

The Definitive HR Playbook for Small and Midsize Companies

Common HR Misconceptions and How
Top-Performing Businesses Successfully
Manage HR



When it Comes to HR, Size is Not the Only Consideration

Top-performing companies of any size — and that includes small and midsize businesses (SMBs) — know the power of taking HR seriously. Companies that thrive, from the smallest to the largest, make HR part of key business goals. Getting HR right can have a huge impact on your business, including:

- Finding and hiring the best people
- Boosting employee satisfaction
- Enhancing employee performance
- Maintaining a competitive advantage

Leading businesses understand the importance of strong HR technology, services, and processes to achieve growth. And while smart small business owners accept that they may have different HR needs and resources from larger, more complex companies, they also realize their world is shifting.

Three major misconceptions prevent many growing, dynamic companies from understanding when it's time to shift gears in how they manage HR — and how to move their company forward in the most optimal way.

At leading companies, business owners focus on where they spend their time.

Think about this: What else could you be doing to transform and grow your organization if you could spend less time on the HR needs of your business?

HR MISCONCEPTION NO. 1

HR Only Needs to Be Concerned About a Few Disconnected Responsibilities

This is dangerous for several reasons, particularly if you see yourself as a dynamic, competitive player in your market.

If you think you're too small to start thinking big about managing HR, you're likely not considering the evolving expectations of a more demanding workforce, the shift in workforce demographics (the extremes of younger and older workers now comprise a larger proportion of the workforce than ever before), and the need for HR in a growing company to be looking ahead.



Overlooking Other HR Functions Can Be Catastrophically Costly

Consider compliance — laws and regulations that are constantly changing at the federal, state, and local levels. Companies, at the risk of hefty fines when out of compliance, need to consider areas such as:

Recruiting — Complying with [“Ban the Box” Legislation](#) and the Equal Pay Act (EPA) are two examples.

HR — The Consumer Credit Protection Act, Title III (CCPA), the [Employment Retirement Income Security Act \(ERISA\)](#), and the [Sarbanes-Oxley Act \(SOX\)](#) are among many HR regulations that apply to any business with paid employees.

You Risk Not Seeing the Value of Connecting HR Functions

This misconception fails to take into consideration the proliferation of HR technology and solutions tailored to the SMB market to deliver an overarching and connected view of HR functions.

Failing to bring your HR functions under one umbrella also means you’re likely missing opportunities for getting better data and analytics related to your various HR functions, not to mention the added work of managing disparate systems.

You Risk Not Seeing How Connected HR Can Improve the Employee Experience

Employees at companies of all sizes now expect their technology experiences at work to be as smooth and seamless as their online consumer experiences. When your HR functions are siloed, and your employees need to use multiple sign-ons or go to different portals for different HR processes, you run the risk of lower employee satisfaction and decreased engagement.

Changes in Your Business, Especially Growth, Require a Decision: Outsource or Expand HR

Changes to your business, often aligned with a growing number of employees or employees in multiple states, require new and more complex HR expertise. Either you add full-time HR employees — often not feasible in early stages of a business — or you turn to outsourcing some or all of your HR functions. But what are the options? Many companies just start simply with singular functions like payroll or benefits. But they often offload HR functions to professional employer organizations (PEOs), which handle a wide array of HR functions. Other options exist for helping HR up its game: administrative services organizations (ASOs), as well as separate solutions for different HR functions, such as recruitment process outsourcing (RPO).

PEO, ASO: WHAT'S THE DIFFERENCE?

PEO: Professional Employer Organization

When you partner with a PEO, it assumes all of the compliance risks — removing the stress of things like keeping up with regulations and delivering accurate payroll on time. The PEO also removes much of the administrative burden.

PEOs provide a full range of HR services, including payroll, benefits, safety and risk management, workers' compensation insurance, and compliance. PEOs are able to offer access to a greater range of benefit options and often at better rates than you would be able to get on your own. They also offer strategic services. Think of it like having a complete HR team.

