



Should You Use a Professional Employer Organization?

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If you're like most business owners and entrepreneurs, you started your company because you wanted to manufacture and distribute a certain kind of product or deliver a particular service. You are probably skilled when it comes to this kind of product manufacturing or service delivery, which has enabled you to grow your business and provide jobs to others, thus benefitting them and your community at large.

What you probably *weren't* thinking too much about when you started your company was all the ancillary things that go with running a business. Hiring employees and managing human resources is a good example. While this is an essential part of business ownership and management, it's probably not part of your company's core competency — or in other words, it's not the reason your company exists.

Focus on Your Core Competencies

Many small and mid-sized firms have decided that they would rather utilize the time and resources they spend on HR management on tasks that are more directly related to their core competencies. To do so, they are hiring Professional Employer Organizations (or PEOs) to handle all their HR functions. This includes HR administration, payroll, benefits, dealing with worker's compensation and employment claims, and complying with complex and ever-changing government regulations.

Using a PEO enables you to essentially outsource your human resources to a third party that specializes in HR functions. This, in turn, frees up you and your managers from having to deal with complex and time-consuming employment issues and gives you more time to focus on your core competencies, like creating new products and services and growing your business. The result: Higher quality products and services, more satisfied customers, and higher sales and profits

"PEOs can be especially beneficial for startups and small businesses that can't afford to hire a full-time HR director or HR staff," says Joseph Bellavary a human capital consultant with TriNet, a Professional Employer Organization based in San Leandro, California. "Using a PEO enables these companies to effectively manage the risk associated with being an employer and offer their employees a benefits package that rivals the benefits offered by many large businesses."

Indeed, one of the biggest advantages of using a PEO is that it enables you to provide big-business benefits to your employees, even if you're a small or mid-sized firm. Due to their economies of scale, PEOs can offer a benefits package that includes health, vision, dental, life and disability insurance and a retirement plan that's like those offered by some Fortune 500 corporations. These can help you attract and retain a competitive workforce.

According to the National Association of Professional Employer Organizations (NAPEO), small businesses that work with PEOs:

- Grow 7-9 percent faster,
- Experience 10-14 percent lower employee turnover, and
- Are 50 percent less likely to go out of business.

NAPEO
[/www.napeo.org/about-napeo](http://www.napeo.org/about-napeo)

A Co-employment Arrangement

PEOs and businesses that hire them share employer responsibilities in what is referred to as a co-employment contractual arrangement. Each party serves as a common-law employer that is responsible for performing certain employment obligations. While the PEO takes on the responsibility of all HR administration and employment compliance, the business maintains the day to day control and direction of employees which serves the strategic intent of the business. For small to mid-sized business, this co-employment relationship can significantly mitigate employment risk and increase efficiency by having time-consuming HR activities handled by experts. The company typically maintains control of hiring, firing, managing performance, and making compensation decisions.

A PEO's specific responsibilities usually include the following:

- Processing payroll and payroll tax administration.
- Providing a full array of quality benefit options
- Resources to manage Worker's Compensation and employment claims
- Ensuring that the workplace complies with all applicable employment laws and regulations.
- Technology to track, manage, and report on HR information.

An outsourced CFO services provider can help you determine whether using a PEO would be beneficial for your company. This professional will analyze how much it's currently costing you (in both hard dollars and staff time) to manage your HR functions internally and compare this to the cost of hiring a PEO to handle these functions. Based on this analysis, you can determine if using a PEO is a smart strategic move.

Concluding Thoughts

Many firms today are turning to Professional Employer Organizations (or PEOs) to handle all their HR functions. Doing so enables businesses to outsource their human resources to a third party that specializes in HR functions, which frees up management to spend more time focusing on core competencies. An outsourced CFO services provider can help you determine whether using a PEO would be a smart strategic move for your company.

About CFO Edge

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