



# NEWSLETTER

Differentiated HR functions, insourced cost effectively for mid-size to smaller companies.

## Calibrating Human Resources to Company Size

by Ruth K. Liebermann

### The Challenge for Midsize and Smaller Companies

The Human Resources function is considered overhead in essentially all businesses. It is important *but* it is overhead. It is overhead *but* it is important.

HR is probably the one overhead area that is continuously and unpredictably subject to costly mistakes—more than the cost of effective prevention. Consequently, it is also a function where a company can benefit the most from “getting it right” for relatively low costs.

### Classic CEO Request Highlights the Problem

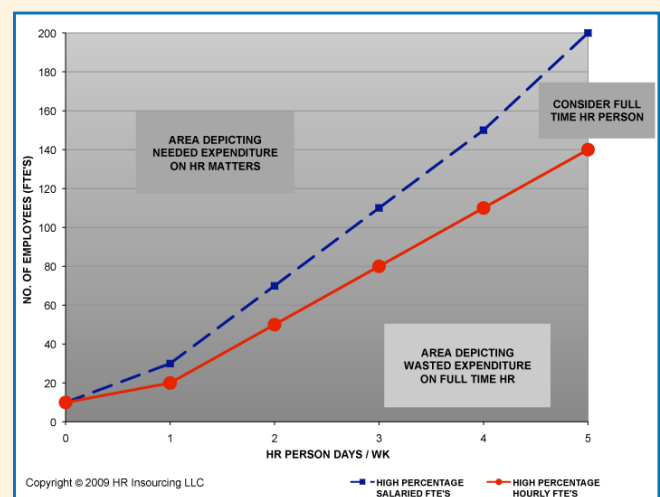
An entrepreneurial and experienced CEO, who spent a number of years at a multi-billion dollar corporation before he went off to lead smaller companies, made the following observation:

“We have about 100 employees in our company and I inherited a full time HR manager. The HR function is very important to my company. Our manager is a very nice person, popular with many employees, and happy to spend time on such assignments as helping employees fill out health care forms and set up interviews. But the HR Manager is not very busy and even creates some unnecessary work. When it comes to bigger HR issues such as organizational development, legally sensitive matters or unionization attempts, the required experience is not on-site. I would pay the money we now invest in HR to someone who could come in a few days per week to meet our relevant HR challenges”.

### Outsourcing vs. Insourcing

Conventional thinking would apply outsourcing to solve the problem. However, running an arm’s length HR function is not a very good solution, especially for building a lasting company culture. One CEO sums it well: “While today’s highly priced competitive markets often force you to outsource commodity tasks it is inadvisable to outsource

the company jewels”. Product development and personnel issues were among the first company jewels mentioned. Insourcing with an in-house partner provides “just enough” highly competent capabilities to protect the company. It is strategically as important as outsourcing commodity tasks and components for just-in-time delivery.



### Explanation of Graph

In both types of companies depicted above, there is a time when HR systems, procedures, policies and disciplines are needed and appropriate but not being addressed professionally. Companies are either (1) waiting too long—not best for the business—to make

a commitment to putting HR disciplines in place or (2) are spending for a FT headcount earlier than necessary and wasting money.

Above the lines—not making a commitment to HR support—companies are “doing without” and not adding appropriate disciplines to contribute to responsible growth and possibly exposing themselves to significant liabilities. Below the lines, companies are likely overspending and underutilizing a fully deployed HR resource.

## Other Evidence Natural Groupings: The “Rule of 150”

In a book titled *The Tipping Point: How Little Things Can Make a Big Difference* by Malcolm Gladwell, the author shares a phenomenon of group dynamics called “The Rule of 150”. It is a concept in cognitive psychology that speaks to an individual’s ability to handle the complexities of rapidly growing corporations and social groups.

A compelling example used in the book is about Gore Associates, the private company that makes Gore-Tex, with over 35+ years of profitability. “Gore has managed to create a small-company ethos so infectious and sticky that it has survived their growth to a billion-dollar company with thousands of employees...adhering to the Rule of 150.” Finding that “things get clumsy at a hundred and fifty,” their late founder, Wilbert Gore, established a company goal of 150 employees per plant.

Patterns seen in the military, tribes and other social groupings, has shown that after about 150 people, a group reaches its limits to control behavior based on personal loyalties and personal contact. A British anthropologist, Robin Dunbar, evaluated this theory in analytical terms, “At a bigger size, the personal dynamics of the group requires imposing complicated hierarchies, rules, regulations and formal measures to try to command loyalty and cohesion. Much beyond 150, it was found increasingly difficult for a group to work well as a functional unit.”

## At What Size HR?

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During the last 10 to 15 years, with the productivity gains seen throughout the workplace, the average ratio (1 HR person / number of employees) has migrated from 1:50 to 1:200, varying somewhat based upon the

nature of the business and the workforce itself. Around 150 to 200 employees, a company should consider a full-time, experienced HR person as shown in the graph. Around 300 to 400, there will be the need for a couple.

## Appropriate HR levels Can Lower Cost While Reducing Risk

An ideal HR support for a company with under 200 FTE’s is to align itself with an organization specializing in targeted cost-effective HR. The company should seek insourcing that provides a strong “go to” HR person on site, preferably independent, avoiding charges for overhead from belonging to another entity such as a law firm or contingency placement firm. The resource must come with diverse company experience to bring “best practice” resources into your company with a supporting HR organization’s assistance. This means addressing compliance, labor and employment issues, which often need legal advice.

While keeping a company’s existing professional suppliers in place, e.g. lawyers, accounting firms and brokers, an insourced HR professional can develop templates and standards to be introduced at appropriate junctures. Likewise, if an unusual issue arises (e.g. a senior manager search, introducing a non-qualified benefit program or evaluating the market competitiveness of a compensation program) the “modular” aspect of this insourcing model serves the company well. It draws in resources to specifically fulfill the a la carte need—in a timely and cost effective manner, without making costly commitments to permanent headcount.



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