ASO: Administrative Services Organization

Similar to a PEO, ASOs manage daily operations and HR tasks for you. In the ASO model, they usually administer your own benefits or workers' compensation coverage (except as part of a service agreement, usually at an additional cost).

HR MISCONCEPTION NO. 2

Forgetting About the “M” in “SMB”

It's no longer assumed that only very small companies should outsource HR or will need to later. Outsourced HR can be effective for SMBs of any size.

Outsourcing HR gives any company the ability to be more efficient now and scale your HR management as you grow.

The Most Common Compliance Issue After Your Have 50 Employees

The most obvious change once you have 50 or more full-time or full-time-equivalent employees is that you are considered a “large employer” under the Affordable Care Act. It has rules that kick in when you hit 50 employees.

Other regulations that kick in affect leave management [under the [Family and Medical Leave Act \(FMLA\)](#)], recruiting [under the [Affirmative Action Plan \(AAP\)](#)], and more.

What Is an SMB, Anyway?

A [generally accepted definition](#) is that a business with 100 or fewer employees is generally considered small, and one with 100 to 999 employees is considered to be medium. Some definitions go quite a bit higher, and some are based on revenue.

The Power of Centralized Data

As you move past 50 employees and toward 100 or more, you will probably also realize how much you could gain from having centralized people data. With the right data from your various HR functions, and accessible and actionable analysis and reports, you can make better-informed HR and business decisions.

Compliance and Other HR Responsibilities Take Another Turn at 100 Employees

Once you have 100 full-time-equivalent employees, the ante ups again. For example, a 401(k) annual audit is required. Doing this in-house or through a consulting or advisory firm can cost \$10,000 or more.

Also at 100 employees, the Department of Labor requires an EEO-1 Survey Filing (under Title VII, Civil Rights Act of 1964), and you'll need to start complying with the federal Worker Adjustment Retraining Notification Act (WARN). Again, these are only three examples.

HR Complexities Jump for Midsize Businesses

At this size, odds are good that you're operating in different states, maybe even internationally. That fact alone greatly increases the headaches and complexities of benefits and compliance (e.g., think workers' compensation and payroll laws).

Retirement plans also become more significant as your company matures. With a spectrum of demographics represented in your workforce, workers will have different expectations of employer-sponsored retirement benefits.

Leave management is one more HR function that becomes incredibly more challenging as your company grows, and especially if it operates in different governmental jurisdictions.

HR MISCONCEPTION NO. 3

I'm Not in the Right Industry for Outsourcing HR

The most natural fit for outsourced HR services are companies where time equals money — where every minute spent worrying about administrative details directly affects how much money is brought in. But isn't that true for almost any industry?

Consider a plumber who owns his own company who has a fleet of trucks and employees, but also does jobs himself. The hours he spends working on customer jobs have a direct correlation to the amount of money he — and his company — can bring in. The hours he spends worrying about and managing benefits and other HR hassles hurt his bottom line.

Lawyers, consultants, and many other types of service companies also fit into this category. As they say, every minute that isn't billable to a client is lost revenue. If you or your HR team are quagmired in an employee request for accommodations under the [Americans With Disabilities Act](#), you're not using your time to better contribute to the bottom line or help lead the company.

Companies that do not fit as well with a PEO are generally businesses considered to be too high risk to be covered by a PEO's workers' compensation insurance carrier. However, some PEOs specialize in serving high-risk clients.



Your Next Move — It's Not an All-or-nothing Play

Now that you realize outsourcing HR probably makes sense for any number of reasons for your business, it's important to realize you don't need to take an all-or-nothing approach.

Choose a Technology Partner

Here, you don't necessarily need to outsource HR functions. You purchase the technology and software you need to help you manage certain HR functions yourself.

- ▲ **Pros:** You get only the software you need. You can dip your toe into the waters of HR technology a bit at a time.
- **Cons:** You potentially create more work for your HR and IT teams. Less mature HR teams typically lack the processes and thinking to successfully integrate HR systems when technology is involved.



Keep HR In-house

This is the ultimate DIY of managing your HR functions. You use limited outside technology and your people.

