

PEOs: The Bounce-Back Partner Small Businesses Need

Adaptability has been the key to surviving the pandemic and preparing for what comes next, and it's strengthening the relationship between PEOs and SMBs.



Small and midsize businesses (SMBs) that were using a professional employer organization (PEO) for payroll and HR services prior to the COVID-19 pandemic were well aware of the advantages PEOs have to offer. Research conducted by the National Association of Professional Employer Organizations (NAPEO) has documented many of them. But the turmoil of the past several months and the cloud of uncertainty hanging over the near-term future are shining a light on just how much more PEOs can do to help their SMB clients succeed—not just in good times, but when the going gets tough.

With unemployment at historically low levels in the years leading up to the COVID-19 pandemic, competition for talent was brutal. Competing against larger organizations to recruit, hire, and retain the best employees was a top-of-mind concern for SMBs, and PEOs gave them a powerful advantage. “PEO clients still want to keep the best people on board, of course, so that hasn’t changed,” says Pat Cleary, NAPEO’s president and CEO, “but the primary concern for many small businesses changed from lofty goals in February to survival in March.”

Since then, PEOs have demonstrated their ability to pivot when circumstances call for it. It’s made them even more



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valuable in these turbulent times, and SMBs recognize that, Cleary says. “Just about every member I’ve talked to has signed up new clients since the pandemic started.”

Helping SMBs navigate the CARES Act

PEOs were instrumental in guiding their clients through the process of obtaining Paycheck Protection Program (PPP) loans, and NAPEO stepped in to help overcome two initial hurdles. First was the issue of workforce size, which was capped at 500 employees for small businesses in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Workers at SMBs that are PEO clients are counted as employees of the PEO for administrative purposes, and there was concern that the cumulative client employees of a PEO—say 30 clients with 20

employees each—might negate eligibility for all of them. NAPEO was able to prevent that through lobbying efforts while the CARES Act was being written.

The second hurdle was the requirement for 941 forms in PPP loan applications that Congress initially included in the legislation. PEO clients don’t file 941s because their employees are paid on the PEO’s employer number. “That focused the mind,” Cleary says. “If that happened, no PEO client would have been able to apply.”

NAPEO again marshalled its lobbying forces, and when the Treasury Department released a PPP FAQ on its website, it clearly stated that PEO clients were exempt from the 941 requirement. When some banks still balked at accepting applications from them without a 941, NAPEO crafted an admonitory letter explaining the exemption, and it proved to be “very effective,” Cleary says.

HR solutions took center stage

Even before the CARES Act, the pandemic had an immediate and far-reaching impact on the relationship between PEOs and their clients. “It was eye-opening to see how important a role HR solutions would play in helping SMBs successfully navigate this worldwide health challenge and the economic crisis it triggered,” says Paul Sarvadi, chairman and CEO of Insperity. “It started right off the bat, with clients needing help to craft work-from-home policies and practices and finding the best ways to communicate with their employees, take care of them, and make sure they were in a situation where they could be productive.”

Government agencies quickly jumped in with different rules and regulations that businesses had to comply with, so PEO providers like Insperity were deeply immersed from the outset. “We were helping them to comply with all these regulations and to manage everything from staff size and pay rates to benefit plans and telemedicine,” he says.

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General market applicants
that received loans

59%

Insperty client applicants
that received loans

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*A recent study by the National Federation of Independent Businesses found that only 20% of applicants had received PPP funds by April 17, when the program ran out of funds. By contrast, an Insperty survey of 555 client businesses nationwide found that 59% of applying respondents received funds in the first funding cycle. Visit insperty.com/covid-survey to see the full survey.



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provide on their own, and at a lower cost.

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HR administrative costs for SMBs using a PEO average about **\$450** less per employee compared to businesses not using a PEO. The average

annual return on investment from using a PEO is more than **27%** in cost savings alone.

