



HI-TECH & HI-TOUCH

*Understanding and
Integrating Human
Resources in
Your Business*

Many employers, business owners, and even managers often have common misconceptions about human resource laws, specifically what is required of them and how they should handle certain matters. What is worse, if companies fall for these workplace HR myths, their business can suffer tremendously as a result. Here are some common misconceptions to consider:

DRUG ADDICTION AND ALCOHOLISM:

MISCONCEPTION:

Drug addiction and alcoholism are not considered disabilities under the ADA

TRUTH:

Yes, drug addiction and alcoholism can be considered disabilities under the **Americans with Disabilities Act** if the employee is currently seeking treatment or care. The question is: to what extent are you required to accommodate addiction in the workplace? Keep in mind that the employee may not need accommodations at all.

However, in some cases accommodations may be necessary. This may look like adjusting an employee's schedule to allow him or her to attend AA to remain clean and sober. It does not, however, cover workers who are currently engaging in the illegal use of drugs.

OVERTIME PAY:

MISCONCEPTION:

Salaried employees are exempt from overtime pay

TRUTH:

The **Fair Labor Standard Act** (FLSA) requires that employees covered under the Act, unless exempt, must get overtime pay for any time worked over 40 hours in a work week. It's important to note that salary and exempt are not interchangeable. In short, salary is a means to pay someone, and exempt is a designation that has rules and negates the right to overtime. If an employee is properly classified as exempt, then they are not eligible for overtime. However, there are certain state laws that drive overtime rules for non-exempt employees. For example, business owners could be responsible for paying overtime for work performed on a daily basis depending on their area.

SALARY HISTORY:

MISCONCEPTION:

Employers now can NOT ask applicants about salary history

TRUTH:

Many states have enacted bans on asking for salary information. However, and depending on the state, the laws vary in scope, applicability, and terms. Employers need to verify their rules to distinguish what exactly they can or cannot ask. In truth, in even the salary banned states, employers may ask applicants about their salary expectations. If an applicant offers up their past salary information voluntarily, the employer can consider this in setting their pay.

As you can see, these common myths and misconceptions can significantly affect how a business runs. When companies operate outside of legal compliance, it not only hurts profitability, it can lead to further problematic actions from disgruntled employees or applicants. That is why it is incredibly important to know the HR guidelines and how they can impact your company.



The Cost of Compensation

Compensation is the total cash and non-cash expenditures that an employer gives to their employees in exchange for the work they do for their business. These expenses are a significant part of a company's operating costs and can affect profitability.

TOTAL COMPENSATION BUDGET

The total compensation budget for an employer is often oversimplified. Typically, companies only factor in an employee's annual salary and benefits. However, the costs of hiring and retaining employees is often higher than initially thought. As companies dive deeper into real costs, there are many items that are overlooked that could potentially lead to budget shortfalls. Successful total compensation budgeting requires a comprehensive plan and takes into consideration not only pay, but the following elements:

- Health and Wellness Benefits
- Premium Pay
- Insurance
- Retirement
- Legally required benefits that an employer is expected to participate in including Social Security, Medicare, unemployment insurance, and workers' compensation

COST OF TURNOVER

Another substantial factor when looking at the cost of compensation is factoring in the costs of recruiting, replacing, and hiring an employee due to turnover. You should also include figures for lost productivity and the impact turnover has on the morale of the staff. Some studies predict that every time a business replaces its salaried employee, it costs the company **six to nine months'** salary on average.



The Top 9 Challenges Small Businesses Face

HR issues can be quite a challenge for a small business, particularly when they do not have a dedicated HR department. In these instances, it may be extremely hard for small business owners to understand the specific HR challenges they face. This could leave them unprepared when it comes to tackling numerous HR problems that could arise as their workforce continues to grow. Take the following, for instance:



Healthcare: Offering healthcare benefits makes a huge impact when it comes to attracting and retaining staff. As healthcare costs continue to rise, however, many companies either have to absorb these costs or pass them to their employees. As a result, they can lose talented prospects and top employees.



Government Regulations: A business needs to keep up with the employment laws. Yet, many small businesses either do not believe these regulations apply to them, or they are simply unaware. As a consequence, they can face costly lawsuits or audits that can significantly impact the company.



Federal Income Taxes: It is not just paying taxes that is a burden for a small business. Steering through the complexities of the tax code is, in fact, a more significant challenge for many of these companies.



The Economy: Small businesses often struggle during economic downturns. For example, when the economy is struggling, many small companies are forced to let go of their employees to save on costs. PEOs provide a solution to this challenge, both in good times and bad, by outsourcing key components of HR administration. The PEO acts as a flexible and scalable HR workforce, lowering business owners' costs and making them less susceptible to economic downturns.



Tax Compliance: One of the biggest problems for a small business is the cost of compliance. According to the IRS, companies that make under \$1 million in revenue usually have to **bear nearly two-thirds of business compliance costs**. What's worse is if your company does not understand these compliance regulations, the penalties involved can be disastrous for a small business.



Cash Flow: Stalling payments by clients, outstanding bills, and unexpected outgoings constitute a significant problem for small businesses. Having enough funds to cover the cost of a business is a must for any company and puts a major strain on owners as it becomes a choice of them investing in their life or their work. For many business owners, looking for a more cost-effective way to manage their operations is always top of mind.



