



MMC, Inc. White Paper Series #2

Wall Street, Main Street & HR Outsourcing

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“Profits and stock appreciation are not rights, but rewards for insight mixed with willingness to take risks.” Economist Arthur Laffer¹

In today’s uncertain economic environment most organizations are less willing to take risks, and are exercising more insight by cutting expenses. As Congress attempts to revive a weak U.S. economy to help savers and investors, the approaching New Year presents challenges for organizations seeking new ways to reduce expenses. Many organizations also find themselves overwhelmed with the particulars of HR processes with only limited time to search for new sources of cost savings.

This article examines the renewed interest in the advantages of outsourcing of HR business processes.

Outsourcing: Definition Revisited

Other terms and phrases used interchangeably for *outsourcing* include “contract out”, “farm out” and, in the international context, “off-shoring”. One straightforward definition of outsourcing is *a process in which an organization delegates some of its core operations or processes to expert specialists*. An organization which decides to outsource usually enters into a contract to purchase services from an outside source, while keeping ownership and primary responsibility for the basic business. The decision to outsource HR processes is a strategic one with the goal of more efficient and competitive operations.

Why Outsource: Major Advantages

- Reduces pressure to contain costs while providing more time for strategic planning
- Enhances ability to retain high performing employees because there is more time to effectively manage people, e.g. employee recognition
- Offers access to experienced HR specialists for expert advice, enabling organizations to be proactive rather than reactive, and to maintain high-quality employee relations
- Increases an organization’s flexibility to quickly make needed changes to improve operations (while avoiding layoffs whenever possible)
- Improves ability to lower overhead costs, such as salary and employee benefit expense



- Enables management to better understand and comply with complex employment laws and related regulations

Outsourcing may not be practical for every firm. However, many small- and medium-size organizations can no longer afford their own in-house HR staff, so the many advantages of outsourcing HR functions usually outweigh any disadvantages. Rarely does the cost of outsourcing HR processes exceed the cost-savings and other intangible pay offs, such as a more motivated and productive workforce.

What To Outsource: HR Processes

Getting it done by outside experts can be a win-win situation. HR services most suitable for outsourcing include:

- Payroll and record keeping
- Training and development
- Technical and complex benefits administration
- Recruitment and selection
- HRM legal compliance, e.g. COBRA, HIPPA disclosures, avoidance of costly discrimination complaints.

There is a keen interest in and greater justification for outsourcing specialized HR functions because of the current economic crisis. The renewed interest in outsourcing, not just the domestic outsourcing of HR, accounting and IT work, is reflected in a recent study on outsourcing of legal compliance projects. Yes, some legal work is even being outsourced offshore to India. (*Value Notes Database*, full-service research firm, published in USA newspaper, Oct. 15, 2008).

How to Outsource: Right Way

It is generally a good idea to save on expenses whenever possible to stay competitive, but particularly in today's environment of a worldwide economic downturn.

The first step in deciding whether or not to outsource HR processes is to evaluate the HR functions that take up most of the valuable time, and where more problems seem to occur.

Next, once the HR processes that may be done more efficiently by outside professional specialists have been identified, gather information from a variety of reliable sources before making a decision with business-shaping ramifications. Contact a reputable outsourcing firm with proven experience, like MMC, Inc., to obtain a cost-benefit analysis upon which to make an informed decision.



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To assist clients, MMC, Inc. has launched a special series of workshops covering key topics for manager development. This series offers a broad menu of a variety of interesting and highly relevant “talent development” workshops in flexible onsite formats e.g. lunch forums, 2-hour on-site programs. They may even be offered to employees as a special employee recognition, or as a means for improvement as part of performance evaluations. Please visit www.MMChr.com for details.)

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Mr. Dan Van Bogaert is a widely known and highly regarded adjunct professor teaching employment law and human resource management graduate, undergraduate and certificate courses. He brings more than 20 years of experience in training HR professionals throughout California. His work includes the design and administration of corporate employment policies, benefit plans, and related ERISA compliance consulting in public and private business sectors