There are more than 900 PEOs in the U.S., and **they provide services to 175,000 SMBs employing 3.7 million people.** That's roughly equivalent to the combined workforces of Amazon, IBM, FedEx, Starbucks, AT&T, Wells Fargo, Apple, Google, and Walmart's domestic employee rosters.

unpredictability required a massive effort, Sarvadi says. "I think it drove home the value of having a partner like Insperity," he says. "It is a great example of how we are able to provide our clients with a safety net and a support system to help them be successful through even the most difficult times."

Positive long-term consequences

Recognition by SMBs of the important role HR is playing in helping them through the current crisis and its aftermath could have some positive long-term consequences. "Organizations that give HR a greater voice in strategic planning conversations outperform their peers across a whole range of success measures," says Evan Hughes, senior manager, HR and advisory services at McLean & Company, a research and advisory arm of Info-Tech Research Group.

The company's 2020 HR Trends Report found that organizations giving HR a greater voice had higher levels of overall performance, productivity, innovation, agility, and corporate sustainability. COVID-19 has brought many organizations into these strategic conversations for the first time, and being able to maintain HR's seat at the table will be crucial to reshaping their post-pandemic future. "This is especially challenging for HR in SMBs because they often have less specialized knowledge and are more focused on essential HR work," Hughes says.

The deepened relationships many SMBs have developed with their PEOs could be the answer to that challenge going forward. "Our service teams are communicating with our clients almost daily. The importance of this relationship has become very apparent to our clients," says Donna Meek, senior manager, PEO Service at Oasis, a Paychex Company. "The bond between our service teams and clients has grown even stronger than it was prior to COVID-19."



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While acknowledging the importance of government assistance programs like PPP loans to help SMBs pay their employees, Meek notes that their needs during this crisis have been much more extensive. “I can’t imagine how many of them would have been able to manage through all those changes and reporting requirements without the support of a PEO,” she says. “We have experts in every area who can make sure clients have access to seamless solutions and processes. This is a different level of support than what clients have relied on us for in the past.”



A greater level of scrutiny than ever before

As PEOs have pivoted to a position where SMBs are perceiving them more as true business partners rather than just providers of HR services, the shift

issues of opportunity, diversity, recruiting, and advancement, and we have to use our space to do that,” Cleary says. “We have to do what we can to improve our corner of the world.”

“With social media and the proliferation of news outlets, there’s a greater level of scrutiny on businesses than ever before,” Appleman says. “There’s heightened expectations for them to get things right. If they don’t, they put themselves at risk not just of losing access to the best employees, but also of alienating customers.”

Business owners are now under a microscope for how they are keeping employees and customers safe during the pandemic, what their hiring and promotion policies are, and other measures far removed from their core business KPIs. “There is a powerful shift taking place that for the first time is stress-testing businesses’ game plans not only for how they manage their workforce, but for how they manage their business in response to all these other issues. They have to think about their business in ways they never did before,” she says.

In this new environment, ADP TotalSource is partnering with clients on things like developing and submitting loan forgiveness plans, providing safety training and equipment, and finding ways to minimize risk of litigation around back-to-work, racial injustice, and other issues. “They are calling us because they are hungry for knowledge and want to cut through the noise. They see us as a business partner who knows their challenges and can help them focus on what matters most,” Appleman says.

The difference between survival and failure

Cleary believes that strengthened relationships between PEOs and their clients is the difference between survival and failure for many small businesses during the pandemic era.

“I think when this is all behind us a few years from now, we’ll see studies comparing the survival rates of SMBs that were PEO clients and those that were not,

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- Donna Meek, senior manager, PEO Service, at Oasis, a Paychex Company

is affecting multiple aspects of the relationship. Traditionally, SMB owners have outsourced payroll and other HR functions primarily so they could focus more of their time and energy on what they love and do best: growing their business and making it more successful. But as the world has become a more complicated place, they now have to deal with issues like COVID-19 and the growing movement against racial injustice, says Kristen Appleman, vice president of ADP TotalSource.

NAPEO has a finger on the pulse of societal developments, and it has joined the U.S. Chamber of Commerce’s Equality of Opportunity initiative to provide PEOs with another tool they can use in addressing them. “We are uniquely positioned in the HR space to address

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and the survival rate for PEO clients will be dramatically better,” he says.

