

# PEOs HELP EMERGING COMPANIES COMPETE FOR TOP TALENT

As published in the Orange County Business Journal, June 12, 2000

**A**nyone who has attempted to hire new employees lately is painfully aware that it's a job-hunter's market. Top-caliber employees are hard to come by—and even harder to hold on to. How can smaller businesses possibly compete with large corporations and their big benefit packages?

If you haven't heard about the PEO solution by now, chances are you soon will. Professional Employer Organizations (PEOs) are quickly becoming recognized as one of the most innovative, cost-effective ways for small and mid-sized companies to attract and retain quality employees in today's competitive hiring market. In fact, according to the National Association of Professional Employer Organizations (NAPEO), about 100,000 U.S. companies with over 3 million employees are already using PEOs, and the numbers are growing at about 30% annually.

## **Outsourcing Headaches**

PEOs allow smaller companies to have a fully-staffed, professional Human Resources department without the overhead expense of hiring additional personnel. They function as co-employer, sharing both the legal responsibility and potential liability for employee management. Business owners maintain total control over the day-to-day operations of their company and staff — *minus* the headaches of payroll and benefits administration, new employee paperwork, government compliance issues, workers' compensation, and all the other employer concerns that can take time away from growing a business.

“Entrepreneurs start companies because they love the challenge of growing an idea into a successful business, *not* because they enjoy processing paperwork and dealing with government regulations,” explains Kim Megonigal, president of KimStaff Employer Outsourcing Services of Irvine. “They need the expertise of HR professionals, but often can't justify the position due to the size of their organization. Many soon discover that, without a knowledgeable HR specialist, they're putting their growing company at risk for lawsuits and non-compliance penalties. Partnering with a PEO eliminates the risk, the overhead and the headaches.”

Megonigal, a 1999 finalist for Ernst & Young's Entrepreneur of the Year Award, should know. His first company, Kimco Staffing Services, tripled in size between 1993 and 1997, and the time and resources he was

investing in employee administration grew right along with it. That's when he began looking into PEOs. For Megonigal, the PEO concept made such good business sense, he not only decided to outsource – he started his own PEO and made his staffing firm its first client.

“I was absolutely convinced that this solution would not only help me run Kimco more effectively,” Megonigal says, “but that many of our smaller staffing clients could benefit, as well. They were all struggling with the same issues I was as an entrepreneur: recruiting and retention...juggling too many balls...wearing multiple hats...trying to keep up with all the legal issues and government requirements.... The PEO offered a way to outsource all the headaches that were pulling us away from our core, revenue-producing business activities.”

### **Attracting Top Talent**

Perhaps one of the greatest advantages of outsourcing to a PEO in today's aggressive hiring market is the Fortune 500-caliber benefit package it enables smaller firms to offer their employees. Candidates are often apprehensive when considering employment with an emerging firm. The question of benefits is generally second only to their concern about the company's overall stability. But, thanks to PEOs, many top candidates are being persuaded to take a risk on a start-up or mid-sized employer because they know they can rely on a solid benefit program.

An analyst with Alex Brown & Sons estimates that an astounding 40 percent of PEO clients upgrade their total employee benefits package as a result of the PEO relationship. Benefits typically include a wide range of medical, dental, vision, life and disability insurance options, 401(k) plans, credit union membership, family entertainment discounts, and much more.

While most PEO clients still prefer to do their own interviewing and hiring, they can get right back to business after they've found the perfect candidate. Background checks, reference checks, application audits, new employee paperwork and orientations, and comprehensive, legally-compliant employee handbooks are all handed off to the PEO, whose staff specializes in these non-revenue-producing administrative tasks.

### **Taking Back Control**

While benefits are the big draw for employees, business owners are attracted to the PEO solution because it helps put them back in control of their company, allowing them to focus their attention on growth rather than details. In fact, the very thing that entrepreneurs are most concerned about when considering a co-employer relationship – loss of control – is actually what a PEO helps them avoid.

PEOs protect entrepreneurs as they free them to focus on the “big picture.” They handle new employee paperwork requirements, track vacation and sick time, provide policies and procedures, ensure legal compliance, process payroll, reduce risk, field employee questions, and administer benefits and workers’ compensation. From the moment an employee begins work at a company to the day he or she terminates, the PEO is the employer’s confidential guide, sounding board and protector.

A true testament to the PEO’s value to business owners is the fact that, while companies sometimes switch PEO providers, they rarely stop using them altogether. It appears that once entrepreneurs have tasted the freedom, control and increased productivity that come with outsourcing to a PEO, they are reluctant to bring those functions back in-house. In fact, in a recent survey of KimStaff clients, the only “surprise” that respondents reported since enlisting the help of a PEO was how much easier it had become to run their business.

The recruiting crunch is not expected to let up in the foreseeable future. For small, mid-size and emerging companies, PEOs may be just the “secret weapon” they need to attract and retain the talent that will grow their companies in the new millennium.