



MPOWER PARTNERS

MEASURING THE TRUE BENEFIT OF HUMAN RESOURCES OUTSOURCING

“Like any business process being outsourced, human resources outsourcing to a “Professional Employer Organization” (PEO) has started to boom.”

-John Crochet

There are two sides of owning a business: “the business of business” and “the business of employment.” Most business owners did not go into business to be employers. They don’t possess all the necessary human resources training, payroll and accounting skills, knowledge of regulatory compliance, background in risk management, or know-how of insurance and employee benefit programs to meet all the demands of being a good employer. Realizing the complexities and liability employees present, the option of outsourcing all of these employment issues to one group of professionals, one team of experts, one vendor, can make sense for many business owners. Like any business process being outsourced, human resources outsourcing to a “Professional Employer Organization” (PEO) has started to boom. It is now the fastest growing segment of the business process outsourcing sector. Originally established to benefit small to medium-sized businesses, the industry is seeing larger and larger companies outsourcing their human resource operations. The goal of a PEO is to increase profitability, maximize employee productivity and reduce employee-related liability. The prospect of cutting costs is often what motivates companies to consider outsourcing. However companies must look beyond the initial cost savings and must analyze the impact of outsourcing on employee satisfaction and the overall organizational performance.

How does a PEO arrangement work?

In the relationship among a PEO, a worksite employee, and a client company, there exists a co-employment arrangement in which both the PEO and client company have an employment relationship with the worker. The PEO and client company contractually allocate and share traditional employer responsibilities and liabilities. The PEO assumes responsibility for the “business of employment” including risk management, human resources, employment law compliance, payroll and employee taxes. The PEO can provide a complete human resource and employee benefit package to the worksite employee. The client company directs and controls worksite employees in delivery of its products and services.



THE GOAL OF A PEO IS TO INCREASE PROFITABILITY, MAXIMIZE EMPLOYEE PRODUCTIVITY AND REDUCE EMPLOYEE RELATED LIABILITY.

Why would a business use a PEO?

All business owners want to focus their time and energy on the “business of their business” and not on the “business of employment.” The laws, the regulations and the expectations change so rapidly it’s hard to keep up if you’re not managing HR full time. By partnering with a PEO your efficiency and profitability could increase by:

- 1. HR Expertise:**
 - Access to experienced HR professionals for assistance with personnel matters.
 - Guidance on compliance with complex employment laws and regulations.
- 2. Cost Savings:**
 - Consolidation of HR functions can reduce administrative costs.
 - Group purchasing power can lead to lower healthcare and benefits costs.
- 3. Employee Benefits:**
 - Offer a broader range of employee benefits, including health insurance and retirement plans.
 - Enhance employee attraction and retention with competitive benefits packages.
- 4. Risk Management:**
 - Shared responsibility for workers' compensation, unemployment claims, and liability coverage.

- Minimize legal and compliance risks through PEO expertise.
- 5. Administrative Efficiency:
 - Streamlined payroll processing, tax filings, and reporting.
 - Outsourcing HR tasks allows business owners to focus on core operations.
- 6. Scalability:
 - Easily scale up or down without the administrative burden of hiring or downsizing staff.
 - Adapt to changing business needs more flexibly.
- 7. Access to Technology:
 - Utilize advanced HR software and tools for efficient management.
 - Improve employee self-service options and data analytics.
- 8. Time Savings:
 - Reduce time spent on HR paperwork and administrative tasks.
 - Accelerate onboarding and offboarding processes.
- 9. Employee Development:
 - Access to training and development programs for staff.
 - Foster a more skilled and engaged workforce.
- 10. Focus on Core Competencies:
 - Concentrate on the company's core business functions rather than HR responsibilities.
 - Improve overall business efficiency and productivity.

Even for the business that has a human resource department, the PEO provides valuable and complementary expertise and services. Additionally, PEOs provide worksite employees with coverage under the entire spectrum of employment laws and regulations, including federal, state, and local discrimination laws, Title VII of the 1964 Civil Rights Act, Age Discrimination in Employment Act, ADA, HIPAA, Equal Pay Act and COBRA. In some cases, these laws would not apply to workers at small businesses without the PEO relationship, since many statutes have exemptions based upon the number of workers in a workforce. Once included in the PEO's workforce, the workers are protected by these laws.

In a PEO arrangement, does the business owner lose control of his or her business?

Absolutely not! The client retains ownership of the company, hires, fires and manages the day-to-day activities of the workers.

Why would a worker want a PEO as an employer?

Many PEOs provide exceptional employee benefits including health benefits, retirement savings plans and aggressive workplace risk management. Job security is improved as the PEO's economies of scale permit a business to lower employment costs. Job satisfaction and productivity increase when workers are provided quality human resource services.





THE PEO ASSUMES RESPONSIBILITY FOR THE “BUSINESS OF EMPLOYMENT” INCLUDING RISK MANAGEMENT, HUMAN RESOURCES, EMPLOYMENT LAW COMPLIANCE, PAYROLL AND EMPLOYEE TAXES.

Regulatory compliance

“PEOs are in the business of staying up-to-date on the ever-changing federal, state and local regulations. Through an experienced staff of HR professionals, a PEO helps businesses navigate through the government red tape. A PEO shares some of the liability by monitoring important work-related laws and taking care of the administrative functions, such as government reporting, unemployment claims and payroll taxes. By doing this, PEOs help ensure compliance is met on an ongoing basis.”

Successful partnerships

Creating a successful partnership with a PEO requires the selection of a PEO that has high standards, outstanding customer service and quality inclusive programs. When choosing your PEO, apply the same standards you would use when selecting an attorney, CPA, or any other trusted advisor. Some helpful hints that could be beneficial in your selection process are:

1. How long has the PEO been in business?
2. Does the PEO provide references?
3. Can the PEO meet your risk management and loss control expectations?
4. Can the PEO meet your human resource expectations?
5. Is the PEO a member of NAPEO (National Association of Professional Employer Organizations), the national trade association of PEOs?

6. Will the PEO provide a copy of its service contract before you commit to do business

CREATING A SUCCESSFUL PARTNERSHIP WITH A PEO REQUIRES THE SELECTION OF A PEO THAT HAS HIGH STANDARDS, OUTSTANDING CUSTOMER SERVICE AND QUALITY INCLUSIVE PROGRAMS.

SUMMARY

Businesses face a choice in the way they structure and pursue HRO strategies: Human resource outsourcing increases productivity from workforce investments, which dramatically improves strategic and sustainable competitive advantages and allows employers to closely manage HR-related costs. It's always advisable to transform your HR from a cost center to a strategic resource. Use the tools and expertise that help remove the burden of managing back-office functions so that you can focus on leveraging employee performance and supporting strategic initiatives. Realization of your complete responsibilities, associated time, cost and liability exposure is crucial in evaluating the value a PEO relationship could bring to your business.

PEOS ARE IN THE BUSINESS OF STAYING UP-TO-DATE ON THE EVER-CHANGING FEDERAL, STATE AND LOCAL REGULATIONS

ABOUT THE AUTHOR

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