

# Benefits of Outsourcing HR



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### Rob Parsons:

Welcome to Season 4 of Paychex PULSE, an HR podcast where HR professionals can find great insights on today's top issues and be inspired to build and lead effective teams in a healthier workplace.

### Rob Parsons:

Hi, all. Rob Parsons here. Welcome to the Paychex PULSE podcast. This is Part 2 of a 3-episode series focusing on research Paychex has conducted on business leader priorities for 2023. Joining me once again is Stu Richards, the CEO of Bredin who fielded the research study for us. Bredin is a B2B marketing consultancy that helps develop profitable long-term relationships with small and mid-size businesses through original market research and outreach programs. Stu, thanks again for joining.

### Stu Richards:

Rob, thanks again for having me.

### Rob Parsons:

It's so good and it's really interesting research. I want to start digging into it a little more deeply. Specifically, I'd love to talk about HR administration. It's a, lack of a better term, unnecessary evil but you can't not do it. It's there. If you have employees, you have to do this. A data point that really jumped out to me was that almost 7 in 10 leaders spend more than one week each month on HR administration. That's just crazy to me. Can you add a little more color to that finding?

### Stu Richards:

Rob, it is shocking and it's a question that we've asked before. As I mentioned in the first episode, this is a survey that we've run for five years and we've asked a similar question and every year, it is really astounding how much time respondents are putting into HR administration and you're absolutely right, 7 in 10 leaders spend more than a week a month on HR administration. So, what we wanted to do was to dig down into that a little bit, looking at those results specifically by size of business. As I mentioned, Rob, we surveyed 450 respondents from companies with anywhere to 5 to 500 employees across the United States and we broke them out into a whole bunch of different size groups. For example, at the very small end, 5 to 9 employees up to the biggest companies in our survey, 250 to 500, and the difference in the amount that they spend...

**Stu Richards:**

...and the respondents were principals, so owner, founder, president, CEO, someone at the top of the organization and that person is spending a lot of time, regardless of organization size, on HR administration. Which as you mentioned, Rob, may or may not be the thing they want to be spending time on. They may want to be spending time going out and finding their new customer or doing a job serving a current customer better but HR administration is taking up a significant chunk of their calendar. But for the very smallest business, it's probably not surprising, taking up the least amount of time so 55% of the companies with 5 to 9 employees said they're spending five hours or less a week. But still, that's a fair amount. 8% of them spend... Again, these are companies with 5 to 9 employees so not big companies. There's a lot of these but they're not big companies. 8% of our respondents are spending 16 to 20 hours each week so that's half the week on HR administration issues.

**Stu Richards:**

And then, if you go to the other end of the scale, the very biggest businesses on our sampling are 250 to 500 employee companies, those are pretty big businesses. As you might imagine, the principle in those organizations, very few of them are spending five hours or less, only 4%. But at the other end of the scale, 21% of them, 1 in 5, are spending more than 20 hours a week on HR administration and that's everything. That's recruiting and hiring and onboarding and payroll administration and benefits and retirement plans, you name it but it's very time consuming for all kinds of organizations.

**Stu Richards:**

And what was actually surprising within the data is that wasn't even the biggest segment. Companies, for whatever reason, with 100 to 249 employees are spending the most time in aggregate on HR administration more even than the bigger companies with 250 to 500. Fully, 27% of our respondents with 100 to 250 employees are spending more than 20 hours a week on payroll administration, 21% spending 16 to 20 hours. So Rob, the takeaway is, regardless of company size, folks are putting a lot of time into HR administration and the bigger the company, it's a really dramatic increase in the amount of time that they're putting towards managing HR administration.

**Rob Parsons:**

Those are some interesting findings too and I know you probably didn't dig that deeply but I'm curious whether... When you're a smaller company, you could handle things a little manually. As you grow, I've experienced it in companies I've worked for, I'm sure you have as well, there are growing pains and you don't always adopt new processes, new technologies at an appropriate pace to keep up with the kind of size you are and the kind of needs you have. And maybe then, once you get a little larger, now you're starting to handle things in a more dedicated and a more professional fashion but there's that teenage years or that teenage size, that awkward time where it just isn't as easy as you need it to be and the challenges just get really a lot harder.

**Stu Richards:**

Yep, yep. Yeah, absolutely. Yeah. That's well said, Rob. One of the things that I think is really shocking is when we tried to put numbers on the cost of that time for HR administration and we just asked a simple question. We said, "Okay. You've told us how much time you spend on HR administration each week, what's that mean for you?" and we just asked them to literally type a number, a dollar value into an open text field and we asked them, "Don't just consider your time and your staff's time that's spent directly on HR administration but consider the opportunity cost."

**Rob Parsons:**

Yes.

**Stu Richards:**

What are they not doing-

**Rob Parsons:**

Yes.

**Stu Richards:**

Because they're putting time into it and it's amazing when you dig into it. We just, again, asked them, "Use a fair estimate for your aggregate weighted time, the value of your employees," \$233,896 per year, the average annual cost for HR administration. That's across all companies with 5 to 500 employees. That's a big number but what's really shocking and astounding is when you look at just the biggest businesses, 250 to 500 employees, \$10.7 million is the annual average cost of HR administration for those biggest companies so it really represents a significant investment on the part of these organizations. As a result, there's a very strong impetus for change.

