



THE ENTREPRENEUR AS HERO

Why Small Business Owners, With a Little Help, Will Rescue the Economy

For anyone following the news, 2008 and much of 2009 has played out like every business executive's worst nightmare: nearly non-stop corporate calamities dominating the headlines of newspapers and media outlets throughout the country:

- Lehman Brothers files for Chapter 11 protection- *International Herald Tribune*
- Reality Bites Bear Stearns- *Forbes*
- Noble, Auto Parts Maker, Seeks Bankruptcy Protection - *Bloomberg*
- Owner of downtown LA's Marriott Hotel files bankruptcy - *Los Angeles Times*
- Z Gallerie Files Bankruptcy; Closings Likely - *CoStar Group*
- Stanford International Bank to be Liquidated by UK Receiver - *Bloomberg*
- Gottschalks Plans To Liquidate Some Assets - *Wall Street Journal*
- Bankruptcies, Closures Plague Newspaper Industry - *Voice of America*
- Airline Industry Seen Losing \$4.7 Billion in 2009 - *Wall Street Journal*
- US Industrial Production Drops More Than Forecast - *Bloomberg*
- Gannett Profit Plunges 60% - *Wall Street Journal*
- Mall Operator General Growth Files for Bankruptcy Protection - *Washington Post*

Loss of Corporate Faith

As the financial crisis plays out in the headlines and in broadcast news, people are increasingly losing faith in their corporate brethren. Evidence of this vote of no confidence is ample: the tumultuous drop in stock markets both at home and abroad, drastic reductions in discretionary spending, the Bureau of Economic Analysis finding of a dramatic uptick in household savings of more than 4 percent of after-tax personal income for the first quarter of 2009 (a rate not seen since immediately after the events of

Sept. 11, 2001), and a subsequent and new found appreciation by the public at large for more frugal consumption across nearly every industry sector.

With the U.S. unemployment rate at nearly 9 percent, the economy shedding hundreds of thousands of jobs monthly, and Wall Street's recent schizophrenic trading cycles, Americans no longer appear interested or willing to seek answers or solace from big business.

In fact, Americans are increasingly deciding the only way to rescue themselves from the financial freefall that began in 2008 – and possibly jump start the U.S. economy in the process – is to start their own small businesses. According to the U.S. Small Business Administration (SBA), more than 1 million small businesses were launched between the fourth quarter of 2007 and the end of the second quarter of 2008 (the most recent date for which the SBA has data on small business start-ups). In doing so, countless individuals are joining millions of their entrepreneurial predecessors in a vast array of industries throughout the country.

But more than a swelling of the ranks for countless Chambers of Commerce in the American heartland and beyond, these emerging small businesses, along with those that came before, promise more than just new business opportunities. Small business owners promise jobs, commerce and quite possibly the rescue of the U.S. economy.

In March 2009, Darryl K. Hairston of the U.S. Small Business Administration reported in the last decade alone small businesses created nearly 70 percent of all new jobs in the United States. Where thriving, vibrant small businesses and the entrepreneurs who lead them are in evidence, so too might the heroes of the next economic turn around be found.

Americans Favor Small Business Owners

According to an independent survey commissioned by Extensis Group LLC and conducted by Harris Interactive, 46 percent of adults 18 and older believe small business owners are more fiscally responsible than large companies, while only 16 percent of

adults 18 and older feel large companies are more fiscally responsible than small business owners. Specifically, a majority of the population feel small business owners are more likely to spend money to grow the business in a manner that is in the best interests of the company, its employees and other stakeholders collectively, rather than merely seeking to enrich executives and stockholders.

However, small business owners need the right tools to appropriately aspire to this new confidence granted to them. Although that support might not necessitate or warrant billions in federal and state bailout money, it does mean resources and efficiencies must be both available and impactful to those entrepreneurial enterprises if they are to thrive.

Under the American Recovery and Reinvestment Act of 2009 (ARRA), Congress required the SBA to take action to improve small business lending and enhance liquidity. These administrative provisions include temporarily requiring the SBA to reduce or eliminate fees on certain loans; temporarily increasing specific loan guarantees; and implementing provisions designed to facilitate secondary markets.

