Companies that outsource HR to a PEO experience faster growth, higher employee retention rates, and longer-term success.
These are compelling statistics, and they underline just how important a role HR plays in SMB success, especially for growth-oriented companies. Trisha Degg, VP of talent programs and operations for the Illinois Technology Association, works with such companies every day. The two biggest HR-related challenges she sees them facing are competition from larger organizations for the best available talent and a lack of strong, internal HR leadership. “Having a PEO on retainer can give small and midsize HR teams the external support they need,” she says.

As much as he enjoys the experience, it comes as no surprise to Cleary. PEOs provide comprehensive HR solutions for small and midsize businesses (SMBs), covering everything from payroll and benefits to tax administration, regulatory compliance, and more. NAPEO has compiled extensive empirical data documenting the benefits that accrue to PEO clients as a result. Three that particularly stand out are:

- Over the past 15 years, employment at SMBs using PEOs has grown between 7 and 9 percent faster than at SMBs overall.
- SMBs that have used a PEO for at least four quarters have experienced employee turnover rates that are 10 to 14 percent lower than the average rate for U.S. businesses.
- Privately held businesses that use PEOs are approximately 50 percent less likely to fail (permanently cease operations) from one year to the next when compared to similar companies in the overall U.S. population of private businesses.
she says. “These trusted advisors can become a ‘go-to’ for everything HR, from benefits and compensation to recruiting and hiring. A PEO is especially helpful with one-off, abnormal situations.”

**Occam’s Razor**

The first statistic, faster employment growth among SMBs using PEOs, might be the easiest to explain. Cleary cites the Occam’s Razor theory, which holds that the most obvious explanation is usually the right one. “To me, it comes down to one word: focus. When business owners don’t have to expend so much time and energy on non-core activities, they’re freed up to focus on the ones that count, especially driving growth,” he says.

The issue of distraction from more important strategic matters is no trifling matter for SMB leaders, Bill Lyons, founder and CEO of Lyons HR, asserts. “Studies show that the typical small business owner spends up to 30 percent of his or her time on employee-related activities that do not generate revenue or serve customers. Companies that partner with a PEO do not have these distractions and are able to devote more attention to growing their business,” he says.

Paul Sarvadi, chairman and CEO of Insperity, agrees with Cleary’s observation about the importance of focus. “One of the central benefits of using a PEO is that it relieves SMB leadership of so many HR-related administrative and transactional issues. We have seen first-hand how the ability of a business owner or leader to focus more intently on profit opportunities leads to faster, steadier growth, which, in turn, generates the need for more employees.”

Paul Sarvadi, chairman and CEO, Insperity

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**PEO HELPS DRIVE GROWTH AT RED-HOT TECH STARTUP**

When Nicolas Vandenberghe, CEO and co-founder of Chili Piper, a provider of buyer enablement technology services, began outsourcing the HR function at his rapidly growing business, he was convinced that using a professional employment organization (PEO) would save money, improve his firm’s agility, and increase its ability to hire the right workers. He hasn’t been disappointed.

Chili Piper has 32 employees, and it’s doubling every year. While it initially handled HR functions in house, the red tape involved with having remote employees in multiple states quickly made that an untenable option. “We have a philosophy at Chili Piper—tool over labor, Vandenberghe says. “The direct cost of a tool is always lower than the equivalent cost of an employee. Today, we do not have a single employee dedicated to HR.”

As a tech startup, Chili Piper wanted a PEO that was equally on the cutting edge. “I read about Justworks in the news. It looked more modern—like a fresher approach. I reached out to them, and that’s exactly what I found,” he says.

As he’d hoped, using a PEO is cheaper than handling HR in house, and it enables the company to move faster. In addition, as a fully remote company with employees based in 28 cities and 12 countries, Chili Piper is also realizing an important strategic benefit. “Our philosophy is to hire the right resource where he/she is and wherever he/she would like to live,” Vandenberghe explains. “This would be very hard without a PEO; we’d have to handle all the bureaucracy state-by-state. Instead, we log in to Justworks, input the new hire’s address, and boom! We’re ready to go.”

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“Insperity supports our rapidly growing business and helps us focus on what matters most—our people.”

Jim Evans
President & CEO,
Sevan Multi-Site Solutions
of so many HR-related administrative and transactional issues. We have seen first-hand how the ability of a business owner or leader to focus more intently on profit opportunities leads to faster, steadier growth, which, in turn, generates the need for more employees,” he says. “If you get rid of the regularly scheduled business interruptions that come from employment, your business will definitely run smoother.”

In an atmosphere where it’s more difficult than ever for small businesses to compete, SMB owners want to focus on the things that make their businesses successful, says Mark Perlberg, vice president of PEO, Paychex, Inc. and president, Oasis, a Paychex© Company. “Every business benefits from a great partner, and that’s where a PEO comes in. PEOs remove administrative burdens like HR, payroll, benefits, tax administration, workers’ compensation, and more,” he says. “They can level the playing field by giving business owners access to training and development, robust and cost-effective benefit programs usually only available at Fortune 500 companies, leading technology, and employee engagement strategies. PEOs give business owners the tools and expertise they need.”