Bruce Cornutt, president of Lyons HR, agrees. “For many SMBs, the support of their PEO during the pandemic has been a primary determining factor in whether they survived,” he says. “Many of our clients have had questions regarding all the fast-moving legislation and have relied heavily on our human resources managers, operations, and executive teams across the business spectrum.”

The deeper involvement Lyons HR has with its clients since the start of the pandemic is confirming something Cornutt has long suspected. “Some clients simply have forgotten the range

was no other option,” Sarvadi says. “That was true as much for us as for our clients. For a lot of businesses, it turned out to be an opportunity to test some new things and prove to themselves that a lot more could be done in this new paradigm.”

Meek has been impressed by the ability of many of Oasis’s clients to complete this transformation “almost overnight,” she says. “Some SMBs knew they had the capability, but by being forced to act and make it happen, they have seen how productive and powerful it can be.”

A number of Oasis® SMB clients have seen a more engaged workforce as a result of strengthening their internal communication strategies. “They have become more efficient with their technology and the reduced amount of time spent traveling to and from work,” Meek says.

Such positive results have some businesses questioning the need for expensive office space and related overhead costs, and Oasis® is prepared for the likelihood that remote work or a combination of remote and on-site work will be a permanent arrangement for many SMBs going forward. “We will continue to assist with providing work-from-home best practices as well as culture-building activities to keep in touch with employees,” Meek says.

Traditional PEO services still matter

Even as PEOs expand their role as business partners to their clients, SMBs still value them for the services they have traditionally provided that help put smaller businesses on a more level playing field with larger organizations. “The two biggest things that PEOs offer to SMBs are more competitive health insurance rates and large-company technology,” says Mike Kahoe, president of Group Management Services (GMS). Premiums have soared since the passage of the Affordable Care Act, and “the health insurance industry has been overcharging small businesses at alarming rates,” he says. “PEOs can offer lots of health care options to SMBs and allow them to take control of their insurance costs.”



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- Mike Kahoe, president of Group Management Services

of services they have at their disposal with Lyons HR,” he says. “Payroll and benefits or workers’ comp are always front and center, due to the routine nature of clients being engaged with those services. The circumstances around this pandemic have allowed us to bring to the forefront the HR and compliance services that are sometimes taken for granted. That expertise, delivered fractionally by qualified professionals, is the real value differentiator for us.”

Work-from-home challenges

As the first wave of the coronavirus crested, PEOs pivoted to help SMBs navigate the challenges of a changing workplace environment. “Shifting to a work-from-home model required adapting to a new paradigm at breakneck speed because there



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→ **Recruiting services will become an ever more important tool for PEOs to provide.**

- Bruce Cornutt,
president of
Lyons HR

In the technology sphere, PEOs can offer small businesses the kind of large-company technology that spans the entire employee lifecycle, from applicant tracking and electronic onboarding through online benefit enrollment.

Kahoe points out that technology has been particularly important during the COVID-19 pandemic. “PEOs have the ability to process almost all financial transactions electronically to keep their clients’ businesses in motion,” he says. “Part of being a PEO means staying up-to-date on ever-changing laws, so we have been able to provide assistance to our clients with PPP applications and the loan forgiveness process. We have seen SMBs really lean on us during this pandemic.”

While some pundits have begun referring to pandemic-spurred changes such as permanent work-from-home arrangements as the “new normal” in the SMB paradigm, Cornutt has come to despise that term.

“Normal’ means usual or routine in my mind, and changes forced upon us by this pandemic have not yet become usual or routine for me,” he says. “I prefer to just say things are different, and I believe the lasting differences will be determined by the results that SMBs achieve through this period of change.”

Talent, the critical component

SMBs that successfully navigate this period will become much stronger from both product/service delivery and staff relations perspectives, Cornutt believes. “For those firms, the realization that productivity is not dependent on geography will free them to find the best talent available, period,” he says. “Recruiting services will become an ever more important tool for PEOs to provide. Fortunately for Lyons HR, we’ve been growing from a regional to a national provider, and we’re positioned well to serve that dynamic.” Cornutt’s point is well taken. Helping SMBs in their battle against larger organizations to attract the best talent was one of the greatest benefits PEOs provided pre-pandemic. While

many businesses have been preoccupied with other issues for most of this year, the proposition that good employees are the lifeblood of a successful business still holds true.

