



# When Is HR Outsourcing Right for Your Organization?

by Simone Putnam

**H**UMAN RESOURCES (HR) OUTSOURCING CAN address some of the staffing and skill-related problems that plague small and budget-strapped nonprofits. For these organizations, staffing an HR department with the right combination of full-time employees who have the right expertise can be a tall order. As a result, these organizations' HR departments may suffer from a dearth of employees or critical skill gaps.

Because of financial or time constraints, many organizations try to get strategic *and* managerial expertise from the same hire. As a result, they may hire a lower-level HR professional who lacks crucial strategic or managerial skills, or

they may opt for a high-level professional who isn't interested in managing the day-to-day activities of the HR function. In either case, hiring an inadequately skilled employee only adds to organizational costs and creates greater inefficiency.

But the fact is, some organizations don't need to fill a skill gap or address a pressing HR need by hiring a full-time employee. Instead what they need is help from an external provider. HR outsourcing enables organizations to focus on their core mission while entrusting HR functions to professionals who can devote the right level of expertise at the right number of hours necessary for each organization's particular situation.

Frequently, an off-site model is preferable, because the hiring company stands to save costs on office rent as well as on in-office equipment.

## Why Outsource HR?

Organizations that choose to outsource HR functions do so for a variety of reasons, including the following:

- “We hire only programmatic staff, and we outsource all administrative functions, such as HR, accounting, and technology support.”
- “Our HR needs have outgrown the expertise of our current HR staff.”
- “Our HR department has experienced tremendous turnover, and we don’t have the time or resources to create the kind of internal HR department that we need.”
- “Our controller/director of finance/CFO is now consumed by finance and accounting functions, so he no longer has time to devote to HR tasks.”
- “We don’t have the financial resources for a full-time staff member devoted to HR responsibilities.”

But perhaps the most important reason that organizations outsource HR functions is because of the need to comply with employment laws and regulations. Even small organizations can face heavy fines if they fail to comply with them. For organizations with employees in multiple states, the employment laws and regulations governing these organizations are even more daunting, because regulations vary from state to state. Outsourcing the concern about all these variables can relieve a great deal of headache. After beginning an HR outsourcing engagement, for example, one organization’s executive director said that he sleeps better knowing that he has reduced his organization’s risk of noncompliance by outsourcing all employment-related compliance requirements.

## How Does HR Outsourcing Work?

Organizations may use HR outsourcing as a long-term solution to meet all HR needs or to supplement existing HR staff. Other organizations may use HR outsourcing on an interim basis to replace HR staffers who are out on leave or to fill in until HR positions have been occupied by new hires.

In some cases, outsourcing provides a solid interim solution in which systems and infrastructure can be implemented or updated while an outsourcing team fulfills its daily responsibilities and better positions an organization if these functions are brought back in-house. With this infrastructure in place, an organization can hire a less-experienced (and lower salaried) HR pro-

fessional to take over daily functions rather than having to establish such infrastructure from scratch and internally.

An HR outsourcing arrangement can involve performing work on site at a client’s office, off site at an HR outsourcing provider’s office, or both. But frequently, an off-site model is preferable, because the hiring company stands to save costs on office rent as well as on in-office equipment. And contrary to popular wisdom, when a consultant performs HR tasks off site, as opposed to a rigidly adhering to a fixed on-site schedule, it often works better. At my company, for example, clients with a time-sensitive issue are often more comfortable being able to call an off-site consultant anytime rather than having to wait for him to arrive at the office. Of course, in-person meetings are still necessary for new-employee orientation, termination, annual performance evaluations, and the like. And of course, no matter where offices are located, the bottom line is that a good HR outsourcing group makes itself available at the client’s convenience.

## Cases of Outsourcing Success

Take, for example, an organization with a fully staffed HR department that sought recruiting assistance. The department’s recruiting needs were substantial, and its various unfilled positions required specific skills. The organization had determined that the best arrangement would be for an outsourced HR staff member to work on site at the organization’s office to ensure that he would interact heavily with hiring managers. An outsourced HR staff member committed 24 hours a week on site to work specifically on the organization’s HR recruiting needs. The organization anticipated that the assignment would last a few months until it hired a new recruiter. But its outsourced arrangement worked out so well that it continued the relationship for years.

