



Small Business Builder: Human Resource Headaches

Could a Professional Employer Organization Be the Solution?

By [Mary Campbell](#)

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Widget Warehouses Inc. has a few problems: 130 of them, in fact.

That's the number of employees on the Widget Warehouses payroll. They're great folks, says Web Wiggins, who knows all his employees and most of their spouses and children by name.

But along with employees come those pesky employer responsibilities: Government regulations □ ERISA, COBRA, FLSA, HIPAA, OSHA and more. Recruiting, hiring and keeping good people. Offering and managing a competitive benefits package. Payroll taxes. Unemployment-insurance claims. The list seems endless.

Wiggins spends one day out of five solely on employee-related paperwork □ not counting the time he and his managers devote to hiring, interviewing, training, learning about and complying with regulations and dealing with occasional spats and misunderstandings. The Widget executive team is well informed and vigilant, but the managers know their company could be paralyzed by a lawsuit or crippled by government fines □ even those that are essentially unfounded.

It costs about \$650,000 per year □ \$5,000 per employee □ for Widget to comply with human-resources paperwork, tax and regulatory requirements (about one-and-a-half times the per-employee cost for businesses with more than 500 employees, according to the National Association of Professional Employer Organizations). Web Wiggins would much rather spend the money, and the time, operating a top-notch warehouse, pleasing customers, and ensuring stable and satisfying employment for the company's workers.

□The Best of Both Worlds□

There is, as far as I know, no such company as Widget Warehouses. But if there were, it would be an excellent candidate for a PEO (professional employer organization) co-employment contract □ an arrangement by which a company's workers become the PEO's employees, at least for HR purposes.

The practice of "employee leasing" has been around for decades, but the PEO industry picked up speed during the 1990s as employers struggled to keep pace with new employment regulations. The modern PEO functions like a full-service human-resources department, responsible for everything from hiring and training to payroll taxes and personnel management.

Since a PEO typically has more than a thousand employees distributed among numerous clients, it can provide more cost-effective benefit packages and compliance measures than small businesses can on their own, claim PEO-industry representatives.

"We provide the best of both worlds," says Paul Sarvadi of Administaff, a 16-year-old PEO based in Kingwood, Texas, and operating 32 sales offices in 17 cities nationwide. At the end of 2001, Administaff had about 70,000 "worksites employees" distributed among 4,400 client companies □ an average of 16

employees per client, though client size can range from five to 1,000 employees, Sarvadi says.

Administrative clients benefit from "Fortune 500"-class HR practices "in the working environment of a small business," says Sarvadi. Rather than alienating employees, such co-employment arrangements actually "boost loyalty and morale," he says.

Contracting with a PEO is different from outsourcing HR functions in that the PEO and the client are joint employers, with the PEO assuming a range of legal employment responsibilities. A PEO's functions differ from client to client, Sarvadi adds. In hiring, for example, "some managers want us to do everything up to the final interview; others want to be more involved."

If the business owner sacrifices some autonomy, Sarvadi observes, most find the tradeoff well worth while. "Our clients have more access to time," he says, "and that gives them more control. They welcome the advice we give."

Are you a PEO client? We'd like your views on the negative and positive aspects of PEO affiliation. Please E-mail your comments to smallbiz@gravity.biz

An editor since the age of 6, when she returned a love letter with corrections marked in red, Mary Campbell founded Zero Gravity in 1984 to provide writing, editing, marketing and other services to small businesses. Her presentations and workshops address small-business topics from Web sites to business writing. An editor of and contributor to dozens of publications (books, journals and newsletters), she is co-author □ with her sister, Pipi Campbell Peterson □ of the second edition of *Ready, Set, Organize! A Workbook for the Organizationally Challenged* (JIST Publishing, 2001). Please e-mail her your comments, questions and suggestions at smallbiz@zgravity.biz. Small Business Builder is published every other Wednesday.

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