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How PEOs Can Help SMBs Improve Employee Engagement

With employee expectations continuing to rise, competition for the best talent has never been tougher.

Even with the ongoing threat of recession and waves of tech company layoffs, job openings have still been averaging about 10 million a month through the first half of 2023. In addition, unemployment rates continue to hover near historic lows. The battle to recruit and motivate good employees in this environment remains extremely challenging for millions of small and midsize businesses (SMBs). Some are finding answers with the professional employer organizations (PEOs) that are helping them meet their goals.

Employees are the lifeblood of successful SMBs, so keeping engagement and satisfaction levels high is crucial. After climbing steadily for several years before the pandemic, employee engagement levels declined in 2021 and 2022, according to a recent Gallup poll. However, SMBs that partner with PEOs are outperforming their peers in this area.

Research conducted by the National Association of Professional Employer Organizations (NAPEO) found that

employees working in businesses that are PEO clients report significantly higher scores on key measures related to overall employee satisfaction and company management compared with employees at businesses that do not partner with a PEO.

Higher engagement and retention levels

In the NAPEO study, engagement levels and confidence in the employer's approach to growing the company were 5 percent higher among employees at

PEO-affiliated businesses. Trust that the employer is supporting employees in delivering excellent customer service was 7 percent higher, and intention to stay with their current employer until retirement and belief that their employer is taking the right steps to be competitive were both 8 percent higher.

The research also found that compared with employees working in businesses that are not PEO clients, employees at PEO clients are significantly more likely to report that their employer:

- Demonstrates a commitment to them as employees
- Uses good hiring practices
- Has strong HR policies and practices
- Does a good job of designing employees' jobs
- Provides strong training and development opportunities

"It makes sense that employees who feel they are being cared for and their needs are being met would be more engaged in the workplace and have higher levels of employee satisfaction,"

says Pat Cleary, NAPEO's president and CEO. "PEOs really are HR partners for their clients; that's not just a slogan. SMB owners get a sense of security from knowing they have someone they can reach out to when they are having any kind of issue with an employee."

Meeting foundational needs

PEOs help SMBs deliver a better employee experience, which can lead to higher levels of employee engagement and retention. "Employees want financial security, attractive benefits—especially a good health care plan—opportunity to save for the future, and ongoing development of their skills and capabilities," says Kristen Appleman, senior vice president/general manager, service for ADP TotalSource. "These are foundational basic needs.

"What creates the better employee experience are those organizations that focus on the whole employee, what they need professionally and personally, and supporting them to show up as their best self each and every day," she adds. "PEOs

Culture is the ability to unify a group of people behind a core mission and deliver results, and employee satisfaction plays a critical role.

—Burton Goldfield, president and CEO, TriNet

provide the access to these benefits, the solutions, tools, and the consultation on crafting the employee value proposition. When an employee comes to work as their best self, they are more productive and engaged, leading to stronger business growth and results."

Paul Sarvadi, chairman and CEO of Insperity, notes that the pandemic and





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the rapid shift to remote work were important factors behind the declines in employee engagement in 2021 and 2022. He is not at all surprised that SMBs that are clients of PEOs have fared better than their non-PEO counterparts.

“One of the things PEOs are best known for are the comprehensive benefits solutions they provide to the employees of their small and midsize business clients,” he says. “Employees at these companies are more likely to feel that their employers are invested in their well-being, and that is a very important aspect of employee engagement.”

Accessibility is another important consideration in maximizing employee

well-being and engagement, Sarvadi says. “On a practical level, it is very important that employees have a number they know they can call at any time to ask any and every question they might have about their benefits and other HR-related issues. Not all PEOs provide the same level of service for this important aspect, so prospective clients need to do some due diligence and dig down a bit when choosing a provider.”

Change is a constant for SMBs

As recent events like the pandemic, rising interest rates, the banking crisis, and the IRS backlog of unprocessed employee retention credit (ERC) claims make clear, change is a constant for small and midsize businesses. “The most

successful SMBs are those that have the resilience, agility, and velocity to adapt very quickly, and the key to doing that is a highly motivated, highly engaged workforce,” says Burton Goldfield, president and CEO of TriNet. “SMBs need great people who are able to react quickly and not wait for direction, and partnering with a PEO can help them create that kind of workforce.”