Another organization with a fully staffed HR department needed help creating documentation for payroll processing and internal controls. To become familiar with the current policies and procedures to perform the payroll function, an outsourced staff member interviewed the organization’s HR director and payroll processor. The outsourced HR staff member then created a document to detail the internal controls necessary to ensure best practices and to appropriately separate duties and supervisory controls. This

organization also had no backup staff member to complete payroll. In the event that an outsider needed to step in and process payroll, having documented payroll procedures was essential. To document the process, outsourced HR staff also observed the organization's payroll processor as she completed payroll and then created a document outlining the process from start to finish.

From inception, several organizations have outsourced HR-related tasks. These organizations contacted HR outsourcing staff when they first formed a nonprofit organization and then worked together to establish a complete HR program, which included creating all the organization's employment-related policies and procedures; setting up a payroll account with an outside service bureau; applying for unemployment insurance identification numbers, state tax withholding numbers, and workers' compensation insurance; creating a new-hire orientation package, an exit interview questionnaire, and a termination checklist; creating personnel files and job descriptions; benchmarking salaries; working with a broker to obtain quotes for medical, dental, and vision insurance as well as disability and group-term life insurance; and setting up a flexible-spending account plan.

Once these initial HR functions had been established, the outsourced HR team began performing day-to-day payroll functions and became the organization's full-time HR department. As this example indicates, as long as outsourced staff members are appropriately assigned to various HR functions, an organization can have access to the right level of expertise.

Many organizations initially outsource accounting functions. As this typically includes processing payroll, many firms use an HR generalist to perform this function with oversight from an accounting manager assigned to the account. Often, especially in organizations in which an internal accountant was previously responsible for managing HR functions, a nonprofit will eventually begin outsourcing other HR functions as well. Several organizations have outsourced all back-office functions (HR, accounting, technology support, and investments) on a permanent basis. And an executive director gains peace of mind by knowing that these functions comply with applicable rules and regulations. With confidence that infrastructure is in good hands, he and his staff can then concentrate on program and

program only. They can stop worrying about employee turnover, and the organization can stop incurring the cost of supporting infrastructure for in-house administrative staff positions.

Several organizations request audits of their HR functions from an HR outsourcing firm. These kinds of requests generally follow high turnover in an HR department, financial audit comments regarding the HR function, or perceived inefficiency in the HR department. In some cases, an HR audit is part of an organizational assessment whereby multiple departments are assessed for recommendations for staffing levels and process improvements.

For those organizations that outsource HR on an ongoing basis, the most common outsourced functions include: compliance, employee relations, compensation management, performance management, benefits administration, payroll, and recruiting.

### **What to Look for from Outsourcing Services**

There are many individual HR consultants available. But other than for a onetime project or for a specific task, hiring an individual consultant may not get you what you need. Most organizations need HR help at various levels and with various HR tasks (i.e., for both strategic and managerial tasks), so a firm with diverse staff and skills that can handle the diversity of HR tasks at the level of expertise required for each task may be the best choice. There is no need to pay a high-level individual consultant to audit personnel files, and there is a danger in employing a consultant who lacks the expertise to handle various state compliance issues. And employing a firm with numerous staff with varying years of experience and unique skill sets should also minimize fees.

Still, whether you hire a sole consultant or a firm, you should expect the candidate to gain an understanding of your needs before the consultant or firm quotes a fee. To do so, the candidate typically reviews your current records, systems, and processes and interviews staff members about their needs and wants from the engagement. Once this assessment is complete and gaps and redundancies have been identified, a formal letter of engagement should be expected.

Formalizing the engagement can also be broken into various phases. The first phase should outline the services necessary to bring HR functions in line with best practices (e.g., an update or cre-

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ation of a personnel policy manual, an effective performance system, a benefit review, etc.) Then in phases two and three, monthly (e.g., day-to-day activities) and annual (e.g., end-of-year tasks) services can be defined and priced. Typically if systems can be improved to conform with best practices by the initial phase, an organization can reduce its monthly costs.