**Rob Parsons:**

That's just a huge number and that is a strong impetus for change and things aren't getting easier. Last episode, we talked a lot about the environment, what challenges business leaders were facing but there were some... You dug into some specific HR administration issues, correct? What did leaders say that were going to be the top HR administration issues in the next 12 months that they were going to find most challenging?

**Stu Richards:**

Yeah, we did Rob and yeah, we wanted to look forward and to see what their strategies or objectives are for the next 12 months and I think this is very much a function... These business owners are reacting in the current environment where it is difficult to find the kinds of employees that they need or to compete with, for example, bigger businesses that might be competing for those same folks. So, the biggest issue that they expect to be more challenging in the next 12 months is offering competitive compensation and benefits so just pay and benefits packages. As we've seen from all sorts of Department of Labor reports that wages have been rising and benefits, especially healthcare costs, aren't getting any cheaper. So, for a lot of small businesses or small to mid-size businesses, in the case of companies with up to 500 employees, compensation and benefits costs are a big challenge just covering those and being able to compete with, again, in some cases, bigger businesses that are after the same kind of talent is very challenging.

**Stu Richards:**

The second biggest issue that they think will become more challenging in the next 12 months is attracting dedicated, capable staff. We hear that over and over, no matter how we ask the question, hiring qualified employees is a perennial challenge. And then, retention, minimizing employee turnover, 36% said they expect that to become more challenging in the next 12 months and it's interesting. They're not just thinking about how are we going to pay them? How are we going to bring them in? But they're also thinking, certainly the more forward-looking on how do you develop your internal talent?

**Stu Richards:**

So, 34% of respondents are focused on developing future leaders for succession or at least, I should say, they think that's going to become more challenging and there's obviously solutions for that but I think there's a real opportunity to apply technology to that particular challenge. Creating HR administration efficiency is not surprising, Rob, given the cost that we just went through of managing HR administration. Looking for ways to economize that, 32% said they think that will be more challenging in the next 12 months. Managing the hiring process, 30% said they think that will become more challenging. And then, ongoing regulatory compliance too is a big, big issue in many, many facets of running an organization but in the HR arena, that's a challenge and 25% of respondents think that's going to be more challenging in the next 12 months.

**Rob Parsons:**

It's interesting. On the marketing side here at Paychex, we talk a lot about how Paychex can help. When you have an HR professional, they can provide proactive HR advice to help cover off on that. We've got tools and resources to help you address inflation challenges, workforce challenges, those types of things. A huge team of compliance experts to help you keep up with those laws and regulations and all in one technology to help

simplify all of these tests. So, these are the kinds of things we talk about, trying to make things more simple, trying to give you good advice, trying to help you stay compliant but there are... You've talked about what HR resourcing means to business owners. What were they talking about? How many of them are talking about outsourcing HR and what were the reasons that they were talking about for doing that?

**Stu Richards:**

Yeah. No, it's a great question, Rob. I think a lot of them really do feel the pain point in, oh gosh, all aspects of HR administration from recruiting new candidates to engagement and retention and all of the associated costs. So, 38% of our respondents said they're likely to outsource HR administration and again, those tasks really range across the whole employee life cycle. But the reasons that they want to do that, first and foremost, is actually reducing mistakes which can really... That can incur penalty if there's any issues, particularly in payroll or certainly retirement benefit administration but also increasing productivity.

**Stu Richards:**

Not surprisingly, given the hourly cost of an HR team or other folks within an organization who are taking on any kind of HR administration tasks and better analytics and reporting. So really getting more insight into employee productivity, for example, or understanding time and attendance or improving, for example, the criteria they're using to recruit and rank candidates. Real desire for better insight across the board. And then, as you mentioned, Rob, improved regulatory compliance is a huge issue and very hard for, gosh, any size company to stay current in, whether it's federal or state or local kinds of regulations. And then, finally, of course, for reducing costs, at least 34% of respondents said it's a benefit that they expect from outsourcing HR administration

**Rob Parsons:**

It seems so obvious now based on those dollar numbers you threw out earlier. That's an interesting point and normally, you don't necessarily think outsourcing as a way to reduce costs because it's not immediately intuitive when you're spending money but when you were talking about the cost of HR administration and not just outlays but opportunity cost, I thought that was something that business leaders should be thinking about, maybe a little more deeper. Well, Stu, thanks for joining me again today. Great to talk about maybe not a glamorous part of HR but something that there is absolutely opportunity, I think, for business leaders to improve.

**Stu Richards:**

Absolutely. Rob, thanks again for having me.

**Rob Parsons:**

My pleasure and you'll be joining me for one more episode. We'll be talking about that joyful concept of attracting and retaining talent. For all of our listeners who are interested, you can find a link to the 2023 Business Leader Priorities right in our show notes. There'll be a link right there. You can click on that and download the report for free for yourself. Once again, thank you all for joining. As always, please stay happy and healthy.

**Rob Parsons:**

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**Speaker 3:**

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