The Employee Retention Advantage

Competition for the best employees has never been tougher, and once you find the right person to fill a job, you want to keep them, of course. Beyond the initial expense of finding and recruiting new employees, there are other costs involved. The administrative costs of onboarding new employees, enrolling them in benefits programs, and providing initial training average almost $150 per employee, according to a recent report by consulting firm EY. The administrative costs of separation are also steep, more than $99 per employee, on average. That’s just part of what makes the employee-retention advantage that PEOs provide to SMBs so significant.

PEOs enable SMBs to offer the kind of high-quality, comprehensive benefits packages normally available only at Fortune 100 organizations, and usually at a lower cost than they would pay to obtain those benefits on their own, Lyons says. That’s key in attracting and retaining good employees. Even at a more basic level, benefits can provide small employers with an important advantage, especially when competing against other SMBs for the best candidates. Lyons cites a 2017 Pew Research Center survey finding that only 53 percent of small businesses offer any type of retirement plan to their employees. “But all PEOs offer retirement options like a 401(k) plan to their clients,” he explains. “Therefore, employees who work for a company in a PEO relationship are more likely to have access to and participate in a 401(k) plan because of the PEO.”

The boost that PEOs provide to employee retention rates returns other advantages to employers and employees alike, says Isaac Oates, the founder and CEO of Justworks. “When it comes to your career, you shouldn’t have to choose between security and purpose. Justworks makes it easier for startups and small businesses to take care of their team, so more people can feel confident joining a company with a mission they believe in without having to sacrifice the best options for their financial, mental, and physical health,” he says. “Lower turnover is tied to a company’s ability to foster an inclusive package, offer benefits, and provide services geared to their workforce—real people dealing with a range of different life events. When these aspects are supported and curated by a PEO, it takes pressure off the employer and their employees.”

Higher Survival Rates

Perhaps the most compelling of the three statistics mentioned earlier is the 50 percent survival rate advantage SMBs in PEO relationships enjoy over the general business population, and there are multiple factors behind it. Technology is part of it. “We’re seeing PEOs use the all-in-one HR technology solutions available through PEOs as a strategic tool...
to meet evolving worker needs and grow their business as efficiently as possible,” Perlberg observes. “But the success of businesses working with PEOs is not dependent on technology alone. Another critical component to the equation is access to expertise and education. Through the expert guidance of talented PEO professionals, business owners have a unique advantage that allows them to make better-informed decisions that ultimately drive business growth.”

Another factor is an ever-evolving regulatory landscape that makes running a business increasingly complex, Perlberg adds. “PEOs are instrumental in helping businesses navigate the uncertainty by managing HR and payroll burdens. You are less likely to fail when you have a trusted partner working alongside you,” he says.

A Catalyst for Corporate Culture

In today’s highly competitive labor market, corporate culture is an increasingly important consideration for job seekers, and PEOs can help SMBs create the kind of culture that appeals to the best candidates.

“The culture of any business is made better when the people working there feel like they are valued,” Lyons says. “Employees must be a priority because today it’s not as much about the job as it is the employee experience, and this is greatly enhanced by working with a PEO. Through a combination of HR policy development, employee training, and HR technology, PEOs help clients create an overall atmosphere that leads to greater employee engagement and satisfaction. This becomes increasingly important as millennials continue to grow their influence in the workplace.”

Insperity’s Sarvadi has written a book, “Take Care of Your People: The Enlightened CEO’s Guide to Business Success,” that provides a roadmap for business leaders to get their people strategy right, starting with the foundational element of a culture by design, not default.

“As a PEO, one of the roles we play with our clients is helping them make sure their culture has been carefully thought out and established. The values that drive the company’s culture, mission, and vision must be reflected in the policies and practices that employees work with every day,” he says. “There must be recognition systems in place that reward the behaviors they say are important. An effective corporate culture only exists when it’s reflected in the way people are treated day in and day out throughout the company.”

Just establishing the right corporate culture is not enough, Sarvadi adds. “You need to have a game plan for how you’re going to maintain that culture and measure its effectiveness on an ongoing basis. At Insperity, we do that in a variety of ways, including a recognition program that highlights the types of behaviors that we believe demonstrate our company values. We conduct periodic employee surveys to determine how well our employees think we’re doing at living up to our value statements. Management also has to be willing to look in the mirror periodically and ask themselves how they can do better and where they might be falling short.”

Choosing the Right PEO

While NAPEO provides detailed guidelines for choosing a PEO on its website (www.napeo.org), Cleary says the most important consideration is finding one that can best meet your needs. “That’s the key phrase,” he says. “You’re picking a business partner, so you have to do your due diligence. This comes up time and time again in our focus groups. Participants say they want a PEO that understands their business, the challenges they face, and the solutions to those challenges. There are so many PEO options out there that it’s worth putting in the time and footwork to make sure you get the right match. That effort on the front end will pay you dividends on the back end.”

Lower turnover loops back to the ability to offer benefits and service geared to the needs of a company’s workforce. When these aspects are properly designed and executed, it takes pressure off not only the employer, but also their employees. Isaac Oates, founder and CEO, justworks

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