



NorthstarPMO

Your Guide to Fractional HR for Mid-Sized Businesses





Introduction

A complex, volatile world creates unique HR challenges for mid-sized businesses. And no matter your industry or maturity stage, you'll likely find it difficult or cost-prohibitive to handle both the strategic and operational HR work solely with internal staff. That's why many mid-sized organizations adopt the Fractional HR model.

This guide defines Fractional HR and how it differs from outsourcing, reviews why mid-sized businesses consider Fractional HR, outlines the benefits and misconceptions, and explains the typical services offered by a Fractional HR provider. The guide also advises what to look for in a provider, reviews what to expect of the implementation process, and highlights two success stories that demonstrate the value of Fractional HR for mid-sized organizations.



How Fractional HR Works

Many businesses use the terms “outsourced” and “fractional” synonymously when it comes to the HR function, but the two models are distinctly different.

Fractional HR is a flexible, scalable approach in which a seasoned HR professional or team becomes fully integrated and embedded in the organization, acting as an extension of the internal staff and a valued partner. A Fractional HR partner can serve as the company’s sole professionally trained HR resource or supplement a small in-house HR staff. And they can take on anything from strategic direction and guidance—with a seat at the executive table—to day-to-day HR administration.

In any scenario, the scope and focus of a Fractional HR engagement is customized to the business’s goals and needs. With a bench of professionals who bring extensive knowledge across the full spectrum of people operations, a Fractional HR provider can match the type and amount of HR support to the business’s requirements, delivering everything needed and nothing more.

In contrast, outsourcing tends to involve sending work out versus bringing expertise in. And it often means replacing an existing internal employee versus supplementing the company’s current capabilities. Some outsourced HR companies only provide consultants on a short-term basis for specific projects, typically following a standard, rigid playbook. It’s also rare for outsourced HR providers to conduct the discovery to understand the business’s needs in-depth.



Why Mid-Sized Businesses Choose the Fractional HR Model

Fractional HR is on the rise among medium-sized organizations...

1

The organization is in growth mode. The HR function is necessary to both *drive* growth and *support* it, so it's vital to an expanding business. And it's not just about recruiting to fill many open roles. High-growth companies need effective HR to define (or redefine) roles, onboard employees at scale, improve talent retention, keep the entire workforce engaged throughout their employment lifecycle, and much more.

2

You're grappling with compliance challenges. Mid-sized businesses often start out as founder-led startups that hire people they know and trust, so they don't feel the need for documented HR policies. Eventually they reach an inflection point, where it becomes essential to actively protect the business from risk. Along with the compliance complexities of remote/hybrid work, mid-sized businesses find they're no longer shielded from a host of employment-related regulatory requirements. For example, many states (such as New York) now require companies with as few as 1-5 employees to offer paid sick and prenatal appointment leave and comply with minimum wage laws.

3

You're experiencing a repeat pattern of employee relations issues. As your business grows, so does the incidence of employee relations problems. Often, supervisors aren't equipped to handle these issues because they were promoted into the role based on their technical skills—not because they're inherently good at managing people. Handling employee relations matters effectively and breaking negative patterns requires the kind of HR expertise most mid-sized companies can't staff internally.

... for many compelling reasons.

If your business is experiencing any of the following,
the Fractional HR model could be a good fit.

4

You employ people in multiple states. It's increasingly common as the remote work trend persists. Yet keeping up with disparate, ever-changing, state-specific employment laws and regulations is a formidable challenge. It isn't feasible or efficient for an internal HR generalist to become well-versed and stay current on employment-related laws and regulations across many states.

5

You've struggled to find that one HR employee who can do it all. Mid-sized businesses typically need HR support that spans the spectrum—from setting strategy and assessing risk, to handling recruitment, benefits, and other administrative tasks. While the budget might support just one HR employee, it's nearly impossible to find a single professional with the capabilities and willingness to cover the full range of responsibilities involved. Most medium-sized companies need a slice of several different types of professionals skilled in people operations, which is the very definition of the fractional model.

6

You're seeking a more cost-effective approach to HR. With labor costs skyrocketing, organizations of all sizes are finding it expensive to hire full-time staff. And if a single, full-time HR professional won't fill all your needs, taking this route isn't the best use of your budget. On the other hand, a mid-sized company can't afford to hire multiple HR professionals as full-time or even part-time employees. While every organization's needs will vary, most businesses of this size find it more affordable to partner with a Fractional HR provider. This approach allows them to tap the expertise and skillsets that match their goals and needs at any given time.

A Smarter Investment in HR

Fractional HR is much more cost-effective than in-house hires for most small- and mid-sized businesses. The comparison is clear: When you consider the true cost of in-house HR professionals, Fractional HR is the clear winner.

