

## PEOs: a Human Resources Alternative

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Professional Employment Organizations offer predefined services and HR business processes to their client companies' employee populations, obviating the need for internal process improvement initiatives and demonstrating immediate performance advantages through clear procedural rigor, predictable results from practitioners, and a resulting efficiency that increases employee productivity and enhances the reputation of the HR department across the company.


PEOs provide a broad array of Human Resources services – piecemeal or in total – using economies of scale to serve smaller businesses for a fraction of the cost of in-sourced HR with no degradation of service, often in fact with an improvement in the rendering of HR services that reflects on the reputation of the remaining in-house HR staff. PEOs can be engaged to handle payroll, benefits procurement and administration, and even address more people-intensive disciplines such as recruiting and candidate management, employee termination, and various forms of compliance. PEOs can serve as the engine that powers the transactional aspects of HR or be used to provide employee-facing services as well. The flexibility of PEOs and their service offerings allows smaller companies to determine the scope of the PEO relationship and to change that scope over time as the needs of the company evolve.

Because of the flexible relationships enabled by PEOs that operate in the SMB space, most PEOs offer more sophisticated benefits packages than Small Businesses can implement on their own, for example, because they do not have the administrative burden of designing, implementing, and managing the programs themselves. Increased efficiency results, along with greater employee satisfaction because of more competitive benefits and compensation packages. PEOs increase efficiency, deliver benefits services, and offer more accurate services to support the employee population and improve the competitive positioning of the business.

Outsourcing entails the delivery of services to a company with an outside company rather than an internal staff. For a fee, PEOs handle traditional HR services on behalf of their client companies, using pooled resources while not compromising service levels or confidentiality. The PEO delivers these services through personal consulting, employee web portals, phone hotlines, and other interactive tools, bringing to bear the collective experience of serving a large portfolio of similar companies. HR is HR; the services are the same, though less expensive, scalable as the client's business grows, and do not require maintaining large internal headcount levels.

The specific advantages of PEOs include:

- Improved benefits packages for the employee population
- Procedural efficiency and reduced error rates
- Reduced transaction processing time
- More effective records maintenance and regulatory compliance
- Substantial reduction in cost
- Reduced corporate and executive liabilities
- Effective wealth accumulation strategies for business owners and executives



Through cost containment, more attractive benefits packages, and more efficient operations, PEOs provide an opportunity for HR to improve its reputation within the company while demonstrating a deeper contribution to the success of the enterprise.

### **Benefits Packages**

*Small Businesses tend to be limited by their size and capabilities, only offering benefits packages that can be managed by a small staff. Consequently, their 401(k)s offer fewer funds, health plans that are less flexible, and additional benefits that are not included (or available with modest or no discount). The costs of managing payroll and benefits programs, in conjunction with their nascent complexity, limit what the company can offer to employees. PEOs, on the other hand, benefit owners and key executives by offering a broader array of complex benefits products through pooled administration, including a variety of deferred compensation and retirement packages – at a reduced cost due to economies of scale.*

Competitive benefits packages support top line growth as well as cost containment by improving employee morale through a more favorable total compensation package that comes at a lower cost to the company. With a PEO, Small Businesses can contribute to the top line indirectly while taking direct action to expand margins, and HR evolves from a mere cost center into a business unit that contributes overall growth while not passing granular efficiency advantage that have a downstream impact on operating margins.


### **Process Improvement**

*In smaller companies, HR processes necessarily entail a scramble to keep up with constantly emerging employee concerns. Stacks of paper and to-do lists grow while an overburdened staff tries to keep pace with the demands of the business. Discipline and rigor fade as a result. PEOs, conversely, bring existing and tested business processes to the organization, providing direction and predictability of services for all HR activity. Managers and employees can be confident in the responses they receive as well as the timeframe of the response. Outsourced HR simplifies payroll and benefits management making these services more accessible to employees without adding layers to the organization.*

HR procedures and the lack of process knowledge tend to be the fundamental challenge for most SMB HR departments, with inefficiency yielding degraded service levels and a frustrated employee population. PEOs bring a predictable structure through planned operational models that deliver clear, measurable results. This approach leads directly to fewer errors, less lost employee time, and increased productivity. The notion of “going to see HR” is eschewed in favor of a phone call, e-mail, or a few clicks on a Website.

### **Less Wasted Time**

*A PEO, in dealing with many Small Businesses, sees fewer surprises. Any issue raised by an employee generally has been addressed countless times by a seasoned PEO practitioner. Problems require less research, and PEO practitioners command a larger body of knowledge in relation to HR technology, payroll systems, and benefits programs. PEOs thus execute transactions more quickly, offering more immediate ratification to the employees they serve. Employee adds and delves, benefits elections and terminations, and other transaction oriented tasks take less time, and the results are visible more quickly.*



HR transactions are at the core of the PEO advantage. With a staff that focuses on transactions in considerable volume, a PEO delivers increased efficiency and accuracy, as well as a clear line of accountability to the service provider. While a PEO does not replace an internal HR presence, it offloads the transactional effort, allowing HR leadership to focus on areas of strategic value.

