

# PLAY to Your STRENGTHS

## Using Outsourcing to Manage Human Resources

**Do your employees appreciate the benefits you provide?**

**Communicating those benefits is just one way outsourcing can help you manage human resources.**

BY ERIC M. PARMENTER

**A**n old adage says, “Concentrate on your strengths and delegate your weaknesses.” This principle has no greater application than in managing nonprofit organizations and human resource (HR) personnel.

### **The Pressure**

A number of growing pressures are motivating nonprofit organizations to look for new ways to succeed. Keener competition is forcing nonprofits to tap into new revenue sources. The cost of doing business has increased in several areas. For instance, now that the possibility of an all-encompassing national health care system has diminished, the cost of medical care and health insurance premiums is on the rise again.<sup>1</sup>

In addition, nonprofit compensation is below that of corporate America. According to a nationwide study, 75% of nonprofit CEOs make less than \$99,845 per year, 50% make less than \$67,500, and 25% make less than \$47,687.<sup>2</sup> These salary levels are well below those in the for-profit sector. For instance, human resource directors in the for-profit sector earn an average of \$87,000 versus \$44,654 in the nonprofit sector.

Yet, these financially challenged executives are responsible for an increasing population of employees. Nonprofit organizations employ well over 8 million people, more than the number of

civilians employed by the federal government and all state governments combined. Moreover, in recent years, the employment growth rate of nonprofit organizations has more than doubled that of the business sector.

Adding to these pressures are increased legislative initiatives. In addition to the already complex nature of ERISA (Employee Retirement Income Security Act), COBRA (Consolidated Omnibus Budget Reconciliation Act), and the IRC (Internal Revenue Code), we now have several relatively new legislative mandates, such as the following, that are expanding employer responsibility:<sup>3</sup>

- ADA (Americans With Disability Act)
- FMLA (Family Medical Leave Act)
- PHSA (Public Health Service Act)
- SBJPA (Small Business Job Protection Act of 1996)
- HIPAA (Health Insurance Portability and Accountability Act)
- MHPA (Mental Health Parity Act)
- NMHP (Newborns' and Mothers' Health Protection Act)
- TRA97 (Taxpayer Relief Act of 1997)
- Budget Act of 1997—Medicare Provisions

## The Option of Outsourcing

With the cost of health care skyrocketing, how can HR professionals offer attractive employee benefits and compete in the job marketplace with corporate America? With stretched budgets, lower pay scales, and a growing number of employees to serve, how will nonprofits survive? In an era of increased legislative, regulatory, and legal pressures, how can nonprofits' human resource departments achieve compliance and reduce liability?

For many nonprofits, the answer to these increased pressures is to outsource human resources and employee benefits. As Sue Burzawa, associate editor of *Employee Benefit Plan Review*, tells us, "The desire to improve service to employees has prompted human resource departments to seek administrative solutions that enable them to do more with less."<sup>4</sup>

The problem with most nonprofits' human resource departments is not enough humans and not enough resources. Human resource directors are discovering new ways to increase the size, scope, and expertise of their departments through outsourcing. Imagine a human resource department with another door that opens into a consulting or administrative firm. In this back office are human resource specialists, attorneys, CPAs, and other administrative support personnel. Because these professionals are equipped with strategies to develop benefit plans and manage HR, they often find enough cost savings to offset their own fees. Thus, HR outsourcing can be very cost-effective.

Several key HR functions are currently being outsourced. For instance, a recent survey indicates that 67.9 percent of firms outsourced training, which included needs analysis, program design, and delivery.<sup>5</sup> Outsourcing of human resource functions often includes the following items:<sup>6</sup>

- Employee benefit planning and administration
- Employee benefit education and communication
- Investment education and financial planning
- Personnel forms and records administration
- Job description and evaluation
- Training needs analysis and program development
- In-house training
- Personnel policies and procedures
- Employee handbooks or manuals

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- Performance planning and review
- Wage and salary planning and administration
- Recruitment, selection, and hiring of new employees
- Terminations, suspensions, and disciplinary actions
- Employee opinion surveys
- Affirmative action plans
- Federal and state laws and regulation compliance
- Labor negotiations and contract administration
- Self-directed work-team training and implementation
- Total quality systems
- Fundraising

In most benefit areas, the trend toward outside help is increasing dramatically, as Figure 1 shows.<sup>7</sup> One of the most significant shifts from internal to external support is in the area of communication. With the explosion of electronic technology, employees are faced with more benefit options than ever before. The growth in multi-choice retirement plans, managed care plans, and flexible spending accounts has created several layers of employee choice. The proper management and communication of employee benefit plans is not only a challenge, it is a mandate. Nowhere is this more evident than in Section 404(c) of ERISA, which details rules to avoid liability regarding investment education.<sup>8</sup> This concept of liability applies to virtually all areas of benefit management and communication, including health and welfare plans.

