

Options for Handling Your HR Function

A comparison between in-house HR, multi-vendor, and single vendor HR outsourcing

“The decision to outsource our HR function to TriNet has given our employees greater choice and flexibility with respect to benefit plans. And it has allowed us to focus on our core competencies.”

Neil Glass

Senior Vice President and

CFO

Ziff Davis Media Inc.

Introduction

HR is a necessity when you have employees. And what could be better than taking a set of duties – which although a necessity, are not a core competence – off your plate?

According to a Small Business Association study, the average small business owner spends 25%+ of the time handling employee-related paperwork. This average increases to a staggering 35-45% if the tasks include recruitment, hiring, and training of new employees.

After all, you have no interest in processing payroll twice a month, negotiating benefits with insurance carriers, or worrying about how to comply with a litany of government regulations. You entered into business to build a lasting legacy, deliver great products or services, and generate revenue doing what you do best. So why NOT outsource HR?

Why Change from Do-it-Yourself HR?

You didn't start up your business in order to manage human resources. And yet, because HR is complex, precious time and resources are used up as you handle it in-house. Why is “do-it-yourself” HR so overwhelming? Here are six main challenges that small businesses often cite:

1. Doing HR right can be time consuming

The scope and responsibility of HR is broad – covering both tactical and strategic activities. Unfortunately, tactical HR activities can consume most of the hours in a day and steal time from truly strategic activities. Doing HR yourself means allocating time for functions such as benefits planning, recruiting/hiring, training, managing personnel files, payroll/time reporting, performance reviews, manager development, annual merit evaluations, managing leaves and life status changes, plus lots of HR administration and compliance issues.

2. Explosion of benefit plan choices

The explosion of benefit options has created a huge administrative burden for many businesses. Should your company offer HMO, PPO, High Deductible, POS, Health Savings Accounts, even Flexible Spending Accounts? What about Life Insurance, STD/LTD, Retirement Plans, Commuter Plans, and various Voluntary Benefits? If so, which ones will best fit the needs of employees and executives? Which plans will make it easier to recruit the talent you need? Figuring out which plans will make you more competitive is no easy task.

“With TriNet, EDL is able to focus on the strategies of the business, employee development, and operational excellence while partnering with TriNet to handle the back-office functions.”

Sue Fuller
Director of Talent
Management
EDL Consulting

3. Many third party relationships to manage

You will have to manage a payroll vendor, state tax authorities, health insurance brokers, health insurance carriers for medical, vision, and dental, and disability, as well as vendors for employment liability, voluntary benefits, recruiters, HRIS system, compensation data, employee handbook/policies, outplacement, legal guidance, and many others. Managing all these vendors also places a burden on the accounting team to reconcile invoices and pay vendors.

4. Many regulations

The acronyms are numerous and adding up every year: COBRA, FMLA, ADA, OSHA, EEO, WARN, HIPAA, ERISA, FLSA, etc. And you will have to keep up with federal laws and labor laws specific to your state and region, plus an ever-changing tax code.

5. Lack of negotiating leverage

Given their size, most small businesses simply do not have negotiating power when dealing with large insurance carriers and other vendors. Even a single event, such as an employee who gives birth to premature twins, can dramatically alter the cost of your medical benefits. Unfortunately, the end result can be a lack of control over escalating costs.

6. Too much paper and inefficient manual processes

HR consists of multiple inter-connected business processes and multiple people involved in each process. Our clients tell us that their former in-house processes were ad-hoc and required manual effort, quickly turning into a paperwork nightmare.

Three Options for Handling HR

You have 3 basic options in regards to who can handle your HR function:

Do-It-Yourself

You can accomplish it on your own or offload the job to current or newly-hired internal staff. The upside is you control everything, which keeps costs low. The downside? You don't have the time to do it all—not when generating business is the main priority. In addition, you own all the liability. One missed deadline or misunderstanding of a regulation, and you could damage your business.

Pros	Cons
You own the process	Not enough time in the day
Potentially lower short-term cost	You own all liability
	Inability to contain long-term costs

“Our experience with TriNet has been one of excellent customer service, time-saving processes, and money-saving products.”

Craig A. Anderle
CFO

Jacksboro National Bank

Multi-vendor

You can outsource to multiple vendors, utilizing each one for a specific task and area of expertise. This will probably entail finding a payroll vendor, another for benefits, another for your 401(k), and so on.

The upside is you get experts to do the work, which saves you from doing HR administration tasks yourself. The downside is the amount of time spent managing the vendor relationships and eventually your lack of control over long-term costs. Using the multi-vendor approach can end up becoming a time-consuming referee match as you try to steer your patchwork of vendors toward a common goal.

