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## **Should We Outsource HR? What are Other Companies Doing?**

Should we outsource our human resource functions partially, or totally? Should we retain these services in-house? As any consultant would answer, “It depends.” First, what are we talking about? Using large companies as a gage, the list includes managing payroll, employee health and disability insurances, worker’s compensation, pension and/or 401(k), governmental compliance and reporting, safety and risk compliance, employee help desk services, human resource services, training and development, recruiting, background checks, and testing of new hires.

Large companies often decide to outsource non-core areas such as payroll, employee benefits and administration, recruiting, and new hire testing. Even though some functions are frequently outsourced, large companies rarely outsource total functions. Managing human capital is considered a critical key to company success. However, many outsourcing decisions are made by functional experts who lack the strengths in financial, business, or sourcing skills which are essential for outsourcing success.

Medium size companies tend to be hybrids in outsourcing. Most prefer in-house management, but some mirror larger companies in outsourcing some of their human resource requirements, such as governmental compliance, safety and risk compliance, employee help desk services, basic human resource services, training and development, recruiting, and new hire testing. Payroll companies have extended their offerings to cover many of these areas and call them an Administrative Services Only solution, or “ASO.”

A number of medium sized companies prefer to outsource everything, including transferring their employees to become legal employees of the payroll company, which, in turn will provide employee benefits. Again, payroll companies offer this co-employment option and call the service a Professional Employer Organization, or “PEO”. Selection of In-House, ASO, or PEO alternatives in a medium sized company tends to depend on risk factors, company culture, but mostly economics. We observe that most medium size companies prefer In-House management.

Smaller companies, particularly high growth companies, often lean toward the ASO or PEO models. Frequently they begin with the PEO model and gradually pull in-house functions that can be handled better or more economically in-house. Here the primary decision factors are time, internal resources, risk, and economics.

In making most of these decisions, companies often don’t have the time, resources, experience, or knowledge of what to do, whom to select, or how much should be paid. To make matters worse, companies often ask for advice from their PEO/ASO vendors and go with the best sales story or sales personality!

Whether a large, medium, or small company, we recommend you hire an independent trusted advisor to help you determine what is right for you and which provider offers the lowest total cost, and who will optimize your needs both now and in the future. Your selections should depend on your strategic needs, optimized cost, and company culture.



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