### **Employee Records Maintenance and Regulatory Compliance**

*HR generates paper.* The due diligence and archiving associated with this discipline entails a significant IT commitment to ensure accuracy, control, and compliance with applicable regulations. Most Small Businesses lack the infrastructure and the expertise to manage electronic records effectively and maintain compliance with ERISA, FMLA, EEOC, and other HR-specific mandates. In fact, the technology infrastructure makes testing for compliance much easier. PEOs have the requisite infrastructure and institutional knowledge in place to manage large volumes of records and keep Small Businesses in compliance, mitigating risks associated with the Internal Revenue Service, Immigration and Customs Enforcement, and other enforcement bodies.

PEOs help prevent deviations from the regulatory norm while reducing technology costs by using proven systems with an appropriate infrastructure, extending the cost savings beyond the HR department. There are costs associated with supporting HR, and engaging a PEO the financial advantage considerably, reducing IT costs, IT headcount, and making the process of records management and audits easier. PEOs offer an extensive cost advantage that permeates other business units, with an interrelated result in an interrelated operating environment.

### **Summary: Cost Savings**

*The net result of an effective PEO relationship is a smooth HR operation and potential cost savings.* In addition to offering a broader array of complex benefits products, PEOs are able to distribute their fixed costs (e.g. infrastructure and office space) and costs that are essentially fixed up to certain thresholds (e.g. headcount and technology) over a larger population of served employees. The PEO delivers cost savings both in relation to the specific costs around benefits offered and the total cost of delivering HR services. The combined cost savings can chip away at the \$1 million expenditure, freeing capital to invest in operational efficiency and growth.

Engaging a PEO does not override the need for an internal HR presence; it does reduce the cost profoundly, though, while changing the nature of the internal HR team. Instead of affecting transactional duties, the internal HR team, smaller than it would be otherwise, can focus on strategic considerations, organizational development and improvement, and the more thorough management of sensitive employee relations situations. For a company with two hundred employees, the estimated cost savings could exceed \$200,000 with more efficient operations reducing waste and lost business opportunities, reduced headcount across all supporting functions, lower legal expenses and a reduced risk of litigation, as well as group-negotiated benefits prices.

PEOs empower HR departments to drive top line growth and an overall increase in company value through efficiency and cost improvement initiatives that positively impact employee productivity and morale and improve the profile of the HR department in all corners of the company. With more competitive and properly administered benefits programs, fewer erroneous HR transactions, faster execution, and demonstrable compliance, PEOs allow HR to focus on the creation of long-term opportunity development

while immediately addressing the near-term challenges that dominate the days of most HR teams.

## Conclusion

The purpose of the Human Resources department is not only to supply the compliance services that come with running a business in today's regulatory climate; it is to provide a competitive edge through the smooth administration of employee management issues in a way that reduces waste and enables the staff to focus on their core jobs. In administering employee benefits, maintaining staffing levels, and resolving internal conflicts, the reach of the HR department should stretch across the company, increasing business effectiveness and employee productivity. The resultant operational advantage does entail a price. Smaller companies especially struggle with increasing benefits costs, employee turnover, and a litigious climate that make HR management vital to the success of the company despite the expense.

As the HR function is not perceived as a driver of top line revenue growth, smaller businesses treat it as a cost center, and expending considerable energy in reducing expenses in order to invest elsewhere in the company. HR departments face the dual challenge of running a slim department while delivering an ever-increasing amount of services. The situation makes internal HR management difficult to maintain and reinforces employee and management sentiments that perceive HR as a barrier rather than an enabler.

Through the use of a PEO, smaller businesses can offer sophisticated HR packages without increasing the cost of services, reduce legal risk, and focus on top line growth and bottom line management – while continuing to grow in the market and serve clients. PEOs turn HR into a business enabler for smaller companies, keeping employees happy and productive en route to growth in the market. PEOs do make it easier to compete and succeed, turning HR into a competitive advantage.

Smaller businesses often struggle for performance improvement opportunities, especially as they lack the coffers of their larger counterparts. Efficiency comes at a greater cost, if at all. HR process outsourcing, though, constitutes a way for smaller companies to implement rigorous and tested business processes without having to make a substantial up-front investment. Using a PEO's business practices, Small Businesses can attain an almost immediate reduction in the total cost of HR and achieve a near-term ROI without a large capital outlay. For Small Businesses, the engagement of a PEO facilitates participating in a market with larger competitors, bringing Fortune five hundred-caliber operational processes to businesses with fewer than five hundred employees. With a rapid implementation cycle and near-immediate advantage, PEOs can help turn smaller companies into successful larger firms.

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