



WHEN TO HIRE A GLOBAL PROFESSIONAL EMPLOYER ORGANIZATION (PEO)

INTRODUCTION

A Professional Employer Organization (PEO) is a firm that serves as an outsourced human resources (HR) department for small to larger sized organizations, in a country where a client does not have a foreign corporate entity (permanent establishment), helping facilitate employee management tasks such as employee benefits, payroll, regulatory compliance, and recruitment.

A PEO works through a co-employment arrangement, meaning the PEO contractually becomes the employee of the organization for tax and insurance purposes but shares certain employer responsibilities with the organization. It also shares some of the risk and liability issues that organizations face.

The PEO also provides a legal, viable immigration (Visa/Work Permits/Residence Permit) solution within a foreign jurisdiction until such time that a client's corporate entity is prepared to take on these responsibilities.

INDUSTRY UPDATE

The National Association of PEOs (NAPEO), released a new study on September 17th 2019 following their annual conference. The NAPEO found that companies utilizing a PEO provider were expecting an average return on investment of 27.2%.

Another survey (February 2017) by the National Association of Professional Employer Organizations (NAPEO) shows that the PEO industry has continued to grow since the final quarter of 2016.

PEO revenues, gross profits, operating income, average number of contracted worksite employees (WSE), and average number of clients all increased in the fourth quarter of 2016, compared to the fourth quarter of 2015 and the third quarter of 2016.

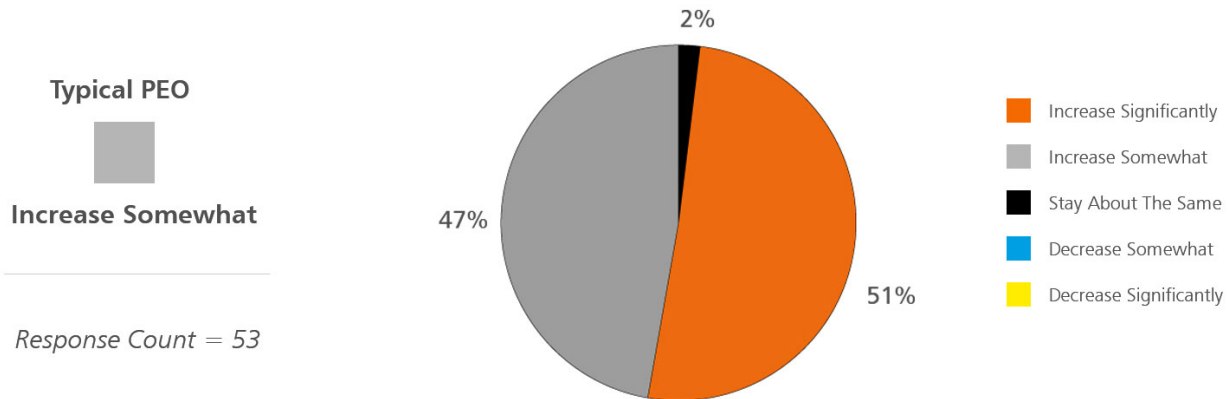
According to the survey, 98% of industry executives reported a likely increase in the number of WSEs in 2017, with 47% forecasting a significant increase.

"From payroll and human resource management to benefits and compensation, entrepreneurs can spend up to 40% of their precious day engaged in these necessary but time-sucking tasks."

- *Entrepreneur*

WSE PROJECTION

How do you anticipate your number of WSEs will change over the next 12 months?



WHEN TO OUTSOURCE HR TO A PEO

All companies, however large or small, have HR responsibilities they must undertake to ensure the smooth running of the organization. However, the question on whether to create an in-house HR function or outsource to a PEO is one many companies struggle to answer.

A simple test is to look at the size of the organization and ask whether the work requires face-to-face interaction, an understanding of employees, or whether the tasks are automated and can be undertaken by an external organization.

1-10 EMPLOYEES

Many small organizations, whether start-up or well-established, will understandably try to save money and keep HR responsibilities in-house. However, with only a few members of staff to carry out their day-to-day jobs and all HR tasks (including salaries, absence, hiring, firing, managing benefits and on-boarding new starters) there is an argument to say they are better off sticking to the jobs they were hired to do – building a product or service using their specific skill set and growing the bottom line. For an organization with 1-10 employees, outsourcing to a PEO can therefore be a cost-effective way of managing HR responsibilities correctly, giving staff the chance to focus on running the organization.

11-50 EMPLOYEES

As organizations grow, compliance will become more important and more challenging. However, companies of this size are likely to have employed an office or HR manager who can take on a lot of the HR responsibilities. If a company is approaching 40-50 employees, they may be considering taking on a second person to support this function, though there is a weighty cost factor to think about here. A more cost-effective solution would be to partner an existing HR person with a PEO to share the responsibilities – and to ensure a valuable employee isn't spending precious time on things that can be outsourced, like payroll.

51-500 Employees

Employing up to 500 employees brings with it new HR issues, especially when it comes to further expansion and compliance, so organizations are likely to grow their HR departments to combat these problems. There is also likely to be more company-wide policies and initiatives, which an in-house person is better at managing and implementing. However, some responsibilities will still be automated and are therefore better managed by a PEO. Saving money in these areas will free up budget to recruit people for strategic and compliance-based positions.