Frederick Morgeson, a professor of management at Michigan State University, agrees that the coronavirus pandemic has changed the dynamic of the competition for talent, with many businesses downsizing, laying off, and furloughing employees. “Yet, talent is still the critical component of an organization’s success, and competing for the very best talent is still enormously important,” he says. “This is true during the pandemic, but especially true for a post-pandemic world.”

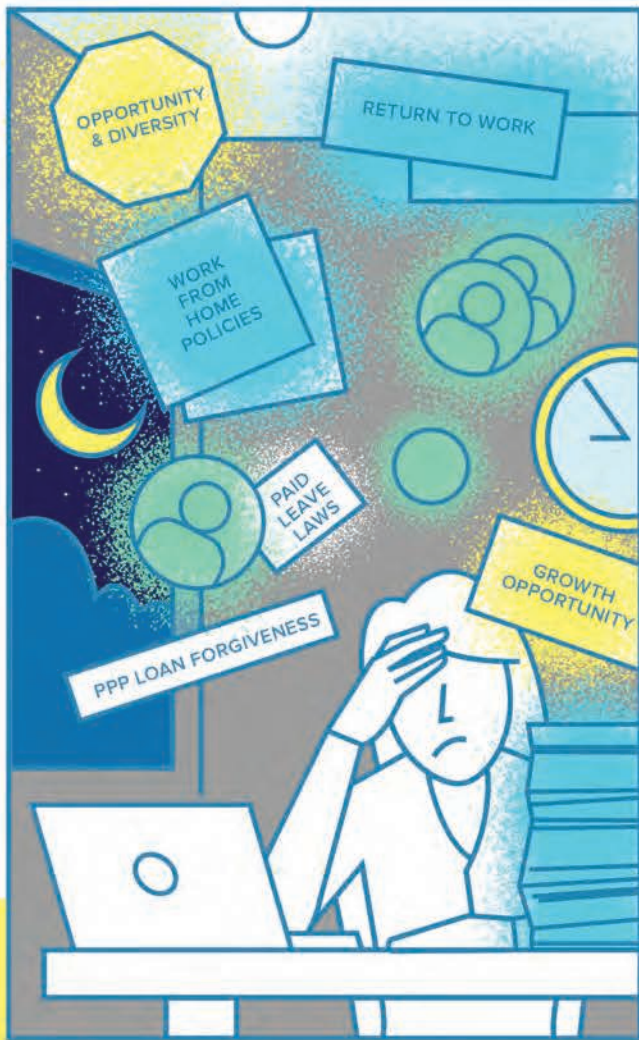
In fact, COVID may not have changed the war for talent in any significant way, argues Mark Allen, a professor of organizational theory and management at Pepperdine Graziadio Business School. “The words ‘talent’ and ‘people’ are not synonymous. There are plenty of people available, but talent remains scarce,” he says.

The way to meet the talent shortage challenge is the same as it’s always been, Allen says. “You meet it by diligently seeking out talented people and creating an employment brand, a culture, and a workplace that will be inviting and welcoming to outside talent.”

Branding and workplace culture are two areas where PEOs have traditionally excelled in helping their clients, and those talent sets will likely regain prominence in the post-COVID era. However, new skillsets and deepened relationships with SMB clients will not be left behind. PEOs will continue to adapt to the needs of their clients, regardless of how they change.

“I believe that one of the biggest benefits of PEOs, especially GMS, is the ability to reposition depending on what is going on in the country,” Kahoe says. “We have to do this any time a law changes and/or a new president is elected.” PEOs also provide critical assistance to SMBs in attracting and retaining top talent by enabling them to offer better benefits, training, and competitive salaries. “PEOs have a hand in all of this,” he says. “At the end of the day, talent and hard work is all that matters.” ■





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