- ▲ **Pros:** You're in full control. You don't buy anything you don't need. It could potentially be cost-effective, but that would depend on the size of your company, the level of sophistication you build out, and whether you need outside support to get the job done.
- **Cons:** You're going to create a lot more work for your HR and IT teams. You'll probably need outside expertise, especially for legal and compliance. You won't be able to scale without adding people and infrastructure. You won't offer employees or managers integrated user experiences.

Best-of-breed Solution Selection

You can pick and choose the HR solutions you want from the growing array of software-as-a-Service (SaaS) providers to manage different aspects of HR. For example, you might choose a vendor for only benefits administration and keep compliance in-house.

- ▲ **Pros:** You may get the best of the best for each HR functionality. For example, you could outsource benefits administration — including enrollment — to a highly rated platform in that category and partner separately with a top-rated time-and-attendance solution.
- **Cons:** Again, it's more work for your HR and IT teams, starting with the demanding task of implementing potentially several RFP processes — possibly one for each HR function. Each solution will likely have its own data sets that may not align or integrate well with your other HR databases, raising the risk of data errors, could lead to HR inefficiencies, and makes it more difficult to scale as your company grows.

Outsource With an HR Service Provider

When you outsource HR to a PEO or ASO, you get payroll, benefits, tax administration, regulatory compliance support, and all the rest of your HR services from a single provider. The PEO or ASO takes care of all the paperwork and streamlines the entire HR system; businesses improve productivity, increase profitability, and are better able to focus on what drives their business.

For Employees: Employees of small businesses get the same kinds of benefits that larger employers offer — 401(k) plans; health, dental, life, and other insurance; dependent care; and other benefits. Employees also enjoy an enhanced user experience thanks to the integrated HR functionalities and access to a full range of customer and service support.

If your company operates in more than one state, a PEO or ASO usually offers a multistate united plan or different plans for each state, to meet your organization's unique needs.

If You're Not Ready to Outsource HR: PEOs and ASOs give you the advantage of full or partial outsourcing, with the ability to scale as you grow. Most companies, in fact, start outsourcing with benefits administration or payroll and time and attendance. Then, from the same PEO or ASO, you can add health plans and core insurance. From there, add supplemental insurance options, recruiting, onboarding, and talent management (see more about outsourcing talent management in the PrismHR e-book "The Increasing Importance of the Employee Lifecycle").

WITH FULL OUTSOURCING, YOU GET A COMPLETE HR ECOSYSTEM

Employees benefit from single sign-on, a unified HR portal, and consolidated support and help desks. HR managers and business owners can be more efficient and more effective thanks to:

- Integrated HR and people data
- Compliance expertise and automatic regulatory updates
- Cost efficiencies by being a member of a PEO with hundreds of other employers
- With the right system, fully mobile-responsive HR functionality

A Matchmaker for SMB HR

Forward-thinking SMB owners and HR leaders in companies from the smallest to those with 1,000 employees are rethinking what outsourcing can do for them.

First, outsourcing makes sense when you consider the increasingly fast-paced competitive environment most businesses compete in today. Then add in layers of evolving expectations of employees around benefits and the rising expectations for a better employee experience. Few companies have the HR chops to pull off all of these tactical and strategic HR functions.

SMBs that want to stay competitive are looking for a trusted, experienced matchmaker that can help them develop a winning game plan. That may be outsourcing through a PEO or ASO to handle all of a company's HR needs. It might be partnering with a PEO or ASO that specializes in their industry or is local to their business, to handle only payroll and benefits administration. An SMB owner or HR leader may outsource services or outsource technology.

The options are wide open, and the right partner to put the pieces of the plan together will make all the difference for your company.





About PrismHR

PrismHR delivers HR software and access to the largest network of HR outsourcers in the United States, all designed to reduce your HR burden and get the most from your greatest asset – your people. With hiring, payroll, benefits, compliance, and much more, PrismHR technology makes HR more efficient across the entire employee lifecycle. 80,000 small and medium-size businesses (SMBs) and over 2 million employees are already taking advantage of this combination of service and technology.

Learn more at prismhr.com.