Additionally, traditional business loans through banks, micro-lenders and federal and state grants are increasingly available.

However, the most meaningful tool available to small business owners is the ability to focus his or her attention, and that of the employees, on the central mission of the business – to grow, to capture market share, to be profitable. That ability is often handicapped by seemingly insignificant, but operationally crucial administrative functions: human resources, accounting, state and federal regulatory compliance and a host of back-office tasks. To free small business owners and staff to tackle the business of doing business, a host of options are typically applied to the daily operations of the company, including the incorporation of professional services such as lawyers, accountants, insurance brokers, human resource professionals and more recently, Professional Employer Organizations (PEO).

What is a Professional Employer Organization?

PEOs offer small businesses the resources, expertise and administrative oversight frequently unavailable to them due to financial or human resource limitations, and often a combination of both.

By partnering with PEOs, small business owners essentially take on the PEO of their choice as a co-employer, providing the legal and administrative framework for the PEO to access and administer most, if not all, of the human resource and back office functions of the business. This co-employer relationship allows small businesses to essentially outsource their human resource and back office functions, including most accounting functions, risk assessment and management, employee benefits management, and payroll, to the PEO which provides a range of financial, legal, human resource and regulatory expertise at the federal, state and local levels on a continuing basis. In short, PEOs assist small business owners in containing costs.

“Our ability to apply operational expertise across a broad spectrum of disciplines offers entrepreneurs a depth of knowledge typically beyond their in-house resources as well as a measure of headache relief,” explained Dan Sheridan, senior vice president and chief marketing officer of Extensis Group LLC, the largest PEO based in New Jersey. “More importantly, small business owners can redirect staffers who previously spent a good portion of their time on administrative functions to more revenue-focused tasks which directly impact the bottom line.”

According to the National Association of Professional Employer Organizations (NAPEO), PEOs enable their clients – the small business owners of America – to better regulate and manage the human resources, employee benefits, payroll, workers' compensation and other non-revenue generating aspects of their operations, and do so in a cost-effective manner. Entrepreneurs who employ PEOs are relieved of most of their business administrative constraints and, as a result, are free to focus on their core competencies, thereby maintaining and expanding their bottom lines.

The Extensis Group survey also found that 71 percent of adults age 18 and older felt it was better for entrepreneurs and small business owners to spend time on business development and strategy than on compliance and administrative functions. In essence, more than two thirds of adults felt small business owners ought to focus on core business functions such as broadening the client base, working with stakeholders to grow profitability and develop long-term strategies for sustainable growth.

Looking Within for Support

With PEOs as the relative new kid on the block, small business owners have previously delegated responsibility to other sources for the handling the administrative functions of their operations.

Most often small business owners turn first to their staff. Typically, these savvy entrepreneurs turn to a trusted staffer, secretary, receptionist, and in some cases even bring in a family member to handle administrative functions such as payroll, billing, human resource management and new hire training. What's important to remember is in most cases the staff member selected to help in this regard is taking on the assignment in addition to his or her primary duties. As a result, these functions are looked on as lower on the priority scale to the individual's main responsibilities.

That was the case for the Morristown, N.J., law firm of Celli, Schlossberg and Friedland LLC, in the early part of this decade. According to partner Vincent P. Celli, he and another employee of the firm handled much of the human resource and accounting functions of the firm. Eventually, the firm brought in the services of an outside accountant to assist with payroll, and in 2002, moved to a PEO model to free up staff time to focus on the practice of law.

As Celli, a lawyer and skilled legal practitioner in his own right noted, sometimes the in-house personnel assigned to handle back-offices lack the specific and necessary training needed for the particular administrative functions with which they are tasked.

Receptionists are rarely trained to handle payroll. Secretaries are less likely to have the

appropriate level of knowledge of the employee benefits programs offered compared to a trained human resource manager. Partners and employees in the business may not typically have the qualified insight and understanding of the various federal and state employment regulations that govern the small business unless they have received qualified training.

Professional Staffing Options

Once a small business has outgrown handling administrative functions internally the next step is typically to bring in professionals trained to handle these specific tasks.

