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Human resources shift from inside out

By Andrew Scott

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David Lewis started a business four years ago. In each of the last two years, it has doubled its revenues. The company, Stamford-based OperationsInc.com, provides services to businesses who wish to outsource human resource functions such as recruiting and payroll processing. His company has tapped into a market in which 58 percent of organizations have had their human resource function moved to an outside provider, according to a 2004 survey by the Society for Human Resource Management.

Performing payroll functions, recruiting new hires and training employees have become the staple of companies like Lewis'. Because of technology, outsourcing can be performed for clients virtually anywhere. OperationsInc.com has clients in 17 states. "Roughly 75 percent of our work doesn't require us to be on site," Lewis said.

"More and more small businesses are outsourcing their entire human resources functions," he added. He said that businesses seek flexibility when choosing a company to outsource its human resources functions. As a result, Lewis' company charges clients only for the time a consultant is used to perform a specific human resources function.

Companies typically have to pay monthly fees or enter long-term contracts for outsourcing services they may not even use, he explained. "The idea of working on an as-needed basis on a particular human resource function versus hiring someone to work five days a week has caught on," he said.

Apart from its convenience, companies have turned to outsourcing so that they don't have to deal with the complexities and continuous changes in labor laws. Having a third party deal with labor issues, "helps to keep liability for businesses as low as possible," Lewis said.

The survey indicated that most companies outsourced to control legal risks and to save money. Some other areas companies outsourced for were in regard to criminal background checks, employee assistance/counseling and flexible spending account administration, temporary staffing and pension and retirement benefits administration.

Nine percent of companies reported having increased cost associated with outsourcing companies to 31 percent that said they saved, and 23 percent that saw no difference in costs.

Steve Landberg, managing director and senior vice-president at InSearch Worldwide Corp., a recruitment solutions company in Stamford, said that human resource functions have been outsourced for years. Lewis noted that employment agencies are as much a human resource outsourcing business as any other outsourcing business.

"But what's new in the industry is that because so many companies are turning to outsourcing, ideas on how to link the different functions technologically have emerged," said Landberg. As a result, companies like IBM Corp., Accenture, Hewitt Associates L.L.C., ACS Inc. and others are vying to offer their services typically to large companies.

"This is clearly a growing trend for the bigger guys," Landberg said. "For them everything is not just centered around payroll, but it's about maintaining a human resources information system." These systems, he said, can have databases with employee records while accommodating payroll administration and other financial applications.