THE BENEFITS OF USING A PEO VS INTERNAL HR DEPARTMENT

Fewer Administrative Tasks

Individuals don't have to spend time working on tasks such as payroll and employee benefits because the PEO handles them, and companies don't have to pay high wages for specialists in areas that can be automated or outsourced.

Better Benefits Package

PEOs allow smaller organizations to offer a more robust benefits package than they might be able to offer internal staff, because the PEO will have access to better health, retirement and compensation benefits for example. This in turn helps with talent acquisition and retention.

Lower Costs

PEOs have the ability to negotiate lower insurance costs on behalf of the organizations they work with, helping the organization save money and share these savings with their staff.

Understanding of Regulations

PEOs remove the burden for organizations of having to keep up with constantly changing HR regulatory laws and help them remain HR compliant.

Legal Protections

Most PEOs provide civil defence and employment liability insurance in case a former employee sues the company for discrimination or wrongful termination.

COSTS OF A PEO VS IN-HOUSE HR FUNCTION ('PERMANENT ESTABLISHMENT')

The cost benefits of a PEO depend completely on the size of the company needing HR support, the number of employees in that company and how much resource is currently being used (if any) to pay for an in-house person or team. Like all professional services, the way a PEO costs up their services differs according to these, and other, variables. Consequently, there isn't usually a one-size fits all approach. According to Entrepreneur, industry experts estimate that the cost (of a PEO) ranges from about 2 to 11% of wages.

Procorre has worked out an example cost of creating a permanent establishment based on one of the largest military contractors in world, based in the United States, with annual revenues exceed \$89 billion USD, operating in more than 80 countries across the globe.

- Based on the setup costs in Year 1 it would be seven times more expensive to create a 'permanent establishment' than using Procorre PEO offering
- The Procorre PEO offering will save a client up to 90% of the total cost of expanding overseas
- Projected cost savings in Year 1 based on one hire: \$185,000 USD

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WHAT ARE THE OTHER COST VARIABLES AN ORGANIZATION SHOULD CONSIDER?

As with any business decision, organizations should consider all the variables associated with outsourcing their HR responsibilities to a PEO or bringing the HR function in-house.

These include:

- If an organization is very small, someone may be undertaking HR responsibilities on top of their day-to-day role, therefore the cost benefit of a PEO must take into account how much time that person isn't doing his/her actual job, i.e. if they are there in a sales role, giving that person HR responsibilities will be detrimental to their profitability
- The cost benefit ratio of a PEO is also likely to change if the current in-house person is a contractor and is being paid more per hour or day than a full-time/permanent member of the team
- The cost benefit ratio will also change depending on the level of contractor/employee being assigned to a given project and the associated costs of living (if relocation is involved).

EMPLOYER OF RECORD

An Employer of Record (EOR) is an organization that takes on all the legal responsibilities of an organization's employees, therefore decreasing complexities associated with HR functions, market access and paying employees internationally. By becoming the primary employer of an organization's staff, an EOR helps keep businesses compliant and supports them during international expansion where regulations surrounding benefits and taxes can become complicated.

BENEFITS OF USING AN EOR

"The current size of the PEO industry is between \$136 and \$156 billion USD, as measured in gross revenues." - (NAPEO)

Using an EOR allows organizations to:

- Free-up time and cost-effectively outsource the necessary HR functions, including employee benefits, payroll, workers' compensation and compliance issues
- Businesses in a PEO arrangement grow 7-9%, have 10-14% lower turnover and are 50% less likely to go out of business, according to NAPEO
- Save money by outsourcing these functions and use the savings to expand the organization, provide an income for the owner or help with day-to-day running costs
- Overcome regulatory hurdles when employing workers in a remote location
- On-board quality talent
- Reduce exposure to risk
- Enter new markets
- Achieve better benefit rates.

HOW CAN PROCORRE PEO SUPPORT YOUR ORGANIZATION?

With over 15 years' experience and 1,500 consultants globally, Procorre brings together extensive expert knowledge and industry specialists to deliver its PEO solutions in more than 120 countries.

Our range of services include global compensation, payroll, employee benefits, HR solutions, legal & compliance, background screening, Immigration, foreign currency and talent management.

This is reinforced by our global payment systems, along with comprehensive legal and compliance procedures. Specifically, we provide EOR services that enable us to sponsor and pay our clients' staff, which means our clients do not need to set-up or maintain a foreign corporate entity (permanent establishment).

Over the years, Procorre has supported Fortune 500/FTSE 100 organizations with their global expansion needs, across a range of industries.

BENEFITS OF PARTNERING WITH PROCORRE

- Acts as an in-house employment organization
- Employs 'mobile' employees
- Provides employment contracts
- Pays salary and allowances
- Ensures employees are in a tax-effective and administratively cohesive environment
- Presents organizations with the opportunity to expand internationally with a cost-efficient solution
- Provides benefits and administrative support
- Bills host company and receiving entity

CONTACT

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