Diversifying Client Base: Diversifying the client base is essential to your business growth. However, the process can be complicated. Focusing on one client can cause significant problems if they suddenly stop paying, and you do not have any other clients to pick up that slack. However, if you decide to diversify, you can be giving up much-needed attention to a top client. A PEO frees up a business owner's time so that they can focus on driving growth and diversifying their client base.



Growth vs. Quality: Successful small businesses eventually find themselves having to strike a balance between quality control and growing their bottom line. No matter if it's a product or service, at a certain point, a small business must sacrifice some aspect to scale up, whether that is managing every client relationship or inspecting every product part.



Hiring New Employees: Bringing in a new employee can be a substantial cost to a small company, ranging from **1.5 times to 3 times** the position's salary. It is a big investment that requires full consideration to make sure it's done right. Hiring factors to consider range from compliance with state and federal labor laws, providing the right benefits to attract and retain top talent, and the ability to hire employees remotely using tech solutions.

Outsourcing Your Human Resources

Outsourcing human resource administration is a contractual agreement between an external third-party provider and an employer. This is where the employer transfers the management of their HR functions and responsibilities to this external provider, a human resources outsourcing organization. Even though a business is transitioning these tasks to a third-party, it is crucial to understand that the business does NOT give up control of their company.

WHY DO COMPANIES OUTSOURCE THEIR HR?

As a small business owner, why should you outsource your HR? Well, because of the immense benefits that come from it. Such as:

Focus on Core Business Matters:

This opportunity allows business owners more time to spend doing more productive tasks that are relevant to the business while delegating the administrative functions to the experts.

Less Risk:

Outsourcing specific HR areas can provide the business owner with confidence. An experienced provider can handle the many business compliance issues and complexities that their company may not be qualified to do.

Offer New Services:

By outsourcing HR functions, many small businesses can now offer perks or services they could not when they were in charge of the HR department. This is mainly because these specialty firms have access to economies of scale and updated relevant technologies. This can provide a company with additional new benefits and an excellent tool for retaining talent and hiring more competitively.



Outsourcing Options

The best part of outsourcing your HR is choosing precisely what particular areas you want to outsource. There are several options when it comes to HR Outsourcing, and each one is different from the next. Here, we take a deeper look at four common outsourcing options.

PAYROLL SERVICES

Payroll processing is time-consuming, tedious, and frustrating. Keeping track of all the garnishments, benefit deductions, new hires, time off, and federal and state laws is an exhausting task. However, outsourcing payroll functions comes with many benefits:

- Time savings and productivity
- Reduced costs that are associated with the time the company can get back by not doing these in-house duties
- Enhanced security
- Avoiding **IRS mistakes**, which can result in an average penalty of \$845 per year for incorrect filings



HUMAN RESOURCES OUTSOURCING

Human resources outsourcing usually requires that a company have their own benefits, retirement plan, and workers' compensation insurance. Administration of these benefits is largely negotiable, and it's likely that a company could outsource some of these things, or none at all, depending on the service provider's expertise. HR outsourcing could also involve contracting with an HR rep for on-call services and guidance when needed.

ADMINISTRATIVE SERVICES OUTSOURCING

Administrative Service Organizations (ASO) provide outsourced HR services such as benefits and payroll administration. However, companies typically still shop for their own healthcare and workers' compensation, for example. Unlike a Professional Employer Organization (PEO), the ASO does not become a co-employer of the company's employees. Rather, in the ASO model, the company outsources administrative HR tasks but retains the liability.

PROFESSIONAL EMPLOYER ORGANIZATION

A Professional Employer Organization (PEO) is the Cadillac of HRO options. PEOs provide businesses with outsourced HR services, such as state and federal unemployment insurance, workers' compensation, payroll, and employment law compliance assistance. They can provide a company with more cost-effective benefits while spreading the risk across many clients. PEOs follow a model known as "co-employment," where the arrangement allows the company to transfer to the PEO many of its employer responsibilities while managing their employees' day-to-day activities. If legal problems arise, the PEO can assume some risks. Ultimately, PEOs are often chosen by small businesses because they want to outsource their whole HR department, reduce their liability, and reap the benefits of a scalable solution model, such as lower health plan costs, greater benefit options, and full administration.

A small business may save time and money by hiring a PEO that can offer a more comprehensive range of benefits, including:

- **Growing a small business by 7% to 9% faster than firms that did not outsource.**
- **Helping a small business maintain a 10%-14% lower employee turnover.**
- **Providing a small business with up-to-date information regarding labor laws and regulations so that they stay in compliance.**

The Bottom Line

Small businesses serve as a significant economic engine for the United States. Yet, they often have to deal with many problematic elements that can, unfortunately, lead to their demise. Even simple matters like making a mistake on their taxes can tremendously impact a company and its profitability. These issues and problems do not have to be a constant frustration for managers and business owners. Outsourcing human resource duties can have a substantial positive effect not only on the company, but also on the United States economy as a whole.

First, outsourcing helps a company save money and time, leaving complex or repetitive tasks to an experienced third-party firm, without having to invest in building that knowledge in-house. It allows business owners to focus on core tasks that can help them get ahead and maintain their competitive edge. Finally, it drives profitability, which can increase the number of skilled positions in the company—ultimately making the business more efficient and lucrative in the future.



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