
The Good Old Days:

How an emerging trend can help return focus and simplicity to life as a business owner

By John K. Lucas
Lincoln Financial Advisors

Remember when you first started out in business? Things were simple. You had talent, fear and adrenaline on your side and you simply had to juggle them to make sure one didn't get the better of the other. As time went on, your business grew, perhaps more so than you ever allowed yourself to anticipate. Suddenly, one day you woke up and the business itself was a living, breathing entity. It consumes manpower and supplies and pumps out goods and services. In general, things are good, but have you become more of a general manager and less of an entrepreneur?

Do you find that days lack the pure thrill of applying your ideas and creativity to your prospects and customers? Do full days seem to slip into thin air as legal, human resource and other employee-related issues siphon your energy away from the core activities that drive revenue and perhaps personal enjoyment? Certainly, you're prof-

itable. But how much more could you deliver to the bottom line if you could return to the simplicity of doing exactly what you do best? How often do administrative and human resource related issues distract you from delivering your skill set to your employees and the marketplace? What was your competition doing while you were solving an employee-gone-bad issue or getting educated so you could select new or different benefits programs or carriers?

"The whole secret of a successful life is to find out what is one's destiny to do — and then do it."

— HENRY FORD

These and many other challenges of entrepreneurship in the new millennium are what have led to

the development and growth of a business model called the Professional Employer Organization (PEO). These highly specialized outsourcing organizations allow you to off-load all of the headaches of being an employer while maintaining control over the more important aspects — like how productive and creative employees are while they're at work.

What is a Professional Employer Organization (PEO)?

As the nationwide trend of outsourcing continues to build momentum, yet another non-revenue producing, necessary evil of being a business owner can indeed be pushed offsite to accountable specialists.

A PEO is an organization that manages the hassle-filled administrative functions associated with having employees. PEOs are offsite (but not offshore) companies that allow you to outsource the man-

THE FUNCTIONS OF A PEO

Human Resources Administration	Benefits Management	Workers Compensation	Compliance Management	Payroll & Tax Administration	Safety & Risk Management
<ul style="list-style-type: none"> • New hire processing & screening • Employee handbooks • Employee file maintenance • Job descriptions • Drug testing • Background checks 	<ul style="list-style-type: none"> • Medical benefits • Section 125 • 401(k) 	<ul style="list-style-type: none"> • Review & manage claims • Attend hearings 	<ul style="list-style-type: none"> • All employment laws & labor laws including: <ul style="list-style-type: none"> • HIPAA • COBRA • ERISA • TITLE VII • ADEA • ADA • FLSA • FMLA • EEO 	<ul style="list-style-type: none"> • FICA • FUTA • SUI • 940, 941, 5500 • W-2 & W-3 reporting • Tax deposits • State & local tax payments 	<ul style="list-style-type: none"> • Safety assessment • Safety training meetings & manuals • Inspections & audits • Reports & updates • OSHA liaison, MSDS, HAZMAT

agement and administration of benefits, compliance, payroll and share the liability, tax and legal issues associated with being an employer.

Once again, you become a team leader, motivating employees regarding vision and potential. If you're a rain maker, you'll find yourself out in the field with the freedom to cultivate prospects and nurture your best client relationships. It's been said that a PEO restores the freedoms of entrepreneurship to those who've built small to mid-size companies.

When the going gets tough

Consider the last time you had a major employee related issue come to a head. Now picture that same situation, except this time, you picked up the phone and called an expert who immediately educated you, and then left you to tend to your business vision, while he or she worked directly with the employee to resolve things. And

then imagine that afterward, you didn't receive a big consulting or legal bill for the benefit of this freedom.

Many PEOs employ highly credentialed experts in specific disciplines, such as: core benefits, human resources, payroll and tax administration and legal disciplines. If you face any kind of employee difficulties from sexual harassment to workers compensation claims to maintaining OSHA compliance, an expert is literally a phone call away. No distractions, no spiraling legal or consulting bills, and no need to spend days or nights worrying about how to handle the issue. PEOs have fiduciary accountability for the day to day financial issues of payroll and tax reporting and the legal issues surrounding potentially explosive liability issues of being an employer.

Losing control — a business owner's greatest fear

For many entrepreneurs, there's a

daunting concern that the PEO organization will have total control over their employees. How will employees perceive the business owner? Will they cease to see you, the owner, as the primary authority figure? Business owners who have engaged PEOs will tell you they haven't skipped a beat in this regard. This is due to the fact that the business remains the managing or "common law" employer while the PEO is simply the "administrative employer." You still control who works for you and who doesn't work for you, their work hours, the tasks they perform, dress codes and anything else you choose to have a say over. But once you have the choice, you might just decide that your energy is better spent elsewhere.

In addition, the PEO simply follows the laws and regulations that businesses should be following anyway; laws and compliance-related issues the employer often-times isn't even aware of. Some have said that PEOs were created

to perform all of the functions of being an employer that no one else wants to deal with. Isn't capitalism grand?

After engaging a PEO, employers find that the only control issue they experience is a return of control over their days and a refreshed ability to focus on the things that made them successful in the first place. It begs the question, 'would you rather control an employee's termination or the generation of a new opportunity?'

