



Taking Care of Your PEOple

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What would you rather be doing --- working to bring your “killer app” to market, or dealing with the tedious minutiae of human resources management? If your answer is the former, your salvation may lie with professional employer organizations (PEOs), a business model that is rapidly expanding in Silicon Alley.

PEOs provide small and mid-sized tech firms (5-150 employees) with the HR sophistication and personnel management systems of a Fortune 100 company. Everything from payroll processing, full benefits cafeteria plans, 401(k) profit-sharing plans and workers' compensation coverage, is all out-sourced to these professional employers. However, the appeal of the PEO goes far beyond the time-savings and added expertise. "A PEO's experience and knowledge base applies not only to back office processing but also to managing various employee risks; a PEO can be a powerful ally in the 'war for talent' and controlling costs" says Frederick W. Julien, CPA, Finance Function outsourcing specialist with Arthur Andersen LLP (www.arthurandersen.com).

Venture Capital Firms and PEOs

VC's and other investors are rapidly acknowledging the role of the PEO in the success rates of growing firms. PEOs are more than just consulting teams. Since they are actually "co-employers", they share in many of the employer liabilities. VC's feel more secure knowing that the management team can remain focused and creative while the PEO, who has a vested interest in making certain that there are no law suits or infractions, is on the job. The reality is that tech firms are typically full of highly skilled creative people, with a general aversion to formal management procedures. As a risk-management tool, the PEO keeps tech firms in compliance with the Department of Labor, FLSA, EEOC, ADA, ERISA etc. A full-service PEO will provide sexual harassment training, customized employee handbooks and assist in implementing policies and procedures. The last thing any VC firm or entrepreneur wants to hear about is a costly DOL fine or discrimination lawsuit, just weeks before the IPO.

A Tech Firms Greatest Asset: Its People

PEOs also serve as an excellent vehicle to attract the best talent and enhance employee morale. Recruiting from the likes of a Lucent or a Cisco will be much more achievable when you mention your extensive benefits packages along with the "opportunity of a lifetime" pitch. Richard Prinzi, CPA, specializes in advising Silicon Alley growth companies. He refers all of his clients to a local PEO. One of Prinzi's clients, Internet Solutions Partners (www.isppartners.com), was pleasantly surprised once they began experiencing all the conveniences of their PEO. "Not only are we savings significant time and money, but our customized PEO program provides our employees with Fortune 100 benefits packages and services that makes the company a very special place to work," says Prinzi.

Best of Both Worlds

With the co-employment arrangement, the tech firm maintains an employer status. This enables the employees to remain eligible for company ESOPs and visas. The PEO simply becomes another employer, more specifically the administrative employer. In fact, a full-service PEO should be able to provide valuable expertise in designing ESOP programs, compensation packages, job descriptions, performance appraisals and sales incentives for their clients.

The Bottom Line

Tech firms that hire PEOs simply send one wire every pay-period to cover the gross payroll and taxes, payroll processing, all benefits including multiple health, dental, disability and life insurance plans, 401(k) administration, workers' compensation coverage and the PEO's fee. PEOs typically charge between 2-5% of gross payroll depending on the size of the client and the compensation levels. Keep in mind that the savings passed on in wholesale benefits packages and other administration fees will absorb a good part of the PEO's fee. Studies have demonstrated that it is currently costing tech firms more than 10% of gross payroll to learn, implement and conduct these services in-house. This 10% does not consider the cost of employee turnover or potential litigation issues. The real value of a PEO is the peace of mind knowing that your growing company is paying attention to the details and that each employee's needs and concerns are being professionally addressed.

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