Bringing in an accountant, bookkeeper or company controller as a full-time staffer, part-time help or outsourcing the related functions to an accounting firm offers welcome relief to small business owners. Knowing a professional is charged with handling matters such as cash flow, accounts receivable, accounts payable, tax filings, employee withholdings and the countless other asset management tasks is a tremendous burden lifted from the shoulders of most entrepreneurs. By removing these tasks from the desk of the small business owner and his or her staff, more time can be spent on business development, client support and strategic growth opportunities.

For the Monmouth County branch of the Society for the Prevention of Cruelty to Animals (SPCA), an in-house top-cop for accounting was not enough, and increasing in-house staffing in this area was not an option. The organizations finance director, along with the non-profits' executive director, Ursula Goetz, were just trying to keep their heads above water with regard to the back-office functions of payroll management, employee turnover and training, record keeping and other administrative tasks while still working to focus on their primary responsibilities, including fundraising and strategic development of the organization and its service offerings.

For organizations like the Monmouth County SPCA, sometimes the most fiscally responsible option is to bring in outside accounting service providers to avoid the overhead and salary requirements of bringing an accountant in-house. For small business

owners who pursue outside accounting firms to handle their needs, these firms will often offer package pricing for the particular services sought, while others present their costs on an à la carte basis.

Another important facet of the business is the human resource element, which offers its own set of less-recognizable but equally important challenges.

In small businesses, as in large businesses, people are a primary source of risk and are important to the business' ultimate success or failure. Human resource managers manage that risk, whether they manage four people or 40,000 people.

According to eXtension, an educational partnership of 74 universities in the U.S. dedicated to providing objective, research-based information and learning opportunities, human resources is, at its core, the staffing, training, development, motivation, and maintenance of employees to help accomplish organizational goals.

For Michael Graves and Associates, Inc., a world-renowned architecture firm with offices in Princeton, N.J., and New York City, bringing in a PEO to handle the increasingly complex issues of human resource management in conjunction with the accounting management needs of the operation was critical after discovering outsourcing only the firm's payroll function was not enough to streamline operations. Looking to maximize the benefits to employees and relieve management of the day-to-day management of the company's dynamic human resource and accounting issues, Michael Graves and Associates came to the conclusion that bringing in outside, professional resources was the best route to pursue.

Alternately, recruiters sometimes offer a seemingly low cost option to some human resource needs of small businesses. Recruiters will typically screen, interview, and sometimes test applicants. They also may check references and extend job offers. Like most human resource professionals, recruiters must also be thoroughly familiar with the organization with which they are working, as well as its personnel policies in order to

accurately discuss wages, working conditions, and promotional opportunities with prospective employees.

Recruiters typically offer their services on a contract or per-hire basis. That cost can become a considerable add-on expense depending on the frequency of the organization's hiring efforts, the specific hiring needs, salary offerings involved and the extent of the search for qualified candidates.

Finally, to help manage the multitude of risk every business undertakes as a cost of doing business, many small business owners will work with insurance brokers to assuage those risks. The range of areas in which an insurance broker can assist small business owners is broad: workers' compensation insurance, business property insurance, business interruption insurance, business disability insurance, business liability insurance, errors and omissions insurance, directors and officers liability insurance, and more recognizable, everyday insurance policies that include health, life, dental and optical.

These brokers not only help secure and obtain the myriad of policy coverages needed, insurance brokers should also help entrepreneurs manage these policies, ensuring appropriate coverage, managing payment to providers and maximizing the cost benefit to the insured.

The Advantages of Professional Services

For small business owners, there is no substitute for skilled professionals leading the charge in his or her area of expertise. Hospitals wouldn't hire dentists for brain surgery, and you would necessarily want a spinal surgeon designing levees in flood-prone cities. In short, businesses need the right people in the right positions to achieve the highest level of success possible.

Faced by an increasingly complex and constant deluge of legal and regulatory obligations, today's small business owners must consider applying the skills of trained professionals in the areas of accounting, human resources and back office administration

if they wish to focus their time – and the time of those they employ to grow their businesses – on strategic business opportunities rather than back-office management.

