

# Fed up with HR?

Let someone else handle it. Professional employer organizations let you hand off the headaches and focus instead on your business.

By Max Chafkin

Peter McCann's HR troubles started in 2001, when a former employee filed a complaint alleging that Ideal Images, McCann's Omaha-based screen printing and embroidery company, fired her because of her race. McCann and his entire staff were questioned by investigators from the state's Equal Opportunity Commission, and the investigation dragged on for several stressful weeks. The complaint was eventually dismissed, partly because the worker's replacement was also a minority, but the thought of another discrimination charge frightened McCann, who began to obsess over everything from background checks to performance evaluations.



By 2004, McCann's staff had tripled, to 27 employees, and the HR chores had become nearly all-consuming. Meanwhile, workers were grumbling about Ideal's lack of flexible spending accounts and a retirement plan. McCann was eager to offer the benefits, but he didn't have time to implement them.

In October 2004, McCann ran into an acquaintance, Mike Mapes, who said he could make McCann's HR woes go away immediately. Mapes is CEO of Alliance Group, an Omaha-based professional employer organization, or PEO. Such firms place most or all of a client's work force on their payrolls, assuming responsibility for benefits, paychecks, and other HR functions and essentially becoming the company's HR department. McCann signed up three months later. Alliance now handles all of Ideal's HR issues, from workplace safety to payroll administration. Thanks to the PEO, McCann has begun to offer a 401(k) plan and flexible spending accounts. Even better, because Alliance oversees the benefits of 2,000 employees at 92 companies, it is able to negotiate better deals with benefits providers than McCann could on his own. "It really comes down to knowing that my HR is buttoned up," he says.

PEOs have been around for years but, until recently, most administered only basic payroll services and benefits programs. Over the past few years, however, the industry has undergone a makeover, partly in an effort to regain credibility following several well-publicized bankruptcies. Many PEOs now behave much like consultants, helping clients tap into the latest health benefits and comply with complex labor regulations related to discrimination and workplace safety. PEOs are becoming one-stop shops for business owners eager to outsource all of their HR functions and focus instead on their core business.

The new breed of PEOs caters primarily to companies with between five and 100 employees—both white collar and blue collar. Most charge a fee per employee or pocket a percentage of a client's total payroll. Prices vary but typically amount to between 2 and 4 percent of a company's payroll.

PEOs make the most sense for business owners who can't afford a dedicated human resources staff and don't have time to handle day-to-day HR issues themselves.

McCann's relationship with Alliance is a good example of how PEOs work. After signing the contract, McCann gave Mapes a list of employees, along with their W-4 tax forms. Every two weeks, the PEO sends Ideal a single bill that covers gross payroll, taxes, insurance premiums, and Ideal's 401(k) contributions, plus an administrative fee. Alliance then cuts checks for Ideal's insurers, benefits providers, employees, and the IRS.

Alliance representatives handle benefit enrollment and conduct tutorials at Ideal's offices several times a year. Representatives are on call to answer questions related to benefits. Alliance also fields complaints related to discrimination and other workplace issues if they should arise. That could make it easier to contest a lawsuit, McCann says, because Alliance ensures that Ideal completes all appropriate paperwork and follows all local, state, and federal regulations. All told, McCann pays Alliance about \$20,000 a year in fees. Even with the addition of the 401(k) plan and flex spending, he doesn't pay more for benefits than he did before signing up with the PEO.

PEOs function as co-employers, which means that they contractually share liability with clients and have a vested interest in preventing workplace injuries and employee lawsuits. Alliance, for example, could be held liable if it failed to identify and remedy potential workplace dangers at Ideal, where workers face a relatively high risk of injury. "We're dealing with a needle going down 30,000 times an hour, and we always worry about employees getting their fingers caught," McCann says. To prevent that from happening, Alliance conducts annual inspections of the company and suggests improvements.

Some PEOs have expanded well beyond human resources. Stephen Bowman, co-founder of Diamond B Oilfield Trucking, based in Plentywood, Montana, calls his PEO several times a week, tapping the firm for advice on everything from financing to business strategy. When Bowman, a veteran oil trucker, founded Diamond B in 1997, he knew plenty about moving large quantities of oil, but he was overwhelmed by the mundane realities of running a company.

That year, Bowman teamed up with Better Business Systems, a PEO in Billings, Montana. In addition to handling the usual HR chores, the PEO acts as a kind of board of advisers. For example, when oil prices fell to \$10 a barrel a few years ago, Bowman's consultants at BBS helped him draw up a cost-cutting proposal that allowed him to secure a bank loan and stay in business. It was a difficult time, says Bowman, who travels to Billings to meet with BBS each month. He declines to reveal how much he pays the PEO, but he says it's worth every penny. "I don't think we would have survived without our PEO's input," he says.

One drawback to partnering with a PEO is that HR becomes far less personalized. But for McCann, it's still better than before, when he was too distracted to offer much help anyway, he adds. After deciding to make the switch, he explained to his staff that the arrangement with the PEO would allow Ideal to offer better benefits with almost no effect on the company's bottom line. "It was an easy sell," he says.

For more information on PEOs, visit the website of the [National Association of Professional Employer Organizations](#), which has guidelines for selecting a PEO and a list of accredited PEOs that are insured against bankruptcy. Copyright © 2010 Mansueto Ventures LLC. All rights reserved. Inc.com, 7 World Trade Center, New York, NY 10007-2195.

