** – Computer systems integrate data from multiple sources, such as payroll and retirement plans, to increase accuracy.
- **Compliance** – Regulations continually change. HRMS providers may have dedicated specialists who educate, inform, and make updates for each client.
- **Security** – HRMS providers invest significant dollars in data security to protect client information.

Top 10 Questions to Ask When Considering HR Outsourcing

1. Do you have HR methods in place to develop your in-house team?
2. Can you hire the best employees yourself and retain them?
3. Is your plan for employee relationships equal to your expectations for employees and the level of service that you strive to provide to customers?
4. What is the overall reputation of HRMS providers in your area?
5. Can they meet your needs today?
6. Does the provider make continual investments in technology?
7. Does the provider maintain policies to ensure the security of your data?
8. Is the provider financially stable?
9. Can the provider create an HRMS that works within your budget?
10. Does the provider deliver strategic aspects of HR beyond recordkeeping?

Interview providers who meet your requirements. Ask for referrals to ascertain how well providers' solutions would work for your specific needs. Look for a provider who really takes the time to understand you, your business, and where you want to go in the future, rather than one who offers a prefabricated, one-size-fits-all package.

Remember, delegating HR administration to the experts in the form of a qualified HRMS can help free you to focus on successfully running—and growing—your business.

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About Paychex

Founded in 1971, Paychex, Inc. is a leading provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses. With more than 100 offices and over a half million payroll clients nationwide, the company offers comprehensive payroll services, including payroll processing, payroll tax administration, and employee pay services. Human resource services include 401(k) plan recordkeeping, time and attendance solutions, section 125 plans, and other administrative services for business.

Paychex Insurance Agency, Inc. makes available a full range of workers' compensation, business, and individual insurance options, including health insurance from more than 150 highly rated carriers.

Notes

¹*HR World*. "Calculators" menu, <http://www.hrworld.com>.

²*Employee Benefit Adviser*. "Guardian survey highlights importance of benefits, suggests blueprint for success." <http://eba.benefitnews.com/news/guardian-survey-highlights-importance-of-benefits-suggests-blueprint-2682068-1.html>

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