Outsourcing takes on new meaning

Many businesses find it natural, efficient and even profitable to outsource some key aspects of their manufacturing or fulfillment processes, including items that are central to the quality of their product and in turn their competitive advantage.

Ironically, business owners rarely consider outsourcing other areas of their business for which outside companies are far better qualified to perform the functions. As a business owner, perhaps you have invested in an operations or human resource staff person so that you are not required to manage the tasks daily. But is this solution the most efficient solution from a financial and liability perspective?

At some point, you probably performed some sort of cost/benefit analysis as a precursor to outsourcing a growing aspect of your

business. It may make sense to consider the same kind of analysis regarding your human resources and benefits needs.

Anything for a price

Perhaps all of this is starting to sound attractive, but at what price? It's important to evaluate the expense of a PEO by first obtaining an estimate from a quality organization (see below, *Due Diligence*) and by considering the three types of costs associated with managing the administrative functions of being an employer.

Hard dollar costs

These are the actual costs for major medical, workers compensation insurance, and the administration of 401(k) and Section 125 plans.

Soft dollar costs

These are the costs associated with human resource administration, benefits management, workers compensation, compliance management, payroll and tax administration and safety and risk management.

Opportunity costs

This is the revenue lost due to time spent managing the hard dollar and soft dollar costs. Consider how much real revenue is not only lost but never generated when you are bogged down in operational minutia.

Some say you can pay for it now or you can pay for it later. Gaining access to experts at the level

appropriate for your size of business can save hundreds of thousands and even millions of dollars in avoided law suits and preempted insurance claims issues. For workers compensation alone, expertise in managing claims can have a tremendous impact on whether your renewals sky rocket or remain in check.

Lastly consider this. What if you had an employee that worked every day, never got sick, never took a vacation and took all of the responsibility as administrator and trustee of your 401K plan, managed your EPL insurance, was a licensed human resource specialist and human resources attorney, and assumed all OSHA and workers compensation liability. How much would you pay that employee? Contrast this against the fact that typical employee administration costs run about \$5,000/employee. When you engage a PEO, these dive to about \$1,000/employee (Source: U.S. small business administration). By buying "in bulk" you gain access to a better quality and diversity of services at a lower price.

Liability — the sleeping giant that can devour a business

Never before in America have business owners faced such a vast array of compliance issues and associated liabilities. Never before has the threat of lawsuit been so prevalent and so weighted in favor of the employee.

If you already employ a highly

credentialed human resource professional, ask that person what percentage of their time is spent on the strategic issues they are well qualified to handle, such as training, team building and strategic growth issues. Are they feeling stimulated in their position or are they bored and bogged down by low level tasks - perhaps even substantially overpaid for the functions they're actually performing on a daily basis.

If your HR person was promoted internally from an administrative position, consider whether they have the advanced expertise to manage the many complex liability issues business owners now face. Is this person keeping you compliant with COBRA, HIPAA, ERISA, ADEA, FLSA, FMLA and others? Do they understand the regulations well enough to allow you to separate yourself from these functions and sleep well knowing things are being handled?

Doing it right the first time

The potential liability associated with having a non-expert create and manage human resources infrastructure is substantial. In contrast, a PEO's fiduciary responsibility requires them to apply expertise and a sense of ownership to the financial and legal administration of benefits.

Employee-based infrastructure vs. systems-based infrastructure

Is all of the intellectual capital of your company's human resource functions trapped in the brain of a

key employee? If this person had a family emergency or their spouse took a new job in another state, how would it affect your business? In an outsourcing environment, all of these functions are systematized. If the PEO experiences turnover, your services are not affected. If you decide to sell your business or transfer it to a succeeding generation, the transition of these crucial functions would be seamless.

Due diligence: top ten questions for interviewing a PEO

If you have more than 10 employees and plan to be in business for the long haul, consider at least requesting a proposal from a PEO. Here are some things to consider when evaluating whether a particular PEO is worthy of your business.

1. How long has the PEO been in business? Shoot for a five to six year track record.
2. Check their employee counts, both onsite and at the corporate level. A PEO with 3,000 worksite employees should have a corporate staff of 30 to 45 (a 10 to 15% correlation).
3. Do they have experts in each of the core disciplines outlined at the end of this article?
4. Are their services bundled or unbundled? Are you forced to pay for all of their services even if you only need a handful?
5. Who are their insurance carriers? Make sure they are reputable companies with long-standing track records.

6. Is their health plan fully insured by an external party?
7. Are they licensed?
8. How strong are their credit rankings?
9. Does your business match the profile of their typical client?
10. How easy do they make it to exit the relationship? Ask to interview an ex-client of the PEO you're considering.

The gift of focus

Take a minute to review the chart on page two. Circle any of the areas you personally got involved in over the last month. Now make a note about whether these items allowed you to stimulate new revenue or strategic growth for your company. When was the last time you had the opportunity to spend an entire day focusing on your core competency — the reason or skill set you went into business in the first place?

Professional Employer Organizations allow you to outsource distractions while engaging talent to resolve issues at a higher and oftentimes more appropriate level of expertise than is available on staff in the business.