

 Print Page



# Benefits of Outsourcing to a Professional Employer Organization

Most entrepreneurs start their companies because they're good at something, whether it's producing a tangible product or delivering a useful, high-quality service. As they quickly find out, though, there's a lot more to running a successful business than just providing products and services.

Hiring employees, for example, presents a whole host of management duties that have nothing to do with manufacturing widgets. Dealing with workers' comp and unemployment insurance, creating competitive benefits packages, and complying with ever changing government regulations are just a few.

To help them deal more efficiently with human resources, more and more entrepreneurs are turning to professional employer organizations. These PEOs enable companies to essentially outsource their human resources to an outside firm, freeing up management from dealing with myriad and complex employment issues and leaving more time to concentrate on what they do best.

PEOs provide an integrated and cost-effective approach to human resource management and administration. They offer a wide variety of HR services, including payroll and employment administration, government regulatory compliance, comprehensive employee benefit packages (including health insurance and retirement plans), and employee recruitment, training, and development.

One of the biggest benefits of using a PEO is that it enables small firms and their employees to receive big-business benefits. Due to economies of scale, PEOs can usually offer benefits packages that are far superior to what most small firms can afford on their own, including health, dental, vision, disability, and life insurance as well as retirement plans similar to large companies' 401(k)s.

Handing the distractions and hassles of employment and HR off to the experts allows owners and managers to spend more time focusing on their core competencies. Higher quality, customer satisfaction, and, ultimately, increased sales and profitability are often the result.

The relationship between a PEO and its client companies (referred to in the industry as "co-employment") is a contractual allocation and sharing of employer responsibilities between the PEO and the company. In essence, they both serve as common law employers, with each responsible for performing certain obligations of employment and sharing other obligations.

For example, each party may independently decide whether to hire or fire employees, and each has a right to direct and control employees: the PEO with respect to HR management and employment law compliance, and the company with respect to manufacturing, production, and delivery of products and services. While they have the legal right to participate in hiring and firing decisions, in reality PEOs rarely if ever do unless invited to by the client company; they are more concerned with the legalities of employment.

The client company provides employees with the tools, equipment, and facilities they need to do their jobs, while the PEO ensures a safe workplace that's conducive to productivity and is operated in compliance with employment laws and regulations.

In a typical PEO-client contractual relationship, the PEO generally assumes the following responsibilities:

- Assigns workers to client locations
- Pays employees' wages and employment taxes
- Reports, collects, and deposits employment taxes with state and federal authorities
- Retains a right to hire, reassign, and fire employees

It's important to note that PEOs are different from employee leasing and temp firms. Employee leasing is generally a supplemental, temporary employment arrangement with workers assigned to a specific project for a fixed period of time. In contrast, in a PEO arrangement, all or a significant number of a company's employees enter into a long-term, non-project-related relationship with the PEO.

---

[Don Sadler](#) is a freelance writer and editor specializing in business and finance.

---

[Close Window](#)

Copyright © 1999 - 2009 AllBusiness.com, Inc. All rights reserved.  
Use of this site is governed by our [Terms of Use Agreement](#) and [Privacy Policy](#).