## The Power of Outsourcing Communication

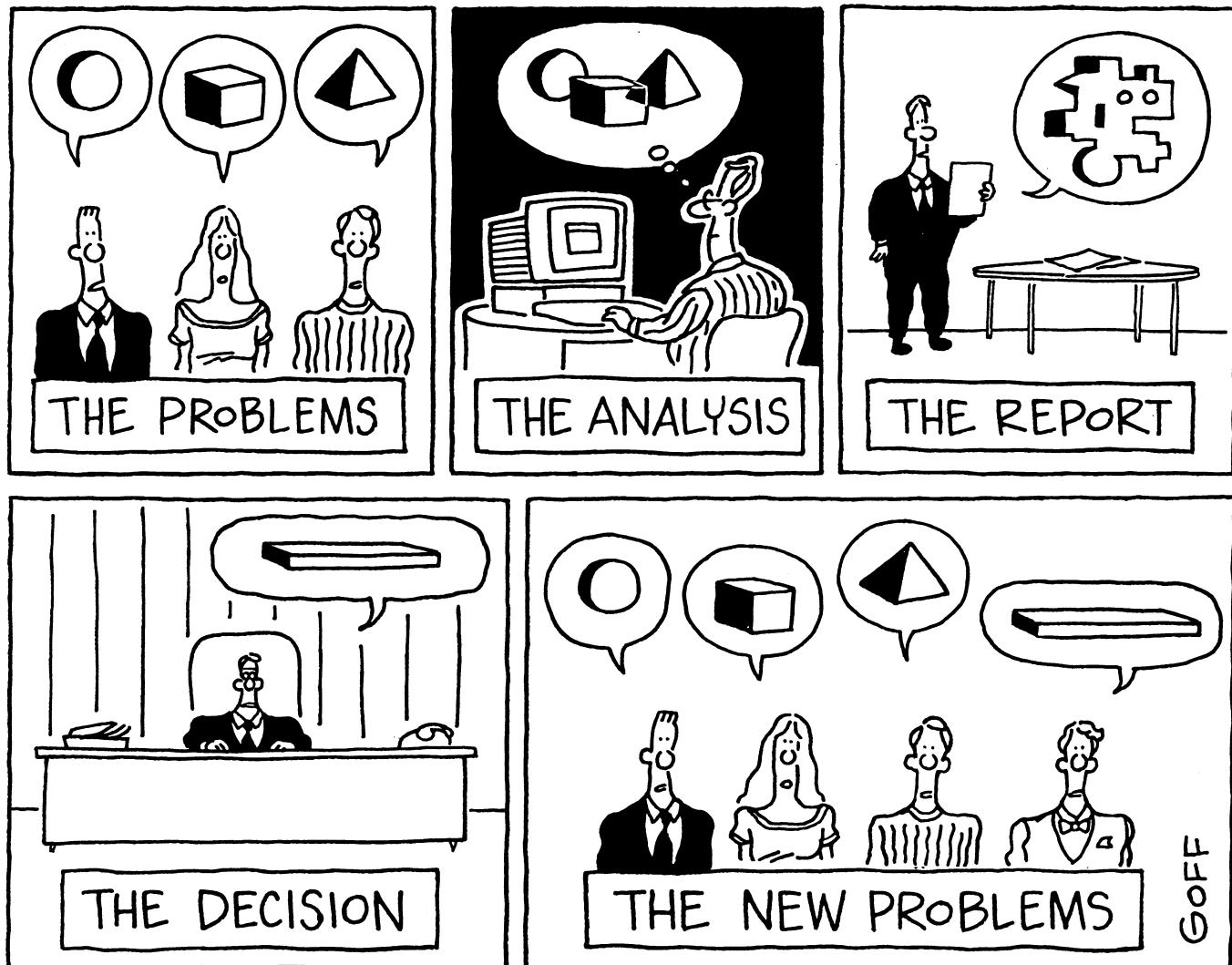
Employee benefit plans are only as valuable as employees perceive them to be. Creative communication often makes the difference between great and average benefits. Because effective written material, multi-media, and knowledgeable educators are essential to good communication, many nonprofit organizations are outsourcing the communication aspects of their benefit plans. Employee benefit statements that summarize the value of each benefit are growing in popularity.

Kenneth F. Phillips, president of Boston-based Employee Communication Services, explains:

**Figure 1. Outsourcing Plan Administration  
Percent of Benefit Managers Using Service Providers**

Type of Outside Service	1991	1995	1997
Pension Consultant	60%	59%	95%
Health Administrator	56%	38%	79%
Health Plan Consultant	46%	27%	27%
Dental Administrator	28%	22%	24%
Disability Administrator	14%	15%	14%
401(k) Consultant	30%	53%	96%
Flex Consultant/Administrator	22%	34%	66%
Communications Consultant	36%	10%	57%
401(k) Investment Management Firm	61%	62%	59%
COBRA Administrator*	-	21%	45%
Monitoring Managed Care*	-	10%	55%
Employee Assistance*	-	28%	54%
Financial Planning*	-	9%	28%