Goldfield emphasizes that culture is critical to SMB success. “It’s about everyone in the company pulling together as one team toward a very clear set of goals to deliver better results, so culture is not a soft concept,” he explains.

“Culture is the ability to unify a group of

PEOs Keep Growing

Over the past decade or so, the PEO industry has quadrupled in size, which NAPEO president and CEO Pat Cleary attributes to a variety of internal and external factors. Looking ahead, he sees even more growth for the industry.

A major internal factor behind the industry’s growth was NAPEO’s decision to start evangelizing the benefits PEOs provide to small and midsize businesses (SMBs) about 12 years ago. Before that, the PEO industry had been notably insular, and NAPEO’s marketing budget was correspondingly small.

With an increased marketing budget—now about \$1.4 million annually—the association ramped up the production of research, surveys, and white papers documenting the benefits that accrue to businesses using a PEO. Chief among them are double the survival rate of comparable businesses not using a PEO, median revenue growth rates twice those of non-PEO companies, higher profitability, and significantly lower employee turnover rates.

The industry got a big external boost with the passage of the Small Business Efficiency Act (SBEA) in 2014. The SBEA amended the Internal Revenue Code to treat PEOs certified by the IRS as employers for employment tax purposes. That allows them to pay wages and collect and remit taxes on behalf of an employer.

“Being written into the code provided a real stamp of legitimacy in my eyes,” Cleary says. “I don’t think it’s a coincidence that interest in the PEO industry increased dramatically among private equity investors soon after the passage of the SBEA.”

Offloading those responsibilities to a PEO frees up SMB

owners to devote more of their time to core business issues and to their own private lives.

A September 2022 NAPEO white paper found that:

- Two-thirds of PEO clients have 10 to 49 employees.
- Approximately half of all PEO clients are in Florida, Texas, or California, although PEOs have clients in all 50 states.
- Across all businesses with 10 to 99 employees (the PEO “sweet spot”), the industry penetration rate is 11 percent.

While Cleary jokingly admits to having a bit of a superman complex about the PEO industry’s future growth prospects, he cites both past performance and emerging trends to justify his optimism. He points out that the PEO industry continued to grow through past recessions, including the COVID pandemic. Emerging trends that bode well for the industry include a steady increase in the amount of employee-related legislation (paid leave, minimum wage) being enacted at the state and municipal levels and the continued growth of remote work.

“The more complicated these things get, the more SMBs are going to turn to PEOs for help,” he says. “Offloading those responsibilities to a PEO frees up SMB owners to devote more of their time to core business issues and to their own private lives.”

people behind a core mission and deliver results, and employee satisfaction plays a critical role. Employees today have a set of expectations that include great benefits, great leadership, and a mission-driven company. The right PEO can help SMBs attract, retain, and meet the elevated expectations of top-performing employees," he says

PEOs can also play an important role in helping SMBs level the playing field in their competition with larger organizations for the best employees, says Darryl Rice, assistant professor of management in the Farmer School of Business at the University of Miami. "Oftentimes, small and midsize businesses do not have the same level of in-house resources and expertise dedicated to improving employee experiences, compared to larger or multinational organizations," he says. "A PEO, which typically has expertise in many human capital advisory and human resource management roles, can effectively be used to offset these challenges that SMBs commonly face."

Rice adds that the right PEO should also be able to help SMBs in a few ways. "The combination of aligning the right skill set with the right job and the right people with the right culture boosts employee engagement and retention," he says.

Improved focus on core competency

Partnering with a PEO is an investment that can pay off in multiple ways for SMBs. "PEOs help their clients stabilize the cost of their labor burden and focus on improving the bottom line," Appleman notes. "By assisting PEO clients with routine administrative tasks and related compliance requirements, a PEO allows its clients to focus more time and resources on their core competency."

By shouldering the burden of many non-core administrative activities, from payroll to benefits administration, PEOs enable their clients to sharpen their focus on growth. "PEO clients benefit from a variety of employee benefits solutions to attract and retain talent, while mitigating certain employment-related risk through the shared responsibility arrangement," she says.

