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Weighing the Cost

Many small and mid-sized businesses see outsourcing human resources as an invaluable service, bringing an objective eye to the table.

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There was a period when Russell Lamb spent more time managing the details of his company than focusing on the big picture. As a principal of Allegro Realty Advisors in Independence, Lamb found his days were spent more on administering human resources functions — such as workers' compensation issues and benefits — than advising clients on real estate concerns.

"As the firm was growing, I was one of the principals responsible for this [function]," Lamb recalls. "It began becoming distracting in managing the company. It became a headache."

While Allegro had always outsourced payroll, Lamb realized it was time to call on outside help to manage all the company's HR functions for his 15 employees. So Lamb turned to Administaff, a Cleveland-based, full-service professional employer organization (PEO) that provides HR services for small and mid-sized companies.

Today, Administaff manages Allegro's benefits packages and payroll, as well as provides training programs. "They offered a solution that worked for me," says Lamb. "It let me focus on the business."

According to the National Association of Professional Employer Organizations, small or mid-size business owners can spend up to a quarter of their time managing employment-related paperwork. So today, companies of all sizes are turning to firms like Administaff to handle human resources functions. From payroll to hiring and training, professional HR outsourcing firms offer a higher level of employee attention, while allowing business owners to focus on their core competencies.

"Most small businesses really never had an HR department for any number of reasons," says Nick Giancola, district manager of Administaff's Cleveland office. "It really takes them to a higher level. It helps them grow their businesses, reduce liabilities, and it allows them to relieve someone on the staff who does it, whether they're trained in that function or not."

Hugh Fisher, director of human resources consulting for Cohen and Co. in Cleveland, sees HR outsourcing as a way to bring an expert and an objective eye to the table. "Often our clients don't have a high level of HR experience on staff," he says. "What you're doing is hiring an adviser."

Objectivity is the key reason Patricia White, CEO of Sales Building Systems in Mentor, turned to Cohen and Co. in 2001 for help in developing a compensation plan for the company's 50 employees. "Our first project with them was developing an overall organization compensation plan," White says. "They worked with us for weeks and met with the management team to make sure we had a compensation plan that was professionally done. They developed a plan that was competitive with like companies."

White subsequently turned to Cohen in 2003 to manage recruitment processes. "We were looking for a process that would help us define our needs for a particular position," White says of the decision to use an outside recruiter. "They worked with us to match up our needs in a candidate and our culture."

Fisher sees recruitment as a vital outsourcing need for small and mid-sized companies. "A lot of problems managers have in recruiting people is they're too close to it," he explains. "There's a position open and they need to fill it. In the end, we're helping the business owner identify what a candidate brings to the table."

The benefit for the employer is an employee who is the right match for the position. "The greatest value a business owner can bring to the table is really doing a good job bringing in the right people," says Fisher, noting that many employers can't accurately define what they expect from a new hire. "We're the ones saying, 'Hey, this isn't necessarily obvious,' and we point it out for them. We do start plans — really lay out what the expectations are from day one. The benefit is the new employee and manager are on the same wavelength."

White sees the recruitment aspect of HR invaluable. "We had more failures than successes in hiring for a position and we knew we weren't doing things correctly," she says. "It's been much more efficient with better results than when we did it internally."

By outsourcing HR functions, companies can attain a range of services that ordinarily would not be realistic for them. "We bring a lot of services to a company that they otherwise wouldn't have access to," says Administaff's Giancola. "Even if they have access, it would be unaffordable. It's a very smart option for small businesses. It doesn't require a company to work with multiple vendors."

Marc Jacobson, president of ADPRO in Solon, works with Administaff for that very reason. ADPRO outsources all HR functions, from payroll and recruiting to employee handbooks and training. "A lot of the things Administaff offers, as a small business, we couldn't afford — like training and updated manuals," he says. "Just to do training sessions alone for a staff of 25, to do that every quarter, you couldn't afford to do that in this market."

In particular, Jacobson likes the wealth of training classes Administaff offers — both online and on-site. "The reason I decided to utilize their services is the training they offer," he says. "Companies over the years do these 'kumbaya' sessions and go to the park and hold hands. That's good for about a week. [With Administaff], if I see an issue rising again, all I have to do is make one phone call."

While there are costs associated with outsourcing HR, those who do say it's worth it. "The value outweighs the costs," says White. Lamb agrees, saying the time he saves is more valuable than the money spent. "If you break it down by cost, it's more expensive," he says. "But if you add up the time you spent and how you've grown your business, it far outweighs the cost. There's a dual benefit: I don't get the calls and employees get the right answer, instead of me trying to figure it out."

Although there may come a time when a company needs to hire an HR expert in-house, Fisher advocates the outsourcing approach to maintain objectivity. "When you're on staff you get bogged down with the minutia of the business and the day-to-day noise," he says. "You have a million people coming at you and a million issues and it becomes very difficult to do anything strategic."

Jacobson wouldn't have it any other way. "It's almost like having another adviser board."