

Entrepreneur

Is It Time to Outsource Human Resources?

Professional employer organizations help free up business owners' time to focus on generating revenue.

By **Toddi Gutner** | January 14, 2011

Most small-business owners know the frustration of spending more time than they want or should on non-revenue-generating activities. From payroll and human resource management to benefits and compensation, entrepreneurs can spend up to 40 percent of their precious day engaged in these necessary but time-sucking tasks.

The answer for many growing companies may be to hire one of the 700 professional employer organizations (PEOs) in the U.S. These companies become the legal employer of your staff and handle all the payroll, benefits and HR functions.

"Most small businesses are under 25 employees, and that means the owner is the most productive, is critical to the success of the business, and has to get out there and generate sales and products," says Milan Yager, president and CEO of the National Association of Professional Employer Organizations. When small businesses outsource non-core activities, "they can focus on the business of their business," says Yager.

But when does it make sense to hire a PEO? While PEOs aren't for every company, those that do use them can often offer better benefit packages and thus hire better talent, says Ed Vargas, senior vice president of health and benefits at Aon Consulting. "We help them set up a Fortune 500 package of benefits," he says.

In assessing whether or not you should hire a PEO, there are several questions to consider before you make a decision:

How Big Is Your Company?

Expert opinion varies on how large a company should be before it hires a PEO. A general rule of thumb is "when administrative processes begin slowing down the productivity of the firm," says Dan Sheridan, president and chief operating officer of Extensis, a PEO. While it is different for every company, "this typically occurs when a business reaches 10 to 15 employees a week," says Sheridan.

Some PEOs won't work with companies that have fewer than 10 employees. "Once a company gets very big, then it is easier to have an in-house HR department," says Janis Sweeney, owner of National Employee Management Resources, a PEO. The sweet spot for a PEO, she says, is between 16 and 80 people. The composition of your workforce is also important. Companies that only offer insurance to a few key executives wouldn't benefit from PEOs.

How Much Does a PEO Cost?

Like all professional services, the way a PEO prices services varies depending on the company. Industry experts estimate that the cost ranges from about 2 percent to 11 percent of wages. Another way to look at the expense is per employee. With that measure, it would run between \$500 and \$1,500 per employee per year. For very small companies with only two to five employees, some PEOs might price their services at a flat fee of \$150 per month. On the flip side, it is important to try and estimate the total cost of your HR functions. Truth is, most businesses "have no idea what their true costs are, as they only think of wages but never add up all the other things," says Yager.

How Much Control Do You Want Over Your HR Functions?

A PEO acts as a business partner to the client company. If a business owner wants to control all aspects of a business and is not open to suggestions or following through on recommendations a PEO makes, then a PEO may not make sense, says Jim Thibodeau, president of StaffScapes Inc.

Businesses do lose a bit of flexibility in the coverage they can offer when they use a PEO. Related to the issue of control is the perception of your employees. "Employees are used to seeing [your business name] on the check," and the PEO becomes the check signer, says Sweeney.

What Services Do You Need?

"Picking the right PEO is of paramount importance," says Sheridan. The PEO should be certified by the Employer Services Assurance Corporation, have experience in the client's industry and cover that company's territory, he says. Also bear in mind that some PEOs specialize in a Web-based high-tech approach, while others are focused on face-to-face support.

Remember -- each PEO is different, and business owners would do well to read the fine print.