The State of HR Outsourcing

2024 Edition

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1. What is HR Outsourcing?

HR outsourcing refers to the practice of hiring external organizations to handle various human resources functions that are traditionally managed in-house. This can include a wide range of services, such as payroll processing, benefits administration, recruitment, employee training, and compliance with labor laws. By outsourcing these tasks, companies can focus on their core business activities while leveraging the expertise and efficiency of specialized HR service providers. For more detailed information, you can refer to this article: What is HR Outsourcing? Understanding Its Functions and Benefits.

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2. Why is HR Outsourcing Becoming More Popular?

a. Increased Complexity Due to Remote Work

The pandemic led to a significant shift towards remote work, resulting in businesses operating in multi-state and multi-country environments. This shift has exponentially increased compliance, tax, and state registration challenges for HR teams. Companies now need to register with more state and local tax authorities, stay updated with changing legislation across multiple jurisdictions, and ensure that employee handbooks and leave policies comply with various laws. For many lean HR teams, keeping up with these requirements has become untenable.

b. Talent Shortage

The talent shortage is another reason for the growing popularity of HR outsourcing. Finding skilled HR professionals is increasingly difficult, especially as many experienced HR workers are retiring. HR departments are tasked with diverse responsibilities—compliance, culture building, HRIS management, payroll, benefits negotiation, and employee relations. Finding individuals proficient in all these areas is challenging, akin to finding a "unicorn."

c. Rise of Fractionalization

Fractionalization is gaining popularity across various sectors, including HR. Companies are more open to part-time, gig work, and fractional roles. This trend first emerged in IT with Managed Services Providers (MSPs) and is now evident in finance with fractional CFOs. The natural progression has led to the adoption of fractional HR roles, where companies can leverage specialized skills on an as-needed basis.

d. Customer Service Challenges with HRIS & Payroll Vendors

Recent years have seen significant customer service outages and disappointments from leading HRIS and payroll vendors. These companies were once relied upon for guidance on compliance and tax issues. However, as their reliability has waned, businesses are increasingly seeking alternative solutions to address these needs independently.

3. How Do Companies Typically Leverage HR Outsourcing?

a. Common Uses

Companies commonly use HR outsourcing firms for managing compliance (managed HR), administering payroll (managed payroll), and benefits administration (managed benefits). By outsourcing these functions, businesses can ensure accuracy, efficiency, and compliance with regulatory requirements.

b. Technology-Related Services

HR outsourcing firms are also popular for their technology-related services, including:

• **Technology Optimization:** Enhancing the functionality of existing HRIS and payroll systems by cleaning up data, automating processes, redesigning workflows, and more.

• **Technology Implementation:** Assisting with the setup and implementation of new HRIS and payroll systems. Benefits include data cleanup, expertise in platform nuances, and handling time-consuming implementation tasks.

c. Additional HR Outsourcing Services

Other services provided by HR outsourcing firms include:

• **Leave of Absence Administration:** Managing employee leave requests and ensuring compliance with relevant laws.

• **Tax Services:** Interacting with state agencies to update payroll tax accounts and maintain accurate corporate-level information.

• **Recruitment Support:** Assisting with sourcing and interviewing potential candidates.

4. How Does HR Outsourcing Differ from a PEO?

A Professional Employer Organization (PEO) offers a fully outsourced approach to HR, where employees are officially employed by the PEO, not the client company. The PEO assumes full responsibility for employment, providing risk mitigation and often more competitive employee benefits due to pooling smaller companies together.

Advantages of a PEO:

- **Risk Mitigation:** The PEO assumes liability for employment-related risks.
- **Competitive Benefits:** PEOs can negotiate better benefits packages by pooling multiple small companies.

Disadvantages of a PEO:

- **Complex Unwinding:** Disentangling from a PEO can be challenging due to the all-encompassing nature of the service.
- **Expense:** As companies grow, the cost of a PEO can outweigh the benefits.
- **Restricted Control:**

Companies have less control over their processes, policies, and HRIS systems.

Advantages of HR Outsourcing Over a PEO:

- **Flexibility:** Customize the scope of work to suit specific needs and disengage if outsourcing is no longer required.
- **Technology**: Build a preferred tech stack and trust that HR consultants can work within any system.
- **Control:** Retain control over employee experience, processes, policies, and benefits packages.

For more detailed information, refer to this article: [When and How to Leave a PEO: Your PEO Exit Checklist.]

5. What is the Right HR Outsourcing Approach for Me?

Leverage OutSail's HR Partner Finder to determine the best HR Outsourcing strategy for you

Choosing the right HR outsourcing approach depends on various factors:

- Company size & HR department size
- Desired HR function (tactical vs. strategic)
- Operational complexity (single state vs. multi-state/ global, multi-FEIN, complex payroll)
- Current or desired technology platforms.

OutSail offers free services to help organizations design an HR outsourcing strategy tailored to their specific needs. By evaluating these factors, OutSail can match companies with the right HR outsourcing solutions to optimize their HR functions and drive business success.

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