To determine what your organization can afford to do from both a budgetary and a compliance standpoint, you and the consultant or firm should estimate fees for each task. Although some issues may be intentionally delayed, a schedule should be drafted to ensure implementation over an established period of time. A good firm should establish fee estimates based on its experience with the process and based on an understanding of an organization's needs and environment. An annual agreement might prove best so that costs can be revisited based on efficiencies achieved in the process or changes in an organization's staffing. A good outsourcing firm honors the fees quoted even if that requires it to spend more labor-hours than estimated. And if the hours the firm or consultant incurs are less than anticipated, you should expect fees to be reduced.

Smaller organizations may prefer to make monthly requests about the number of hours that will be allocated to an engagement. By evaluating the number of labor-hours required for an engagement on a monthly basis, a small organization can better ensure that it is responsible to pay only for the hours it uses.

### Ensuring Success

HR departments no longer have to settle for in-house employees that lack expertise or to forgo additional staffing because they lack the resources for a full-time hire. With HR outsourcing arrangements, these departments can get the flexibility, staffing, and skills they need to perform day-to-day functions and comply with all-important regulations. And to boot, an outsourcing arrangement may ultimately save organizations time and money.

Still, staffing an HR department with outsourced help requires attention to organizational culture to ensure a good fit. Further, outsourced work requires solid agreements about fees, hours to be worked and so forth to ensure that the work gets done properly and at competitive rates. With the choice of an appropriate HR provider and with solid agreements in place, an organization

### When to Consider HR Outsourcing

If your human resources (HR) department lacks experience with employment law, that's certainly a reason to consider outsourcing HR tasks. But there are other arguments for outsourcing HR tasks as well. From the need for simple process improvement to more serious legal and compliance concerns, here are some example scenarios that might prompt an organization to consider HR outsourcing:

- a lack of trained HR professionals in-house;
- an outdated employee handbook;
- an ineffective performance management system;
- a need for training in such areas as providing effective employee feedback, motivating employees, and appropriate recruiting methods;
- a lack of written policies and procedures and/or effective processes for an organization's major HR functions;
- high benefit costs;
- questions concerning the competitiveness of employee salaries and/or benefits;
- concerns about compliance with employment laws and regulations;
- difficulty in retaining or hiring employees;
- management concerns about an HR department during the course of an annual financial audit;
- an increase in employee complaints;
- one or more outstanding employee lawsuits; and
- assessment of fines for noncompliance with wage and hour laws, inadequate workers compensation insurance, improper classification of employees, and so on.

can pave the way to a long-lasting and mutually beneficial relationship.

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# The Nonprofit Quarterly Outsourcing Providers Directory 2008

Many nonprofits subcontract aspects of their business to external vendors. What follows is a small selection of organizations that offer a variety of outsourcing services to the nonprofit sector.

## Accenture

(877) 889-9009, (312) 737-8842, [www.accenture.com](http://www.accenture.com)

## Arts Consulting Group

Bruce D. Thibodeau, President,  
1601 Hi Point Street, Los Angeles, CA 90035-4503; (323) 936-0626, fax (323) 936-1196, [www.artsconsulting.com](http://www.artsconsulting.com)

## Bridgestar

535 Boylston Street, 10th Floor, Boston, MA 02116; (617) 527-2833, [info@bridgestar.org](mailto:info@bridgestar.org), [www.bridgestar.org](http://www.bridgestar.org)

## CPS Human Resource Services

Amy Day, Business Development Director,  
241 Lathrop Way, Sacramento, CA 95815; (916) 471-3146, [aday@cps.ca.gov](mailto:aday@cps.ca.gov)

Gib Johnson, Managing Director, Client Services East, [gib@cps.ca.gov](mailto:gib@cps.ca.gov), (202) 355-7300; 444 North Capitol Street, Suite 544, Washington, DC 20001, [www.cps.ca.gov](http://www.cps.ca.gov)

## Energize Inc

5450 Wissahickon Ave., Philadelphia, PA 19144; (215) 438-8342, fax (215) 438-0434, [www.energizeinc.com](http://www.energizeinc.com)

## EquaTerra

Glenn Davidson, Public Sector; (202) 904-2311, [Glenn.Davidson@EquaTerra.com](mailto:Glenn.Davidson@EquaTerra.com), [www.equattera.com](http://www.equattera.com)

## Fiscal Management Services

Sue Southgate, 70 W. 36th Street, 15th Floor, New York, NY 10018; [www.fmaonline.net](http://www.fmaonline.net)