\* Not asked in 1991



Now we are starting to see employers spending more money on benefit plans than ever before, but employees still don't know what kind of money is being spent on their benefits. As a result, some employers are saying, 'Let's do a total compensation statement including what people earn and what their benefits cost.' Many employers are looking to outside firms to help use the immediacy of technology to communicate this total compensation message to current and prospective employees.<sup>9</sup>

Do employees really want or need benefit statements? The answer is emphatically yes. A U.S. Chamber of Commerce Study reports that employers are spending an average of 41.3 percent on top of payroll for benefits.<sup>10</sup> Yet most employees have no idea what their benefits are and how much the company is paying for these benefits. Employers need to

effectively communicate their benefit package. They need benefit statements that quantify the value of the benefits to each employee.

## The Impact of Outsourcing

Outsourcing human resource functions, including employee benefits, is one of the best ways for nonprofits to leverage the talents of their internal staff. Tony Martin, a principal with the Kwasha Lipton Group of Coopers and Lybrand, LLP, notes:

Benefits are important in retaining employees, but they probably are not the principal driver. Benefits typically are a noise that keeps people from focusing on more strategic, more highly leveraged activities. Maybe the human resource people can't get to strategic human resource issues, because they spend their time putting out

fires and responding to administratively-driven issues. These may be important matters, such as an employee not being able to get medical treatment for a child because eligibility is fouled up, but from a strategic perspective they are a distraction. Through reengineering, these administrative tasks not only get done better, but they get segmented and insourced or outsourced to specialists, and get out of the way of human resource managers.<sup>11</sup>

According to one study, the top five reasons companies outsource are:<sup>12</sup>

- to reduce and control operating cost
- to improve focus
- to obtain resources they lack
- to free their own resources for other tasks
- to gain access to “world-class” capabilities

According to the same study, 65 percent of companies with revenues of less than half a million dollars, including many nonprofit organizations, don't outsource. However, 83 percent of the fastest growing nonprofit and for-profit firms do outsource.

Perhaps Bill Gates of Microsoft put it best:

As technology makes it easier for business to find and collaborate with outside expertise, the very nature of almost every business organization will have to be reexamined. This should include its structure and balance between inside full time staff and outside consultants and firms.<sup>13</sup>

Through the proper balance of inside and outside talent, nonprofit organizations are finding new ways to focus their organizational energy on their mission. By outsourcing human resources, many nonprofits are discovering new ways to cut costs, attract and retain quality employees, reduce liability, and gain access to a high level of expertise. They are also learning that proper outsourcing frees up valuable time for key personnel. All these benefits of outsourcing HR functions serve to recapture much-needed personnel and financial resources, helping nonprofits play to their strengths. ■

#### Footnotes

<sup>1</sup>Foster Higgins National Survey of Employer-Sponsored Health Plans, 1997.

<sup>2</sup>This comprehensive study surveyed over 1,800 nonprofit organizations. See Abbott, Langer, & Associates in “References.”

<sup>3</sup>For details on how these and other laws affect your organization, see *Nonprofit World at Your Fingertips*, a CD-ROM which allows you to search for any topic in past issues of *Nonprofit World* (see Muehrcke in “References.”) Relevant articles include, for example, “What Laws Affect Your Benefit Packages?”, “Do Your Job Descriptions Comply with ADA?”, and “How to Avoid Age-Discrimination Lawsuits.”

<sup>4</sup>Sue Burzawa, *Employee Benefit Plan Review*, June 1997.

<sup>5</sup>Human Resource Management/Commerce Clearing House Survey, 1997” as cited by Jim Thom in “Outsourcing of Human Resource Function,” *Employer Association Facts*, February 1998.

<sup>6</sup>Jim Thom, “Outsourcing of Human Resource Function,” *Employer Association Facts*, February 1998.

<sup>7</sup>John Tefft, “Outsourcing Benefits Administration: Pros and Cons,” *Employee Benefit Plan Review*, February 1998.

<sup>8</sup>See ERISA Code Section 3, 402, 405, 406, 409, 412. Also see Bolton & Bolton in “References.”

<sup>9</sup>Kenneth F. Phillips, “Communications Embrace Technology, But Paper Still Gets the Message Across,” *Employee Benefit Plan Review*, March 1998.

<sup>10</sup>*Employee Benefits: 1996 Edition*, U.S. Chamber of Commerce.

<sup>11</sup>Tony Martin, “The Place for Benefits in H.R. Reengineering,” *Employee Benefit Plan Review*, April 1998.

<sup>12</sup>Outsourcing Institute Research Study 1996 as cited in “The State of Small Business,” Inc., 1997.

<sup>13</sup>Bill Gates, *The Road Ahead*, Bergenfield, NJ: Penguin USA, 1996.

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These publications are available through the Society for Nonprofit Organizations’ *Resource Center Catalog*, included in this issue, or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800-424-7367).



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