

Loss of Control

The Biggest Misconception about PEOs

Let's start off by saying the decision to partner with a Professional Employer Organization (PEO) is one not to be taken lightly. There are many factors that must be questioned and considered before you even consider entering into a co-employment relationship. But when it's time to make your final decision, the remaining question should not be whether or not the PEO model is a good one, but rather if it's a good one for you. There are a number of misconceptions about co-employment that can muddy the water when the concept is first presented and it is our experience that if something is ambiguous and/or contradictory, business owners quickly steer clear of it. However, when properly explained, co-employment is understood to be a common sense approach that allows business owners to move past their concerns and on to a fair comparison between the PEO program and their current business strategy.

Many business owners, when presented with an outsourced HR option will instinctively resist it, often based on preconceived notions about outsourcing in general. At first glance it's easy to see the PEO model as being radically different from what you're doing now. The fact is most small businesses already outsource several of their HR functions (ie., payroll, benefits, workers' compensation, retirement plan), and spend a considerable amount of time managing these individual vendor relationships. Vendor consolidation, therefore, is a better way of doing what you're doing now – it's more efficient. It's also comforting to know that the different departments are talking to each other and that employment information is securely housed in one system.

When partnering with a Professional Employer Organization, the PEO



becomes the “administrative employer of record” for the client's employees. The PEO therefore assumes responsibility and accountability for the seemingly endless array of tasks that are critical yet unproductive to the company's core business. The term most often used to describe this type of employment arrangement is “co-employment”. Co-employment, as it relates to the PEO industry, means that the employees are working for two employers, one that takes care of the administrative tasks (the PEO) and one that directs and controls the worksite employees (the client). It is this concept of co-employment where the waters begin to become muddy.

Without question, the biggest misconception based upon the employment model is that there will be a loss of control. This is an important misconception as business owners want to and should remain in control – it's why they own a business in the first place. The reality is that while business owners are in control of the hours they work, the products or services they sell, the prices they charge and so on, lawmakers, taxing and regulatory authorities (Congress, IRS, state and federal Departments of Labor, Workers' Compensation Board, etc.) are in control of much having to do with their employees. Essentially, business owners have become unpaid collectors of taxes

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and providers of benefits and must perform these duties exactly as specified in order to remain in compliance with the rules set in place by the regulatory and taxing authorities. If they don't, they leave themselves open to fines and lawsuits that rob their company of financial resources and time.

The best way for business owners to control this environment is to have someone (person or entity) that understands all of the rules and can act on their behalf to ensure everything is taken care of properly. Absent an outside confidant with proper training, the business is left to fend for itself, usually by shifting these tasks to higher level staff that lack training, resources or time to deal with employee issues. In many cases, this leads to a company making costly mistakes – a sure sign of lack of control.

When evaluating your current HR situation, consider whether or not you are really currently in “control”. Can you quantify how much time and money HR activity is costing your company? Are you

100% confident that you have everything covered? Do you know if you are on firm compliant footing when dealing with employee relations issues? Have you analyzed your HR processes such as hiring, terminations, performance management and so on? Do you have a up-to-date, legally reviewed employee handbook with carefully crafted policies that project your company culture while at the same time protecting your company's assets? In other words, do you have a strategy for HR or does it “just happen”? If it's just happening then you are definitely not in control.

So, in conclusion, the PEO co-employment arrangement is all about giving control back to the employer – not taking it away. It's a unique arrangement whereby you have control of your employees without having to deal with the enormous degree of detail required in a traditional employment arrangement. When you look at the in-house hours that go unaccounted for and the risks you incur, you'll realize that co-employment actually helps you regain control and is a better way of doing business.

Q & A's

We've heard the concern over control expressed in many different ways including:

“But our company name won't be on the paychecks and W-2s”

This is true and your name won't be on the state's payroll tax enforcement list either.

“I don't want our private information in the hands of strangers”

You're already outsourcing to multiple vendors (payroll, benefits, workers' compensation, 401(k) etc.). These companies already know your employees' names, dates of birth, salary, social security numbers, marital status, number of children as well as many details about your business. In a PEO arrangement, all of that is under one roof, with far fewer hands and eyes having access to this information.

“I don't want a third party telling me how to handle my employees”

If you need to have employees, accept the fact that the PEO is not the one making the rules and neither are you. The PEO can only help you understand all of your options with regard to a given situation so you have the information you need to make informed choices. However, be aware that the PEO does share liability on many issues & will expect you to comply with the law.

“My employees will think we sold the company”

The employees will understand that this is strictly an administrative arrangement and that it greatly benefits them in terms of benefits and services because these concepts will be explained to them by the PEO.