

# Why Staffing Firms May Want to Outsource Their Back Office

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A key component to any contract staffing firm is the back-office function. Someone has to handle timesheets and payroll processing, taxes, unemployment, workers' compensation, invoicing and collections, background checks, etc. But that doesn't mean that your firm has to do it.

Many contract staffing firms have found advantages in outsourcing the back-office portion of the business. Here are some reasons why you may want to consider outsourcing your firm's contract staffing back-office:

**Time is money.** Regardless of the size of your firm, the time it takes to administer the employment tasks for your contractors is costing your firm money. If you are a "one-man show" handling those tasks on your own, you are taking time away from money-making recruiting deals. If you are a large firm employing your own Accounting and HR departments, you are spending money that could be spent on growing your firm.

**Payroll Back-up.** Do you have sufficient back-up in your Payroll Department? If you depend on just one or two people, you run the risk of missing a payroll, which would be extremely negative for your reputation and business.

**Exposure.** Each contractor on your payroll exposes you to risk for accidents, errors, and yes, even lawsuits. All it takes is one good lawsuit to drag your production down and potentially put you out of business.

**Liability.** Employment laws are constantly changing. You not only have to keep up with changes on the federal level but also for each state in which you have contractors. One little oversight (overtime errors, mishandled I-9s, FMLA, EEOC, and ADA blunders, etc.) could traumatize your business and even put you out of business. And the liability will only increase as the provisions of the healthcare reform law kick in. See Healthcare Reform below.

**Liability Insurance.** One way to help mitigate your risk is to carry sufficient insurance. Not only that, having insufficient coverage could be a deal breaker with clients that have specific requirements for how much coverage their vendors must have. If you outsource the back-office, you could eliminate this cost because the back-office would be required to carry the insurance.

**Legal Contracts.** Does legal counsel review and negotiate your contracts? It only takes one poorly worded line in a document to generate legal action that would require extensive time and money to address.

**Healthcare Reform.** Do you offer contractors healthcare insurance? If not, you will have to under the Patient Protection and Affordable Care Act (PPACA) if you have 50 or more contractors. Even firms that already offer it will be hit with additional costs and horrendous administrative headaches.

**Audits.** Sooner or later, you will be audited. The time and money it takes to handle an audit can be damaging to your firm, not to mention what could happen if mistakes are uncovered. One area that is specifically being targeted right now is the misclassification of 1099 Independent Contractors, along with Fair Labor Standards Act (FLSA) overtime compliance.

**Out of state placements.** It may not be a big deal for you to handle the employment tasks for contractors in



your home state, but what about when you decide to expand beyond those borders? In addition to keeping on top of the myriad of state employment laws as mentioned above, there is a lot you have to do just to get set up to do business in another state, such as registering for Unemployment Insurance and Workers' Compensation. Some firms choose to outsource out-of-state placements while continuing to run contractors in their home state through their own back-office.

Only you can decide if outsourcing is right for your firm, but if you want contain your costs and focus on the recruiting end of staffing, it may be worth your consideration. Furthermore, if you have any doubts that you have the time or resources to handle the employment tasks properly, you may be better off handing them over to a dedicated back-office service. After all, your business and reputation depend on getting the back-office functions right.