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Mess with my desk, but not my cheque

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Outsourcing HR chores saves time and energy for entrepreneurs

Catherine Graham wasn't worried about her staff of seven getting paid on schedule when she took a Florida vacation three years ago.

"But our controller was pregnant and she went into labour unexpectedly the day payroll was supposed to go in," says the co-owner of Rightsleeve, a promotional design agency in Toronto.

Ms. Graham had recently outsourced her company's payroll to third-party provider Automatic Data Processing (ADP), which meant she was able to log in to the Web-based payroll program from sunny Florida to trigger her staff's direct deposit payments, instead of calculating every deduction and signing each cheque by hand. "If we'd been on our old system, our staff wouldn't have gotten paid on time," she says.

Like Ms. Graham, a growing number of entrepreneurs are outsourcing certain human resources functions, such as payroll and benefits, to third-party providers.

"It's becoming more and more common, but a lot of small businesses still don't know that there are services like this that can help them," says Cissy Pau, principal consultant at Vancouver's Clear HR Consulting.

Outsourcing something like payroll may not seem like a feasible option because of cost, and "[entrepreneurs] feel like they have to do everything themselves," says Ms. Pau.

But any entrepreneur will tell you their most crucial tasks are business development and revenue-generating activities, rather than getting caught up in the nitty gritty of HR paperwork and processes.

"A business owner should focus on the things that generate the greatest return," says Ms. Pau. "Is sitting there figuring out something like payroll the best use of your time?"

Probably not, argues David McIninch, vice-president of marketing at ADP. Payroll solutions range from \$1.75 to \$3 per employee, per day, he says. "We've done research that says that [payroll outsourcing] can save business owners up to a full week of time in a year."

Ms. Graham says payroll takes about five minutes to handle every two weeks, compared with an hour when she was doing it all herself. In addition, her staff has doubled during that time.

Farming out certain HR functions can certainly cost less than hiring a full-time person who specializes in that area,

adds Ms. Pau.

"If you have 10 employees, you probably don't need a full-time HR person," says Ms. Pau. "But you may need somebody to help you with administering your benefits. Outsourcing certain aspects can help you save that annual salary cost."

Another plus to outsourcing is that it guarantees a level of expertise that most entrepreneurs just don't have. "There are legislation changes you have to be on top of, and penalties on payroll errors can be quite high," she says.

It doesn't end at payroll. Aon Hewitt, for instance, can fully administer and manage a small business's benefits program, including fielding calls from employees with questions about the plan and claims they have filed. They can also handle such areas as retirement planning and workers' compensation solutions.

"What we're able to do is pool small businesses together so that they can benefit from more competitive rates and get a higher level of service," explains Bob Mongia of Aon Hewitt.

The payoff for the entrepreneur is twofold: They don't have to worry about dealing with an insurance company directly on every employee query or claim, and, more importantly, they may be able to offer a more robust benefits package if they're being grouped with other small businesses under a larger umbrella.

The benefits of outsourcing are strong, but entrepreneurs should be choosy about what they outsource, cautions Ms. Pau. "As a business owner, you want there to be a certain workplace culture, a feeling of what it means to work in your company," she says. "If you outsource all HR functions, you could lose control of the culture.

"No third-party lives and breathes your business the way you do. You can't pass total responsibility for people management to an outside party."

There are other issues to consider as well, says Ms. Pau. For instance, the more HR outsourcing to third-parties a small business owner is dealing with, the more relationships she has to manage.

"And if an employer is always relying on an outside provider to take care of all their HR issues, they will not develop the capability to do it in-house. Small business owners need to be aware of the fine line between when it makes sense to outsource, and when it makes sense to go in-house."

By the numbers

11 per cent

Proportion of small business owners who process their own payroll and who said they have received a penalty for late payment remittances.

40 per cent

Share of small business owners who said they spent time fixing payroll errors.

11.7 hours

Amount of time small businesses spent per employee each year on payroll processing.

Source: ADP Price of Payroll study of Canadian small businesses

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