



10 Tips to Help Small Businesses Avoid Costly HR Errors

By Greg Wright 4/30/2015

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Small businesses can often make human resource blunders that hurt profits and keep them from growing, which is crucial because statistics show that only half of startups will survive long enough to celebrate their fifth anniversary.

“We find in many instances when people start smaller businesses and when they start to grow, they don’t give thought in the forefront to things that will affect them in the long-term,” said Kim Davis, senior vice president of corporate resources at NFP, a benefits management company in New York City.

Small businesses, or those with 500 or fewer employees, are a major economic driver in the United States, according to the Small Business Administration. They employ about half of the nation’s working population—about 120 million people.

To increase the odds of survival, experts offer small businesses these 10 HR tips:

- 1. Don’t Delay Hiring Good Talent:** Small business owners often interview the wrong way, according to **Kim Shepherd**, CEO of Decision Toolbox, a recruitment products and services company in Irvine, Calif. They may interview one candidate on Tuesday, the next on Wednesday and a third on Friday, she said. Then they may wait until the following week to review resumes and even longer to make a hiring decision. Smaller businesses need to be “speedboats” and outmaneuver sometimes slower, bigger companies when it comes to hiring, **Shepherd** said. Since the economy and job market is recovering, more jobs are available, and the best candidates may be weighing other job offers. Instead of dragging out the hiring process, small businesses should interview all candidates for a position on the same day and ask them the same list of questions so they can easily compare and evaluate the applicants, she suggested. The employer can then decide who gets the job later the same day, **Shepherd** concluded.
- 2. Evaluate Employees:** Many small companies hire and fire talent based on “gut feelings” and then can live to regret the decision, according to Shawn Casemore, an Owen Sound, Ontario-based management

consultant who specializes in helping companies improve their efficiency and effectiveness. Employees discharged on a whim can sue for being fired without just cause or file a claim of discrimination if they are in a protected class. Employment-related lawsuits can be costly, and small business owners can do themselves a favor by crafting a list of job expectations for employees and putting a job performance evaluation plan in place, Casemore asserted. Small business owners can draft such documents themselves and have a lawyer review them or have a consultant do the job, he added. Meanwhile Josh Fosburg, vice president of business development at ALEX, a virtual benefits counseling company in Chicago, suggested regularly scheduled evaluations (for example, at 30 and 90 days for new hires) and providing supervisors questions they should ask during reviews so they can more easily measure performance. Documentation is important, too. “Small employers tend to think that if they do not document an employee relations situation, liability will be reduced as there will be nothing for the employee to use against them,” said Dana Barbato, SHRM-SCP, a senior human resources adviser at ThinkHR in Bend, Ore. “Actually it is quite the opposite. Documentation of employee relations situations allows the employer to prove that proper action was taken, the involved employees were informed of the need to correct the behaviors, and warning of the potential for additional disciplinary action up to termination was provided.”

3. **Get an Employee Handbook:** Depending on the country, between 6 and 42 percent of employers around the world do not have a written attendance policy, according to [a global study on workplace absences](#) released at the end of 2014 by the Society for Human Resource Management and Kronos Inc. A lack of a written policy and an employee handbook can be costly. NFP’s Davis, who has extensive experiences as an HR manager and consultant, remembers a client who refused to pay unused vacation time to an employee who resigned, although the company had done so for others. The employee filed a claim with the Department of Labor’s Wage and Hour Division and won the complaint because the employer—a small retailer—did not have an employee handbook to prove they had a policy not to compensate for unused vacation. According to Bob DelPonte, vice president and general manager for the small and midsize business group at Kronos Inc., employee handbooks should include workplace policies that are easy to understand, fair and consistent.

4. **Onboard Employees Immediately:** Small businesses waste time and lose business opportunities by not prepping employees before the first day of work, Shepherd and Fosburg agreed. Get new employees business cards, a telephone line and benefits forms before their first day of work so they can hit the ground running, Shepherd asserted. DelPonte suggested smaller companies automate collecting paperwork to ensure that new hires complete and hand in all needed documents, especially employees who work remotely. It is also important to let new employees know what tasks they need to complete before their first day.

5. **Give Feedback and Rewards:** Many small business owners get so worried about bringing in money and paying the bills that they neglect to give on-the-spot feedback to workers, which could motivate the employees and help the business grow, Casemore said. “To me, the best feedback is just verbal feedback on what they are doing,” he said. Small business owners should also set performance goals and award employees who meet them, he added. These rewards could be a staff barbecue or tickets to sporting or entertainment events.
6. **Ditch the Paper:** Many small companies rely on homegrown, paper-based systems to track time and attendance, manage schedules, and process key HR-related functions such as hiring and onboarding. Small companies should consider using technology-based solutions for these tasks so they can focus on growing their core business, DelPonte recommended.
7. **Keep Abreast of Laws and Regulations:** Federal, state and local government regulations, laws and reporting requirements change constantly, DelPonte said. Using cloud-based human capital management technology can help small businesses keep up with the changing legal landscape.
8. **Get a Good Attorney:** Small businesses may rely on a general business counsel or even an attorney friend to manage employment law matters; however, this may not be the best approach, said ThinkHR human resources editor Suzanne Fahl, SHRM-SCP. Many aspects of employment law are very complex so a seasoned employment lawyer may be needed.
9. **Mind the Compensation:** Some small business employers classify employees as independent contractors to avoid having to cover them under Workers’ Compensation Insurance and pay payroll taxes, Think HR’s Barbato said. If employees are misclassified, then small businesses could end up having to pay back payroll taxes and benefit costs on top of fines and penalties, she added. Other employers may fail to properly pay employees for travel time and other compensable time, believing they will only be penalized for one employee if a claim is filed, Fahl added. However, violations of wage and hour laws can lead to costly fines and penalties that can apply to all employees who may not have been compensated correctly under the law.
10. **Don’t Go it Alone:** Successful small business owners know the importance of forming partnerships, and those that fail often try to do too much on their own, DelPonte said. “Partnering with payroll service bureaus, recruiting organizations, and technology vendors can help recruit, retain, manage, and grow a small or medium businesses’ workforce, while employees can concentrate on the business and focus on their own customers, products and services,” he concluded.

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