

HR 101: Human Resources for Start-Ups

Too often, HR is relegated to the small group of cubicles over in the corner with the hopes that they never get in the way of the company's mission except for an annual employee review and maybe an occasional pep talk on scintillating topics like "How to avoid sexual harassment" or "How to comply with some obscure government regulation".

As entrepreneurs, the last thing that we want is a cumbersome HR department to slow us down. To that point, entrepreneurs often outsource their Payroll in the hopes that it will suffice as "all of the HR we need to worry about".

Regrettably, HR has the ability to sink a small business faster than virtually anything else for reasons like:

- a. wrongful termination
- b. violation of payday laws
- c. harassment
- d. discrimination

While Human Resources departments have done an effective job of relegating themselves to administrivia, they do actually serve to keep companies out of a lot of trouble. For that reason alone it is important to at least review your HR policies and procedures as a start-up. Even more important, however, is doing it cost-effectively and investing as little time as possible so that you continue to focus on revenue-producing functions.

HR Do's & Don'ts:

Do: Invest the money in an employee handbook. These documents often state silly things like, "How to report to Jury Duty" and "The Company Dress Code". The simplicity of a Handbook is what makes it such a valuable tool. Imagine the frustration of a business owner who attempts to fire an employee for showing up to work intoxicated and then finds out that because there is no policy against drinking on the job, the employee is entitled to unemployment and retribution through a lawsuit.

Don't: Engage an Insurance Agent who you found in the Yellow Pages. In most states in the US, becoming licensed as an Insurance Agent doesn't even require a High School Diploma, let alone an advanced degree. Remember, 6-10% of every insurance dollar you will spend goes directly to your agent. That's a high price to pay for poor service. A great resource: ask your Board Members who they have used for their other businesses.

Do: Have an Employee Review program. It's okay if other things take precedence but there are few things that can demoralize a workplace faster than a group of managers who don't take the professional development of their direct reports seriously.

Don't: Keep alcohol in the refrigerator. Sure, it may seem cool to be the newest start-up in town that has impromptu “Happy Hours” at 2:00 on a Tuesday, but a single employee with poor judgment can serve to sink your business faster than anything else.

Do: Fire quickly and without remorse. When you're in “survival mode”, an employee who isn't pulling their weight won't just go away. Rather, they'll be a constant source of heartburn for you – especially if you feel like you're not good at conflict. Jack Welch has gone on the record as saying that 10% of your employees should probably be looking for other jobs. Don't keep them around just to avoid the act of firing them.

Don't: Create an entitlement culture. If you offer to pay for things like Health Insurance for all of your employees and their families it becomes a very difficult promise to keep if times are lean or you grow faster than anticipated. Health insurance has increased in cost at 3 or 4 times the rate of inflation over the last decade. It's one area where it is difficult to have any control over the costs from year to year.

Do: Outsource anything you can! To steal from Charles Darwin, a dandelion shares 72% of the same DNA as a Human Being. The same is true for a start-up with 3 employees and a Fortune 500 company with 50,000 employees when it comes to employment law. With more than 13,000 new laws regulating employment since 1990, it is important that you recognize that HR is not your core competency and you should push these responsibilities out wherever you can.

Don't: Offer a match on a 401(k) until you hit profitability. Nothing will upset a Board of Directors faster than seeing the Executive Team giving away money in the form of a match when they have (potentially) millions of dollars invested.

Do: Create a system for analyzing people who are applying for jobs in your company. Start-ups often have to ramp quickly when they hit certain customer or revenue targets. If you have an interview process that includes more than 2 people (which you should), then you should all be asking baseline questions that can be compared afterwards. We like to call this “working from the same playbook”.

Don't: Hire Contractors and call them Employees. The General Accounting Office (GAO) estimated that Billions of dollars in wages went unreported last year by people who didn't realize they were 1099 contractors. The burden of these contractors not filing their taxes often falls on the shoulders of the business that pays them. For further clarification of whether not someone is an employee, consult the *Common Law Test* that the IRS has created.

Re-Cap:

Don't reinvent the wheel! Human Resources is something every company that has ever hired an employee has had to deal with. There's a high likelihood that your Board of

Directors will have suggestions for what service providers to use and best practices of what has worked well in companies they've been involved in before.

“We want every one of our portfolio companies to outsource their entire HR department” says Audrey Engleman, the Controller for Techxas Ventures, a venture capital firm in Austin, TX. “In fact, we even outsource it ourselves. We can't make any money focusing on the tactical side of HR. In our mind, it's not much different from the maid service that comes to clean our office at night. They're there to serve a purpose and because they do it we don't get slowed down or stopped from focusing on our core competencies”.

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