



10 Common HR Mistakes That Can Cost Small Businesses

Preventative measures and HR investment is key to a successful, well-functioning business

By Lesley Gates
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In Corporate America, human resource departments perform many integral functions. Staffing, training, employee relations, performance management, benefits, compensation and termination procedures are handled by highly trained and specialized HR pros. Yet in the small business world, these tasks are often passed to administrative or finance staff who aren't trained in these HR facets. Sometimes it works. Other times it results in inefficiencies, low employee morale, high turnover and unlawful operations.

HR investment, whether internal or external, can save thousands in the long run. Without professional guidance, companies can easily make costly – yet preventable – mistakes. Here are a few instances when poor employment practices can cost you:

Not Up-to-Snuff with Employment Laws

One legal misstep can cause an entire company to crumble. Did you know businesses with just one or more employees are subject to more than 10 federal labor laws? A company that grows to 50 employees can be covered by 20 federal labor laws. Companies found to be non-compliant can face big fines and legal battles. According to the Equal Employment Opportunity Commission (EEOC), individual charge filings increased from 75,768 in 2006 to 82,792 in 2007. Ignorance isn't a defense, so it's essential to bring in a professional that knows the laws inside and out.

Failure to Understand Employment-at-Will

Employment-at-will doesn't necessarily mean "fire-at-will." What would you do if the EEOC called to advise you that an ex-employee filed a wrongful termination complaint? Companies should have a termination process and record performance feedback showing an employee was given opportunities to improve.

Using Probationary Periods

Some companies use probationary employment periods for the initial days of employment, typically 90 days. By identifying these first 90 days, the company indicates the new hire is officially off probation as of day 91. The business must now show cause to terminate employment. If you know an employee isn't going to work out right away, delaying termination can create a legal liability.

Quick to Hire

When companies are understaffed, managers may rush through the hiring process and end up regretting it. Poor hires take up time, create tension, cost money and make can make bad impressions to customers.



It's important employees fit into a workplace culture. For instance, hiring people from large companies that don't fit into small, entrepreneurial environments can be risky. It's better to take time to hire the best candidate than to terminate a poor fit and start all over again. In addition, managers should attend training on effective and legal interviewing and selection.

Initiation vs. On-boarding

New hires need time to acclimate to their position and work culture. According to a 2008 study by O.C. Tanner, 86 percent of new hires make their decision to leave or stay during the first six months of employment, and only 15 percent of companies have a formal on-boarding process. On-boarding, or employee orientation, is more than a quick presentation and paperwork. Effective on-boarding increases employee engagement and propels employees to full productivity faster.

Incorrect Wage and Hour Administration

The Fair Labor Standards Act (FLSA) administered by the Department of Labor (DOL) provides regulations on exempt and non-exempt classification, child labor, minimum wage, overtime pay and record-keeping. These requirements can be complex and difficult to understand. The DOL estimates 70 percent of employers are not compliant. Further, FLSA complaints exploded 73.7 percent from 2006 to 2007 (4207 to 7310 claims).

Retribution for non-compliance includes back pay, liquidated damages, attorney's fees and court costs. Employers who willfully or repeatedly violate the FLSA may be penalized up to \$10,000 per violation. Second convictions can result in a \$10,000 fine and/or imprisonment up to six months.

Poor Documentation and Recordkeeping Practices

Accurate documentation is critical. Both incomplete and over documentation can become liabilities in instances like discrimination suits or when protesting an unemployment claim.

Federal laws and the Arizona State Minimum Wage Act require employers to keep accurate records of time worked to calculate employee pay and benefits. Every employer covered by the FLSA must keep certain records for each covered, nonexempt worker. Those in violation can face fines of \$250 to \$1,000 per incident.

Delegating Supervisory Responsibilities Too Early

Frontline leaders have the most day-to-day contact with employees and are relied upon to teach and communicate company goals and performance.

When employees are promoted to supervisor positions without managerial experience or training, other employees may become disgruntled. Supervisory training costs money upfront, yet it ultimately leads to increased productivity, revenues and decreased costs.



Using Another Company's Employee Handbook

One shoe does not fit all when it comes to handbooks. Each must be tailored to a particular business, set of values and procedures. Borrowed handbooks may not be current, relevant to the industry, or depict employment rights in the employer's state.

Overlooking the Importance of Training

Despite tight budgets, training is a practical way to teach employees how to work smarter with fewer resources. Training compliance varies, yet for companies that find themselves in hot water and potential sentencing situations, training can be a substantial defense. According to the U.S. Sentencing Commission, "all organizations, whether privately or publicly held, must provide all employees and managers with effective and periodic ethics and legal compliance training."

Conclusion

If they only consider the cost of hiring an HR professional or an HR consultant, entrepreneurs and small and mid-sized business owners do not realize the full value of effective HR practices and processes. Employees are the only truly unique component of any company and can help it grow and prosper as well as fail and die. The investment in effective HR practices and functions and professional advice is as critical to the success of a company as having the right equipment, materials, products and processes.

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About Lesley Gates

Lesley is the founder and owner of Gates to HR (www.gatestohr.com). Lesley has more than 18 years of human resources management experience in diverse corporate and work site environments, including small business through Fortune 100 and Fortune 500 companies. Throughout her career she has created HR infrastructure and lead project teams aimed at streamlining HR processes and establishing best practices resulting in improved human capital and operational performance.