	HR Manager	HR Administrator
Cost Category	Estimated Annual Cost	Estimated Annual Cost
Base Salary	\$130,000	\$65,000
Payroll Taxes (Federal & State)	\$11,089	\$5,843
Health Insurance	\$6,564	\$6,564
Retirement Plan Contribution	\$3,900	\$1,950
Disability Insurance	\$5,200	\$2,600
Paid Time Off	\$14,500	\$6,000
Office Space & Utilities	\$13,684	\$5,842
Technology and Equipment	\$4,520	\$3,680
Recruitment & Onboarding	\$10,033	\$5,940
Bonus	\$13,000	\$1,950
Total In-House Cost	\$212,490	\$105,369
Total Fractional Cost (8 hrs/week)	\$73,216	\$59,904
Total HR Team Cost - In-House	\$317,859.50	
Total HR Team Cost - Fractional	\$133,120.00	

Benefits of the Fractional HR Approach

Every business will come to the Fractional HR decision with different objectives. But across the board, the following top the list as the most valuable advantages of the Fractional HR model.

- A fractional approach provides the flexibility to adapt HR capabilities to the company's needs or scale them up or down (which is difficult or impossible with a fixed internal team).
- It provides greater access to specialized HR skillsets and resources, well beyond what a mid-sized business could hire internally.
- It avoids the waste of staffing an HR position full-time when the business really needs a portion of several different types of HR professionals.
- It can accelerate the business's HR journey, especially given the challenges of hiring and the lengthy timeline between defining a role and getting the new hire productive.
- It frees senior leaders to focus on the core business, confident that the HR function is being handled effectively and efficiently.

Common Misconceptions About Fractional HR

Two myths often keep mid-sized businesses from adopting Fractional HR, even when their needs fully align with this model.

“Our company is too big for Fractional HR.”

Businesses that reach the milestone of 100 employees often believe they’ve become too large for the fractional model. Yet even companies of this size tend to need only a portion of multiple HR professionals’ time, each providing unique expertise and capabilities. Even if your budget can justify one or two FTEs, you’re not likely to find professionals with the broad spectrum of experience and skills—or willingness—to cover the entire range of your people operations needs, from strategic to administrative. A premier travel organization discovered this reality, and chose to retain its Fractional HR partner even after hiring a junior-level HR coordinator in-house. Now the Fractional HR partner provides strategic guidance along with oversight of the internal coordinator. It’s a great example of how the fractional model gives companies the flexibility to access the exact slice of the precise resources to meet their specific needs, with the agility to adjust as conditions evolve.

“We don’t need another third party.”

If you choose the right provider, a Fractional HR professional becomes a partner to the business and an extension of your internal team—not another vendor to manage. These professionals become embedded in the business and integrated with your staff, always invested in your long-term success. In fact, most employees don’t realize when their company’s HR employees are actually fractional partners. For example, a Fractional HR strategist has a seat at the executive table, working alongside the rest of the leadership team.



Fractional HR Success Story

Speeding New Hire Productivity & Shortening the Hiring Process

After quickly scaling to a team of 25, a creative agency realized it lacked an effective onboarding process. The owner attempted to onboard new hires, but this task often took a back seat to his other critical duties. As a result, time to productivity suffered.

The agency hired a Fractional HR partner to develop a comprehensive onboarding process and schedule that helps new hires assimilate quickly. The new onboarding program is saving an average of 30 hours per month throughout a new hire's first month, avoiding lost traction during this critical period.

The agency followed up this quick win by tasking the Fractional HR provider to recruit better talent on a faster timeline. The HR partner broadened candidate sourcing, clarified staff roles in the hiring process, strengthened the interview questionnaire, and trained the team on how to avoid natural hiring biases. These efforts shortened the recruitment process—keeping strong candidates from leaking out of the pipeline—and resulted in much better-fit hires. A recent key hire was made in three weeks vs the agency's typical six-to-eight-week timeline.

Typical Capabilities of a Fractional HR Provider

A Fractional HR engagement is tailored to the business's needs and objectives, so there is no one-size-fits-all program. Instead, a Fractional HR provider offers a broad range of capabilities they can draw from in customizing the engagement. The following are the most common capabilities to look for in a Fractional HR partner.



Strategic HR Planning

The provider should bring professionals with deep expertise in understanding an organization's business goals and designing an HR strategy that aligns with them. Rather than apply standard best practices across all companies, a Fractional HR partner will first seek to understand where the organization is today (the current state) and what they hope to achieve tomorrow (the desired future state). Only then do they [develop and recommend an HR strategy and roadmap](#).