Pros	Cons
Shifting some responsibility and administrative tasks to others	Ongoing management—no “one throat to choke”
Time saver in the short term	Lack of data integration
Leverages vendor expertise	Employer-related liability
Short-term cost containment	Lack of control of long-term cost

Single Vendor/PEO

You can use a Professional Employer Organization (PEO) as a single vendor HRO solution. The fewer relationships a company has and the simpler the outsourcing process, the better. Select benefits of outsourcing to a single vendor include increased efficiencies, an improved employment brand, and a renewed ability to focus on the core business.

In addition, many PEOs can offer a range of strategic services. These services go beyond the capabilities of a typical in-house HR department and therefore result in a competitive advantage. Such services include talent acquisition, performance management, and employee development.

In terms of technology, the best PEOs have developed a single information system platform that powers all of their HR software systems. Many of them have also developed user-friendly business intelligence that aids executives in decision making, specifically related to salary levels, compensation trends, and workforce performance data. These online tools reduce paperwork and the overall administrative burden at small businesses. They are especially helpful for companies with multi-state workforces.

“I was advised to do what I do best, which is banking, and not mess with all the compliance issues that come with HR. Offloading human resources to a PEO has proven to be a very good decision on our part.”

Ed Thomas
CEO
Town Center Bank

The upside to finding a single vendor is that you manage a single relationship and gain HR expertise, HRIS technology, and a qualified team to manage your HR function. This saves time and cost in the long term. However, the downside is you must find the right HR partner—one that tailors its services and cost structure for your specific industry—because a wrong choice is a costly one.

Pros	Cons
Single point of contact	Perceived loss of control
Reduced time spent managing provider relationships	Some favor current vendor relationships
Reduced employer-related liability	Cost, depending on the situation
Ability to leverage PEO expertise	
Long-term cost containment	
Time savings	
Robust technology	
Call Center support	

In general, PEOs can manage your organization’s HR functions better and more efficiently than if you did it yourself -- allowing you to stay focused on your core mission.

PEOs and co-employment

The PEO accomplishes its work by sharing a tax ID with its customers. This is called a co-employer relationship. It enables a company to transfer many of its key employer responsibilities to the PEO, including aspects of employer-related risk and compliance. A formal Customer Service Agreement specifies the division of responsibilities between the PEO and its customers.

Once your organization enters into a co-employment relationship with a PEO, your employees continue to work for you. You still retain complete control over operations, hiring and terminating your workforce, building your company culture, and defining your employment brand. But with the co-employment relationship, many of the other tasks related to administering HR become the responsibility of the PEO. These tasks include administration of payroll and benefits, providing HR services, and assisting with employer compliance.

Both U.S. and Canadian governments now recognize there are two employers in this situation, but for the most part government agencies look at the PEO as being the responsible party for the administration of HR. They consider the PEO the **Employer of Record**. This arrangement means your employees' checks will carry the name of the PEO, though to the rest of the world, they are employed by your organization. And if there are any legal problems arising from the HR function, then the PEO assumes some of that risk.

Is there a downside to co-employment? There can be, if you partner with the wrong one. When you use a PEO to handle HR and employee administration, you are putting a great deal of trust in another company. You want to make sure you select a PEO that has a proven track record, extremely efficient systems, and solid financial strength to ensure it will be around for the long term. Using a PEO for your business should be considered a long-term strategy, not a short-term fix.

TriNet client case study

One company that has gone from a multi-vendor arrangement to a single vendor/PEO is **Bank of Central Florida**. They switched to TriNet (formerly known as Gevity in Florida) and realized immediate savings. CFO Kerry Charlet explains why their decision has been a cost-effective one: "When compared to the renewal quote from our incumbent provider (based on an individual group plan), we estimate that we save approximately \$50,000 per year between the employer and employee cost savings for our health insurance plan. This represents about a 25% savings in total costs."

About TriNet

TriNet helps small business entrepreneurs realize their ambitions by being their essential HR partner. As their Trusted Advisor, we help them contain HR costs, minimize employer-related risk, and relieve the administrative burden of HR, thus helping them focus on their number one priority—their business.

For more information, visit www.trinet.com.

Disclaimer

The contents of this white paper have been prepared for educational and information purposes only. The content does not provide legal advice or legal opinions on any specific matters. Transmission of this information is not intended to create, and receipt does not constitute, a lawyer-client relationship between TriNet, the author(s), or the publishers and you. You should not act or refrain from acting on any legal matter based on the content without seeking professional counsel.

Copyright © 2010 TriNet. All rights reserved. All trademarks, trade names, service marks and logos referenced herein belong to their respective companies. Oct 2009. 069600000004DTs

Learn more at TriNet.com or call **888.874.6388**