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Employees at these companies are more likely to feel that their employers are invested in their well-being.

—Paul Sarvadi, chairman and CEO, Insperty

PEOs can also help SMBs improve their performance at a strategic level, Sarvadi points out. “It’s the people function that drives all other strategies in a business,” he says. “If a company has a financial plan, a sales and marketing plan, an operations plan, a technology plan, then its leaders make sure they understand what needs to be done to execute those plans effectively. The most important factor is the people performing the required actions, so getting the people strategy right is paramount.”

Great benefits are a linchpin

From an employee attraction, retention, and satisfaction standpoint, the ability to provide great benefits is one of the most important advantages PEOs provide to SMBs. “There have been so many surveys done on this topic, and benefits always come up on the top of the list of what matters most to employees,” Goldfield says. “Many of the best candidates are coming from larger companies that offer a broad range of flexible benefits, and they want the same options from smaller businesses.”

Kristie Abston, associate professor in the department of management at Middle Tennessee State University's Jones College of Business, suggests that SMBs looking to partner with a PEO pay particular attention to finding the right fit. “Organizations of all sizes must ensure that the PEOs they use are providing services that are aligned with their values regarding people,” she says. “These people-centered values trickle down to employees in a number of ways.”

For example, system design plays an important role in communicating an employer's level of concern for its employees. Things like user friendliness, help features, and accessibility play a role in how appreciated employees feel, Abston says. “If employees are uncomfortable with a system, a benefit, or a service, or if they find it to be a hassle, then they may not use it. They could also resent the organization for saying it offers a service or benefit that is essentially useless to them.”

The challenges SMBs face today are growing in number and complexity. In response, more and more companies are turning to PEOs for help. “Awareness of the value that a PEO can add to a small business is on the rise,” Cleary says. “PEO clients have lower employee turnover, higher levels of employee engagement, and faster growth than non-PEO clients. Word of those accomplishments is spreading rapidly throughout the SMB community.” ■



HR Check-In: Thriving During Times of Economic Uncertainty

The right HR products and solutions can help SMBs support employee morale and team cohesion.



There are many challenges facing small and midsize businesses (SMBs) today and being prepared for all aspects is vital. Uncertainty in the economy leads to uncertainty about how to take care of your business and—most importantly—your people. We cannot predict the next crisis, but if we utilize HR operations and people effectively during economic turbulence, SMBs can persist and even strengthen their business for the long term.

HR solutions for the people who matter most

The workplace has changed drastically with the shift to remote work, flexible hours, and a highly competitive labor

market. This means employers have had to pivot, adjust, empathize, and clamor to retain their top talent. Keeping your business moving forward is a must despite the economic conditions. There are, however, measures that can be taken to help ensure that your business is in a better position despite economic turbulence. Keeping the lines of communication open is necessary to maintain employee morale and team cohesion.

Full-service HR for business success

Managing HR during the best of times can be a daunting task. Doing so during economic uncertainty adds an extra layer of complexity to go along with the regular functions of managing

benefits, payroll processing, staying compliant, and more. The right HR products and solutions—including an HR technology platform that meets the modern needs of employees—are crucial to this effort. Consider key features such as:

- Real-time technology, including mobile capabilities, which empowers employees to manage many of their critical HR functions anytime, anywhere
- Onboarding capabilities that help employers make a good impression from day one
- Workforce analytics that enable smarter HR decisions in real time
- Compensation consulting and benchmarking data to help strategize compensation offerings to attract top talent
- A comprehensive employee benefits offering that today's employees demand
- Industry-specific HR consulting expertise to provide strategic support necessary to cultivate an engaging company culture, professional growth opportunities, and additional perks that help them stand out from other employers
- Risk mitigation and compliance services for a distributed workforce to help SMBs protect their businesses while navigating complicated and evolving employment laws and regulations

SMBs will continue to be resilient through the challenges—both anticipated and unpredictable—that are to come. Likewise, TriNet will continue to provide the HR solutions and products they need to help their businesses thrive.