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Innovator Explores Concepts of 'Co-Employment' Nationally

Tired of weekly payroll and benefits headaches? You, too, can outsource.

By Yvette Armendariz
THE ARIZONA REPUBLIC

For 20 years or more, businesses have turned to professional employer organizations, known in the industry as PEOs, to help with issues of payroll and human resources.

In recent years, these outside companies that essentially take over business functions for other employers have received more notice from small and midsize firms.

The industry has grown 20 percent in each of the past six years, according to the National Association of Professional Employer Organizations.

The association estimates 700 PEOs operate nationally, generating about \$51 billion in sales. The average client is a small company with 17 workers.

The Republic recently caught up with Paul Sarvadi, considered an innovator in PEOs. Sarvadi is chairman, chief executive officer and co-founder of publicly traded Administaff Inc., which has 39 offices nationally, including one in Phoenix that serves 120 Arizona clients who have more than 2,000 employees.

Nationally, Administaff represents more than 5,000 clients. The Phoenix office employs 15.

Q: You started Administaff 20 years ago with three clients. How were you able to persuade even those three to hand over the "em-

ployer" functions of their business?

A: Before we founded Administaff, Jerry McIntosh and I worked as sales consultants for a company that provided the basic employer-related functions of payroll administration and benefits procurement. When that company went out of business in the mid-1980s, we looked around for another company that could serve the clients we had brought on board.

What we determined is that the kind of company we envisioned for providing comprehensive human resources services to small- and medium-size businesses did not exist. That's when we decided to start Administaff. So our first three clients had already used an HR service provider, and they understood the value of having someone else handle the duties of being an employer.

They knew that hiring Administaff would give them more time to focus on managing their operations and growing their business.

Q: What kind of clients did Professional Employer Organization (PEO) first target? Has that target changed?

A: In the early days of the industry, many companies were simply looking for a way to save money on their workers' compensation insurance. Today, our clients recognize that a full-service

PEO represents an investment in their people.

They know their employees play a key role in the success of their company, and they understand that a PEO can help attract and retain the best workers. They also have a getting-better agenda and want to take their company to the next level.

When you think about it, you realize that most small businesses have never had an HR department; and when you bring high-performance human resources practices to bear in a business for the first time, it can have a dramatic impact on the success equation for that business.

Q: How have the services offered by PEOs evolved during the past 20 years?

A: The scope of PEO services has expanded significantly. In addition to handling employment administration and employee benefits management, some PEOs now provide a wide range of services in the areas of recruiting and selection, compliance with workplace regulations, managing certain employer-related liabilities, and training and development.

The delivery of PEO services also has been enhanced through the expanded use of client service teams and regional service centers.

Another major change we have

seen is in the area of technology and the growing use of the Internet for delivering PEO services. By logging on to our Employee Service Center, clients can submit and verify payroll, generate reports, complete and submit forms, and review our personnel guide, all on a secure Web site.

Additionally, employees can access online check stubs and pay-history reports, locate in-network medical providers, manage their 401(k) accounts, pursue training opportunities and more.

Q: How have attitudes about leasing out employees or contracting out payroll functions changed in 20 years?

A: The "leasing" concept is the caveman version of what we do. That's the way our industry started, but Administaff pioneered a new legal concept called "co-employment," which now is the industry standard. Under the co-employment arrangement, the PEO assumes or shares many of the responsibilities of being an employer and provides clients and employees with access to a wide range of human resources benefits and services not typically found at small businesses.

The steady growth of our company and the PEO industry during the years shows that business owners increasingly are seeing the value of our service. Administaff also has played a key role in

helping build and strengthen the industry by supporting high standards for PEO accreditation and industry licensing legislation in more than 20 states.

Q: Are there challenges in selling your service, especially now with many competitors?

A: We still have a huge need to increase understanding and awareness about the type of service we provide. Our biggest competitor is the traditional way of doing business, but that challenge usually goes away when the business owner understands the benefits of working with a PEO.

As an industry, we have just barely scratched the surface of our target market, so there's plenty of room for other PEOs.

Q: How is the focus on immigration reform affecting your business?

A: We continue to monitor immigration issues to ensure compliance with workplace laws and regulations, but it has not impacted our business. In our recent survey of clients throughout the country, less than 5 percent of respondents identified immigration as a key concern.

Q: How did spiraling health care costs faced by small-business owners affect your industry in the past five years?

A: Cost and availability of health care continue to be major concerns. Many business owners are addressing this issue by either absorbing the cost increases themselves or passing along all or

a portion of the increases to employees.

While any cost increase is unpopular, it often prompts consumers to make better choices about how they spend their money, and that has been happening. The solution to this challenge is likely to be a combination of approaches, with everyone doing their part. We see our role as providing and managing one of the best benefits values in the marketplace.

Q: Where do you see the PEO industry going in the next five to 10 years?

A: It will become more important than ever to be able to provide a value proposition for small business. Businesses are no longer looking to a PEO that can only provide good health benefits and

workers' compensation coverage for work-site employees. They are looking for ways to attract and retain the best employees.

This means that PEOs will have to provide more in the way of human resources support and access to a wider range of benefits, including wellness programs and tuition-reimbursement options.

Businesses also will want these benefits to be provided in the most efficient manner. This means that PEOs will be developing more sophisticated electronic delivery systems. I think we also will see more PEOs tailoring their services to match the particular needs of certain industry types or client sizes.

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PHOTO BY DAVID KADLUBOWSKI / THE ARIZONA REPUBLIC

Paul Sarvadi, chairman, chief executive officer and co-founder of publicly traded Administaff Inc., is considered an innovator in professional employer organizations. His national company has a Phoenix office.

For more information about Administaff, call 1-800-465-3800 or visit www.administaff.com.

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