## HR Dynamics, Inc

345 Hudson Street, New York, NY 10014; (212) 366-8544, [shusney@hr-dynamics.com](mailto:shusney@hr-dynamics.com), [www.hr-dynamics.com](http://www.hr-dynamics.com)

## HR XCEL, LLC

3436 Toringdon Way, Suite 300, Charlotte, NC 28277; (888) 477-4310, (704) 357-6008, fax (704) 357-1688, [www.hrxcel.com/](http://www.hrxcel.com/)

## James E. Rocco Associates, Inc.

250 West 57th Street, Suite 901, New York, NY 10107; (212) 710-0560, fax 212-710-0561, [www.jeroccoassociates.com/](http://www.jeroccoassociates.com/)

## Larry Wayne Associates

35 West 43rd Street, Suite 1408, New York, NY 10038; (212) 382-1577, fax (212) 382-1771, [larrywayneassociates.com](http://larrywayneassociates.com)

## MBL, LLC

Strategic Human Resources Solutions  
111 SW Columbia, Suite 1010, Portland, OR 97201; (503) 224-7249, fax (503) 224-6707, [info@mbigroup.com](mailto:info@mbigroup.com), [www.mblgroup.com](http://www.mblgroup.com)

## Nonprofit Capital Management, LLC

400 West Cummings Park, Suite 5250, Woburn, MA 01801; (781) 933-6726, fax (781) 451-6734, [info@npcm.com](mailto:info@npcm.com), [www.ncpm.com](http://www.ncpm.com)

## Nonprofit HR Solutions

1712 I Street, NW, Suite 306, Washington, DC 20006; (202) 785-2060, fax (202) 785-2064, [info@nonprofithr.com](mailto:info@nonprofithr.com), [www.nonprofithr.com/](http://www.nonprofithr.com/)

## Northpoint Human Resource Consulting

Fred Ritzau, President and principal consultant, 139A Charles Street, Suite 315, Boston, MA 02114; (617) 670-0545, [info@northpointhrconsulting.com](mailto:info@northpointhrconsulting.com), [www.northpointhrconsulting.com](http://www.northpointhrconsulting.com)

## Offsite Operations Management

Emily Goldfarb, PO Box 778, Sudbury, MA 01776; (508) 525-5625; [emily@offsiteoperations.com](mailto:emily@offsiteoperations.com), [info@offsiteoperations.com](mailto:info@offsiteoperations.com), [www.offsiteoperations.com](http://www.offsiteoperations.com)

## Pacific Training and Resources

3040 Revere Avenue, Oakland, CA 94605; (510) 520-3825, [www.pactrainingresources.com](http://www.pactrainingresources.com)

## PGHR Consulting

Phyllis G. Hartman, SPHR, PO Box 63, Ingomar, PA 15127; (412) 367-7775, fax (412) 496-2429, [pghr@pghrconsulting.com](mailto:pghr@pghrconsulting.com), [www.pghrconsulting.com](http://www.pghrconsulting.com)

## Raffa, PC

1899 L Street NW, Suite 900, Washington, DC 20036; (202) 822-5000, [info@raffa.com](mailto:info@raffa.com), [www.raffa.com](http://www.raffa.com)

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## Steinberg Advisors, Ltd.

Certified Public Accountants, 5 Revere Drive, Suite 120, Northbrook, IL 60062; (847) 205-4700, fax (847) 205-4477, [www.steinbergadvisors.com/](http://www.steinbergadvisors.com/)

## Sage Management Consulting, Inc.

Susan McKeone, Principal, Harleysville, PA 19438; (215) 256-7830, fax (215) 256-1036, [smckeone@sagemanagementconsulting.com](mailto:smckeone@sagemanagementconsulting.com), [Sagemanagementconsulting.com](http://Sagemanagementconsulting.com)

## Sageview Consulting

11 Pennsylvania Plz Fl 5, New York, NY 10001; (212) 201-0729, fax (212) 239-4092, [info@sageviewconsulting.com](mailto:info@sageviewconsulting.com)

## The Human Resource Department, Inc.

Four Commerce Park Square, 23240 Chagrin Blvd, Suite 845, Cleveland, OH 44122-5403; (216) 292-6996, fax (216) 292-6336, [info@thrd.com](mailto:info@thrd.com), [www.thrd.com/](http://www.thrd.com/)

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