Compliance Management

A world-class Fractional HR provider can conduct a compliance audit to identify gaps that create known or hidden risks. A compliance evaluation involves reviewing all relevant policies, practices, and written documentation, identifying and prioritizing key issues, and developing a plan to remedy them. Just the act of engaging a Fractional HR partner is evidence of the organization's due diligence in identifying and addressing compliance problems.



Talent Acquisition & Retention

[A SHRM study](#) found that about three-quarters of organizations have struggled to recruit for full-time regular positions over the last year. That's why recruitment is one of the most sought-after HR services, and it's ideal for the fractional model. Unlike an internal recruiter, a Fractional HR partner can flex up or down as the business's hiring needs change. And unlike a recruitment firm, they develop a deep understanding of the business and the workforce planning strategy while serving as the company's objective advocate. From clarifying roles and developing job descriptions, to ensuring the company offers competitive compensation and benefits and much more, a Fractional HR provider can improve talent acquisition. They can also reduce the turnover that weighs on productivity and profitability, by building career development strategies and programs and improving engagement throughout the employment lifecycle.



Employee Relations

Employees at all levels must feel comfortable discussing workplace issues with a trusted professional, and many prefer to approach an external HR partner vs an internal colleague. Because they're embedded in the business, Fractional HR professionals approach employee relations issues with full knowledge of the organization's policies and procedures and the authority to hold workers accountable. Yet they also bring the objectivity to keep an open mind, steer clear of company politics, and apply their experience handling similar issues in many other companies.



Employee Engagement

Effective employee engagement is critical to retaining valued workers and maintaining a stable, productive workforce. Yet employee engagement is at a 10-year low, according to a [Gallup survey](#). A Fractional HR professional can help create a culture where employees become deeply committed and connected to the organization, through a combination of strategies and tactical initiatives that span all levels of the company.



Performance Management

Effective performance management permeates the business—affecting employee engagement, retention, and the ability for both the individual and the company to achieve their objectives. Yet, as a company grows and matures, traditional performance management strategies no longer serve the organization or its employees well. A Fractional HR partner can modernize a mid-sized company's performance management strategy and approach in many ways: Replacing ineffective annual reviews with more frequent, targeted touchpoints; equipping managers to coach their direct reports successfully; aligning personal development objectives with company goals; tying compensation to performance more effectively; and even developing a more appropriate narrative about performance management.



Employee Policy Development

A maturing organization often lacks documented policies across many areas of the business, including HR. While developing an employee handbook is a good start, it's grown more complex in the AI age. The emergence of Microsoft Copilot alone has fueled questions about how to protect a company's confidential or proprietary information. A Fractional HR partner can help a mid-sized company establish policies around AI use, security, and ethics, along with policies concerning compliance with state and federal regulations and many other employment-related issues.





HR Technology Selection & Implementation

The right HR information systems help mid-sized businesses streamline processes and improve efficiency. Yet, some still rely on outdated tools like Microsoft Excel or paper-based systems, while others have implemented HR systems but aren't making the most of the functionality they're paying for. A Fractional HR partner will review the company's current HR systems, identify functionality gaps and missed opportunities to leverage existing features, and recommend the best path forward. If the company is using multiple packages for the same application (such as payroll), the provider can eliminate redundant costs by harmonizing these systems and laying out a roadmap for an effective transition. Or if the organization has yet to implement critical HR technology, the Fractional HR professional can assess its needs and guide the business through the system evaluation and selection process.

A Fractional HR partner can also guide the company in integrating AI into HR functions such as recruitment and onboarding, to streamline the work, increase efficiency, and improve outcomes. Assessing the role of AI within HR is a crucial part of the technology evaluation and implementation process.





Compensation & Benefits

A Fractional HR partner can provide compensation and benefits support at both ends of the spectrum, from strategic to administrative. For example, the provider can conduct a compensation audit, benchmark the company at the state and national level, and develop a strategy for adjusting compensation as needed. They can also handle compensation administration day-to-day and work with a benefits broker on your behalf to simplify benefits administration.



Training & Development

Mid-sized businesses recognize the measurable value of investing in employee development, from better job satisfaction to greater productivity and lower turnover. A Fractional HR partner can recommend out-of-the-box training solutions or develop customized programs that reflect the company's values and strategy. While many companies turn to an HR partner for training to meet regulatory requirements, the provider can also develop or recommend the right training solution for any function in the business, along with leadership development on key topics like conflict resolution and delegation. As the business establishes policies around AI use, it's essential to provide all employees with training on how to implement these policies and ensure leaders know how to enforce them.