The alphabet soup of agencies and regulations, both federal and state, with which small business owners must remain compliant include, but are not limited to: the Fair Labor Standards Act, the American's with Disabilities Act, the Employee Benefits Security Administration, the Office of Federal Contract Compliance Programs, the Office of Labor Management Standards, the Office of Workers' Compensation Programs, the Family Medical Leave Act, the U.S. Department of Labor's Wage and Hour Division, the Employment and Training Administration, the Occupational Safety and Health Administration, the Employment Standards Administration, and countless others. More substantively, in July 2006, *Entrepreneur Magazine* cited a report by the SBA which estimated the average annual expense, per employee, for small businesses to stay in compliance with government regulations was \$7,646.

Small business owners interested in running their business rather than merely managing the compliance aspects of their businesses can realize dramatic time as well as financial savings by turning the administrative legal and regulatory obligations over to qualified professionals.

By removing these non-revenue generating tasks from their to-do list, small business owners can concentrate on the operational and revenue-producing side of their businesses. Human resource managers and PEOs offer these small business owners timely and conversant expertise in all aspects of compliance issues for small businesses at the state and federal levels. What's more, these professionals can respond to changes in the regulatory landscape with greater accuracy, speed and agility than a small business owner, or his or her internal staff members, might be able to do.

Professional accountants, in turn, can help to keep the small business ahead of financial curves in the road and changes to the tax system, offering small business owners the maximum financial advantage.

The Best Sidekick for the Entrepreneurial Hero

For those seeking more integrated solutions, NAPEO notes PEOs provide a host of integrated services to effectively manage critical human resource and accounting responsibilities and nullify employer risks for clients. By housing the small business owner's accounting and human resource services in tandem with other back office functions, PEOs can offer broader solutions and suggestions to entrepreneurs through their network of provider resources and by having intimate knowledge of the entire business as a whole rather than merely considering just one aspect of the company's operations.

The Paperwork Nightmare

Five years ago, The Monmouth County SPCA was experiencing growing pains. At the time, the organization had only a staff of 22 – many of them entry level – and a host of service and program expansions in the works. Processing of employee applications, training, managing staff turnover, pressing administrative demands and other back-office functions were inhibiting the non-profit's ability to grow and flourish. The need to outsource human resources, payroll and other back office, non-revenue generating tasks was evident.

Enter Extensis Group. By choosing to partner with Extensis Group, payroll that once required hours of the finance director's time and attention is now handled by submitting a simple timesheet to Extensis requiring only minutes of attention, not hours or days.

Without having to allocate unavailable funding (salary, benefits, insurance, etc.) and physical space to bring in its own human resource director, Monmouth County SPCA's outsource of its HR functions – along with its accounting tasks – has allowed Extensis Group to play a major role in supporting the 64-year-old organization in issues including workers' compensation, employee benefit administration, complex labor regulatory compliance issues, and adhering to all federal, state and local laws and statutes.

On a more fundamental level, by bringing Monmouth County SPCA into its pool of insurance program options, Extensis Group was able to reduce the organization's workers' compensation rates by \$50,000 annually. In addition, the Extensis Group relationship has allowed the Monmouth County SPCA to control the costs of the organization's employee benefits programs without reducing the quality or variety of those programs.

The Monmouth County SPCA, an organization started six decades ago in a chicken coop, now provides a kaleidoscope of services, including adoption programs, spay and neuter programs, legal prosecution of criminal offenders, a pet assisted therapy program at area nursing homes, going to schools to work with local Eagle and Boy Scout troops, and operating an animal shelter which houses more than 4,000 animals. All of this is carried out by a staff that now numbers 45 full- and part-time employees.

Executive Director Goetz says bringing in a PEO – in this case, Extensis Group – has proved an invaluable resource. “They're of tremendous assistance in matters ranging from payroll administration to providing guidance of sensitive legal matters,” Goetz explained. She calls the decision to hire Extensis, “The best decision we ever made.”

High-Touch Client Support

After having delegated various administrative tasks to partners and staff, followed by the utilization of an outside accountant and then two years of working with its first PEO, the Celli, Schlossberg and Friedland law firm decided to look elsewhere for solutions.

