



# What Every Business Owner Needs to Know About Human Resources

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Every successful business needs three essential assets:

1. A realistic business plan
2. Money to fund operations and growth
3. The “right people”

Fact is that if you have the right people, obtaining the other two is more likely.

Getting and keeping the right people is the essence of Human Resources, and one of every business’s top challenges. Human Resources (HR) done right is both a strategic and tactical endeavor. One without the other is incomplete.

The tactical elements of HR are what used to be called “personnel”. It is largely transactional and about getting the paperwork right. Like the adage goes, “no job is complete until the paperwork is done”. Personnel or HR Administration is essential to government compliance as well as internal control and decision making. Having assessed 100’s of small business HR departments, I continue to be amazed at the range of errors and omissions found in HR administration. Typical errors include application forms that do not protect the employer (or worse are down right illegal), poorly written offer letters that create Company liability from the first day of employment, improperly completed I-9 forms that create up to \$1,000 each in future liability, non-existent or poorly written handbooks, etc.

Effective HR begins with competent administration. Ironically, HR administration is both tactical and strategic. It is strategic because it is a relatively inexpensive form of risk mitigation and an inexpensive way to protect against personal and business liability. When your paperwork is compliant with government regulations, follows good process, and is intelligent in terms of documentation, your business benefits in several important ways:

1. Applicants and employees are treated fairly and consistently
  - a. You don’t waste time making things up as you go. Since each person follows the same procedures, everyone knows they are receiving the same fair consideration.
2. If something goes wrong, you have the “documentation” to defend yourself from legal and governmental intervention
  - a. Employment law is one of the fastest growing areas of litigation. And, why not? Anyone can sue anyone for any reason, and many employees have an entitlement mindset. Plus, government regulations are numerous, complicated, and ever changing. The best defense to any of these is proper documentation of employment transactions.

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3. If you ever sell your business, you do not have value deducted for lingering liabilities you may not even realize were present.
  - a. Flex HR, Inc. has often found liabilities amounting to 20% - 50% of the initial offering during HR due diligence. If you are acquiring another company, these are hidden "time bombs". Savvy M & A companies engage companies like Flex HR, Inc. to ferret out these liabilities before they are transferred to the acquiring entity. As the company being acquired, you do not want to see your equity going up in smoke over the paperwork.

Beyond HR administration, HR plays a strong strategic role in assisting management to define its staffing needs and pursue effective recruiting practices. Hiring managers should own their own recruiting, but HR can and should play an advisory role to minimize costs and establish process that leads to successful hiring. Making the offer is just the first step in successful hiring. Next you need to "on-board" the new employee. The first 30 days sets the tone for whether the employee and manager feel they have made the right decision. Seeds of discontent get planted in these early moments. On-boarding needs to be done consistently and thoughtfully and include setting performance expectations.

Are we paying too much for our employees? Is our high turnover due to inadequate compensation? Is our mix of compensation between salary, benefits, and short and long term incentives right? Do my employee practices build employee engagement or discontent? Am I paying for employees to show up, or am I paying for results.

Do I have the talent to move to the next level or enter a new market or line of business? Is my leadership team up to the task of motivating and managing the performance of employees? These questions and many more are strategic HR questions.

Companies over 1000 employees are typically large enough to justify a full time HR Leader and support staff. Smaller businesses generally can not afford and may not need a full time HR staff. What they do need is the capacity to get the paperwork done, to protect the business, and to prepare for the future.

Because HR is both tactical and strategic, if you hire someone strong on the tactical elements, they may not (and probably do not) know many of the elements of strategic HR. If you hire someone who knows strategic HR, this person may (and probably will) become bored with all the transactional HR. Faced with this dilemma, many small business owners are turning to HR outsourcing as a solution. The problem here is that HR outsourcing is highly fragmented, and again sourcing everything required can be difficult and expensive. The best solution may be to first seek a firm that knows HR and can manage administration cost effectively. Many payroll and insurance companies have stepped into the HR space over the last decade. They do an adequate job of administration, but lack an understanding of strategic HR. In some cases, these firms use a Professional Employer Organization (or PEO) model. This involves what is known as co-employment and has inherent expense and complications. The big HR Consulting companies offer strategic HR but do not offer the administrative piece. The best solution may be to pursue a hybrid model where the outsourcing firm provides both strategic HR and HR administrative outsourcing.

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Which ever direction you take in ensuring your business has the HR it needs, acting sooner rather than later will save your business money and hassle over the long haul. Remember, if you can get the HR right, you are much more likely to develop and effectively implement winning well funded business plans. And, with the right people, your business is more likely to create shareholder wealth, serve customers, and provide a great place to work for all your employees.

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