Fractional HR Success Story

Balancing HR Strategy & Administration

A medical document processing company needed HR support at both the strategic and administrative levels, but lacked the budget to hire both roles internally. They tapped a Fractional HR partner to:

- Recruit a full-time internal HR administrator to handle the full spectrum of operational tasks
- Manage the new HR administrator day-to-day, freeing the internal team from this time-consuming responsibility
- Provide HR strategy and direction across important initiatives like compliance and performance management—two major challenges for a company that was acquiring other businesses and adding many remote employees in the process

This approach enabled the business to allocate its HR budget effectively while leveraging an experienced HR strategist's expertise to achieve vital business objectives.

What to Look for in a Fractional HR Partner

If you decide the Fractional HR model is the right way to go for your mid-sized business, it's important to evaluate potential partners diligently. Though every organization will have unique needs, the following attributes are considered must-haves in an effective Fractional HR partner:

- Experience working with companies at all stages of maturity, which ensures they can scale with you as your business evolves
- Experience working with companies in your industry, which helps to jump-start the discovery process
- The desire and ability to gain a deep understanding of your business, including your current state and desired future state
- A flexible, adaptable approach to working together
- A broad bench of highly talented professionals, including HR strategists and tacticians as well as specialists in various areas of focus
- Familiarity with a diverse range of HR information systems and applications, along with opportunities for AI to improve people operations
- A commitment to maximize the investment in your existing HR technology to deliver the greatest value
- A proven process for onboarding your business quickly and efficiently, which accelerates your speed to results
- A demonstrated track record of helping organizations achieve their business goals through a more effective HR function





Implementing Fractional HR in a Mid-Sized Business

Getting started with a Fractional HR partner should be a smooth, seamless experience. Expect the provider to follow a process that minimizes disruption, brings their fractional professionals up to speed quickly, and begins delivering value immediately.

The onboarding process typically starts with a **needs assessment** focusing on areas such as:

- Recruitment
- Employee Onboarding
- Payroll/Reporting
- Policy
- Job Descriptions
- Benefits
- Legal/Compliance
- Performance Management
- Offboarding
- Retention
- Compensation
- Culture/Employee Relations/Employee Engagement
- Training/Career Development
- Organizational Development
- HR Technology Stack

Based on the findings of this detailed discovery, the Fractional HR provider will develop a **strategy and roadmap** that prioritizes critical issues needing attention. The roadmap is an actionable document that outlines specific initiatives, goals, and timelines.

The **staff assigned to a Fractional HR engagement** will depend on the outcome of the discovery and roadmap development process. The partner should adjust the engagement staffing based on the business's changing needs, providing the right skillsets and expertise at any given time. That might mean “parachuting in” specialists to solve particular problems. Even if the engagement primarily involves HR administration, the Fractional HR partner should provide an account manager who manages the relationship and ensures the engagement stays on track.

At the outset of the engagement, the Fractional HR partner will **set expectations for working together**, which includes defining the best methods and frequency for communicating with you and reporting on progress. You and your provider will determine which **project management tools** to use for the engagement, such as Basecamp, Microsoft Teams, Monday, or other applications. In some cases, you might choose to give the Fractional HR provider access to an internal SharePoint or other document repository to streamline the work.



Why Mid-Sized Businesses Choose NorthstarPMO for Fractional HR

Whatever the maturity stage of your company, it can be challenging to attract and retain top talent, keep your workforce engaged and productive, and comply with ever-changing employment laws and regulations. And it's not always evident where the risks lie and how to best manage them.

That's why mid-sized businesses turn to NorthstarPMO for Fractional HR services.

NorthstarPMO is the trusted Fractional HR partner for leading mid-sized companies across a wide range of industries, applying a proactive and strategic approach to this critical area of your business. Our model gives you access to an HR professional or team on a flexible, customized, part-time basis, aligning specific HR skills and resources to your organization's goals and challenges.

Our highly experienced team spans the full spectrum of HR capabilities, from strategy to tactical execution, with keen insight into how the right approach to people operations can help medium-sized businesses achieve their business goals. While many of our HR professionals bring the benefit of deep expertise in certain industries, we also apply our broad experience across a diverse mix of companies and sectors—transferring vital knowledge that can benefit any organization. And we always acclimate to your culture and find opportunities to leverage your existing system investments to deliver the greatest value.

Best of all, our unique approach delivers the highest possible ROI. We maintain an unwavering focus on your business goals and needs, build trust across your organization, develop effective problem-solving strategies, and adapt to ever-changing conditions—helping you turn objectives into reality.

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Schedule a discovery call to learn how the Fractional HR model can help your mid-sized company achieve its business goals.