“We wanted more of a personal touch with a higher level of customer service,” said Celli.

While he and his firm recognized the inherent value of the PEO business model, the law firm's first experience with a PEO did not live up to expectations. “If we had an issue or a question, we wanted to be able to pick up the phone and get someone working on the matter; not unlike having an HR director right here in our own office,” Celli noted.

However, having selected an out-of-state PEO that was unable to offer any in-person access to the firm proved less than ideal.

It wasn't until an insurance consultant who worked with the firm pointed to Extensis Group's track record and philosophy of only working with clients within driving range of its Woodbridge, N.J., headquarters that Celli said he began considering making a switch.

"Dealing with human resource management issues took up a substantial amount of time for me and members of our staff," Celli noted. "Being able to turn those functions over to Extensis – and to have them handled with efficiency and great competency – has enabled me to focus my efforts on practicing law rather than serving as chief administrator of our firm," explained Celli.

In addition, the accessibility of the Extensis Group team to Celli and his partners has met – and exceeded – expectations. "I can reach out to them when an issue comes up, and I know it will be handled in a timely fashion with great care. That peace of mind is invaluable to me," Celli noted.

Affordable, Reliable HR Services

Michael Graves and Associates, Inc., and its sister company, Michael Graves Design Group, finally moved to the PEO model after first having employed a standard, outsourced payroll service.

The 90-employee strong architecture shop, recognizing the inefficiency of its first outside payroll vendor and subsequent realization that a more comprehensive set of back office human resource tools were needed, recently employed Extensis Group to apply a full PEO solution to its business practices.

"With the help of Extensis, we now have a superior hands-on approach," noted Senior Vice President of Finance and Administration Joe Furey. "[Extensis Group] is accessible

and customer friendly - often coming to our offices as needed – and payroll takes somewhere between 15 minutes to 2 hours to complete. We're quite pleased.”

Recognizing the efficiencies and competence Extensis Group provided the firm as its new payroll service provider, Furey said it was easy to make the leap and embrace the full PEO model, which is the direction in which both organizations are now moving.

“For just a bit more than what we were spending with our prior payroll company, our payroll is now handled more efficiently and with greater, consistent responsiveness, and we now have the added benefit of an expert human resource team to assist us in weathering the recent economic challenges,” Furey explained.

For a company that ranks its expert staff as its greatest asset, Furey said the value of an adept HR team cannot be overstated. He says the improved HR functionality offered to the employees of Michael Graves and Associates allows the architecture firm to better develop employee growth, training, structure and improved employee satisfaction.

According to Extensis Group's Sheridan, a customized PEO plan was created for Michael Graves and Associates, allowing the company to outsource its payroll and HR functions to Extensis, along with à la carte services on an as-needed basis. Those add-on services, according to Furey, include occasional consultation on legal matters such as workers' compensation.

Finding Affordable Healthcare

For Guy Falzarano, the president of Rainbow Academy, a family-run child care and early education provider with 10 locations throughout New Jersey, the cost of affordable healthcare was a defining issue that led him to the PEO model.

“With 350 employees, finding affordable healthcare options was the central issue,” Falzarano explained. For the Rainbow Academy team, working with children meant

healthcare was a priority. “If you work with kids, you’re going to get sick. You need to be able to afford to go to the doctor when you’re sick, as well as for preventative care.”

Finding a plan that offered options along with affordability was a challenge. Falzarano said the company’s size was an issue for some: at 350 employees, Rainbow Academy didn’t seem to fit the small business definition of some healthcare plans. Plans that were willing to work with the company offered either limited options, high costs or both.

While healthcare was a primary driver for exploring the PEO model for Falzarano, he said he was also looking for payroll, human resource, and opportunities to improve Rainbow Academy’s overall employee benefits offerings – including a more dynamic 401k program.

“Extensis provided us with a more diverse selection of affordable healthcare options,” Falzarano explained. “However, when you factor in their ability to keep us in line with all of the state and federal regulatory obligations every small business owner needs to keep pace with, bringing in a PEO really unshackles small business owners from administrative headaches to do what we do best, which is run our businesses.”

Measuring the Impact of Professional Service

The benefits of applying professional expertise to small business concerns are measured across a number of fronts: reduced healthcare costs coupled with greater health plan selections, a wider variety of 401k and other employee benefit options, greater efficiencies in processing administrative functions, more time to focus on revenue-generating tasks, better and more timely compliance with governing authorities, and a deep reservoir of expertise across a broad range of business functions.

With obvious benefits, small business owners must decide which services make the most sense, the extent of the need and whether an integrated service offering is the most efficient solution. For many, PEOs bring the greatest number of resources to bear in an efficient and economically advantageous model.

“The biggest benefit of working with a PEO is the time savings,” explained Celli. The Morristown, N.J., attorney said he typically spent about 10 to 15 percent of his time, along with assistance from another employee, handling purely administrative tasks before engaging a PEO. “Now that time is devoted to my practice, and I’ve seen my revenue stream improve as a result of the added time I can devote to actually being a lawyer.”

For the Monmouth County SPCA, the cost savings provided by working with Extensis Group – along with the time savings that allowed Goetz and her team to work on fundraising efforts – provided the opportunity to expand the organizations offerings, double its staff, and responsibly meet the demands of the group’s broad offerings.

PEOs can also provide compelling recruitment and retention tools. From access to comprehensive benefits such as 401ks, Section 125 plans, comprehensive insurance benefits, Flexible Spending Plans, to credit union membership, exclusive banking privileges and in some cases, exclusive employee discounts on travel, entertainment and services, PEOs provide a broad array of dynamic offerings that allow small business owners to compete in the recruitment and retention of well-qualified staff.

Falzarano said his ability to offer a number of affordable healthcare options to current and prospective employees, along with a more robust 401k plan, allows him to recruit top talent, which is a point of pride and distinction he focuses on when speaking with parents who consider enrolling their children at Rainbow Academy.

Conclusion

The resources that provide entrepreneurs the greatest opportunity to focus on building and sustaining their businesses are also the tools that will help repair the American economic engine. Reduced interest rates, micro-lenders, lawyers, accountants, insurance brokers, PEOs, changes to SBA lending practices and procedures, and public and private grants are all means to an end, and all lend to the ability of small businesses to thrive.

Increasingly, support for small businesses as economic heroes has grown in tandem with their access to such tools.

President Obama, in a March 16 speech, noted small business and entrepreneurship are at the heart of the U.S. economy. In remarks from the East Room of the White House, the President explained, “[Small businesses are] responsible for half of all private sector jobs -- and they create roughly 70 percent of all new jobs in the past decade. So small businesses are not only job generators, they're also at the heart of the American Dream. And small businesses don't just provide jobs -- they provide the innovations that help us lead in the global economy. Smaller companies produce 13 times more patents per employee than large companies.”

And as recently as May 8, 2009, a news article published in *The San Francisco Chronicle* titled, “Micro-lenders Ready to Loan,” stated small business will be the driving engine behind the economic recovery of the United States.

Extensis Group’s survey concluded the public, in general, believes small business owners will rescue the economy, serving as heroes for Main Street as well as Wall Street. On the question of whether small business owners are more likely, less likely or equally as likely/unlikely as large companies to rescue the economy, 66 percent of adults 18 years or older felt small business owners are more or equally likely to rescue the economy. Additionally 14 percent more adults felt small business would be the driving force of the economic rescue when compared to large companies leading the rescue effort.

“All economies, at a basic level, are local,” explained Extensis Group’s Sheridan. “Tools that make small business owners successful allow those businesses, along with their vendors, employees and the communities in which they do business to grow and prosper; to be the heroes of their local economies.”

About the Survey

This survey was conducted online within the United States by Harris Interactive on behalf of Extensis Group from April 13 to April 15, 2009 among 2,495 adults ages 18 and older. Results were weighted as needed to reflect the composition of the U.S. population of adults ages 18+ using targets for region, age within gender, education, household income, race/ethnicity, and propensity to be online. This online survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated. For complete survey methodology, including weighting variables, please contact Rod Hughes with Oxford Communications at (609) 397-4242, Ext. 179 or via e-mail at rhughes@oxfordcommunications.com.

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