

Human Resources – How does it matter to the SMB?

Real Life Lessons Learned is a series of brief discussions that deal with the hard knocks, bruised shins, laughs, frustrations and joys of being in business. The fact is that 7% of the adult population in the U.S. will endeavor to start a business every year. It is interesting to see that according to the 2004 Census report businesses with 1 to 19 employees comprise over four million firms, meaning 20.4 million employees with annual payroll of over \$530 million.¹ The same report indicates that for 2002 the total receipts for these size firms were in over \$2.8 billion. The 2004 data regarding receipts have not yet been published. Our perspective at NCDCS is that Small Businesses drive a major aspect of the economy and as with any business, began with the idea of one person and then expanded. Your business may be the legal entity of Sole Proprietorship or you may have developed your business with partners and are legally a Partnership or perhaps have transitioned to a LLC or “S” Corp. The realities are that you have walked an exciting road with many challenges and successes. Yet, every company looks at ways to improve in one or more of the critical components of how to make our business better. NCDCS, Inc is a trusted partner desiring to see you reach your desired level of efficiencies and success.

Human Resources seems like an ever-encroaching requirement to most small businesses especially to the sole proprietorship. Most often that is because it is one of the most misunderstood and therefore least planned aspects of the SMB environment.

Let’s begin with the simple web definition from our friends at Wikipedia[®]:

“Human resources is a term with which many organizations describe the combination of traditionally administrative personnel functions with performance management, employee relations and resource planning. The field draws upon concepts developed in Industrial/Organizational Psychology. Human resources has at least two related interpretations depending on context. The original usage derives from political economy and economics, where it was traditionally called labor, one of four factors of production. The more common usage within corporations and businesses refers to the individuals within the firm, and to the portion of the firm's organization that deals with hiring, firing, training, and other personnel issues. This article addresses both definitions.

The objective of Human Resources is to maximize the return on investment from the organization's human capital and minimize financial risk. It is the responsibility of human resource managers to conduct these activities in an effective, legal, fair, and consistent manner.”¹

Our discussion will look at several specifics such as ‘Who needs this?’ and ‘What components are needed and when?’

Now you’re wondering why I’m even going to discuss this for the small business. I have learned through working in several small businesses, sometimes the hard way, that you need this no matter what size your business is or whether you are looking to grow. Small businesses that have expanded to the point of hiring employees really need to dig in and learn what Human Resources really means to your company. The absolute reason to discuss this is that when all is said and done,

Human Resources Management Affects Your Bottom Line!

The Sole Proprietor or Single Member LLC.

“Hey Tom, I’m a sole proprietor and at this time I have no employees so what do I care about HR stuff?” The simple answer is that you need to care about this for yourself and your business with the prospect of some day possibly adding employees. You retort, “But Why?” I have to respond and ask you, “Why are you in business?” You come back with, “To make money of course!” Well, we will continue to pursue that point when we discuss your financial model and what does Cost of Goods Sold (COGS) really mean to your bottom line but, the issue here is YOU as the single human resource that needs to understand your position in the company.

OK, I’ll briefly touch the ‘make money’ point. Here is what life has taught me: unless you are the go-it-alone professional type, like an attorney or some other very specialized career person that does everything by yourself, you will have other people working with you and for you sooner than you think. Money isn’t everything, and it does not bring happiness or personal satisfaction. Most of you choosing this adventure of a small business have a perspective on that, but our society is such that there is a great misperception on what is important in life. I cover more of this in the forthcoming book in the final chapter “Are You Really Ready?” So enough on this for the moment and back to:

What does a Sole Proprietor or Single Member LLC needs to prepare in their HR?

One of the first small businesses that I started when I got out of the military was a furniture refinishing business. Quite honestly I fell into this opportunity and more honestly I really didn’t have any training in the art. So my first requirements, after being asked to do some really cool work, were to set the business up with all the legal stuff, and foremost was to define a training program. Now one thing that you have to understand is that part of my military training was in organizational development so I knew that there were fundamentals that had to be established to ensure that my key resource, being me, had all the necessary tools to accomplish the mission. In reality I needed everything it would take for moi-même to train to perfection in a timely manner, know how to price my service, interact (communicate) with the customer and make sure that I was personally compensated from the company for my services. Well, as I describe in ‘Organization – A Living Entity’, I was spinning hats! And yes, I did miss things that first go around.

But I knew that the simple items that this scenario initially required from a HR point of view would be:

- √ Compensation - Salary
- √ Health and Safety
 - Personnel Safety
 - OSHA
- √ Personnel Enhancement – Training (and in this case, literally hands on)
- √ Record Keeping – Compliance with State Workers Compensation Laws

For a one-man show getting started, these were the most important points that I needed to cover so that I could get the product out. And I did get the job done with great customer satisfaction. Most importantly, all that I did met these fundamentals and I actually took home a paycheck.

You still may comment, “Well isn’t that all just common sense?” For the most part it is, but I always come back with a simple statement: Common sense and common courtesy are no longer common. That is why it is critical for any business to understand its responsibility to its employees. Go back to what was discussed in “Organization – A Living Entity” to remember that a company--no matter what size--has the elements of soul, mind and spirit. Each aspect is represented in the employees. Even if you are the only person in the company, you are an employee of the company and that Entity has a responsibility to you that falls under the scope of Human Resources Management.

My next sole proprietorship really brought to bear the need to develop all the fundamentals we are discussing in this segment. In the mid 80s, the market was not inundated with landscape construction companies. I saw a real opportunity in this market and entered it in the maintenance segment. Again, it started as a one-man show but quickly required the planning for growth and hiring of personnel. So what other key points had to be considered, since I already developed the first four with the furniture refinishing?

Expanding the Model

You guessed it! Even the four areas that we discussed a few paragraphs back had to be expanded to accommodate whom I would hire. So I started with an organization chart. So here is a simple exercise for all you sole proprietors out there who think they can do it all by themselves and not miss something. Develop an organization chart for your company similar to the basic in Figure 1.

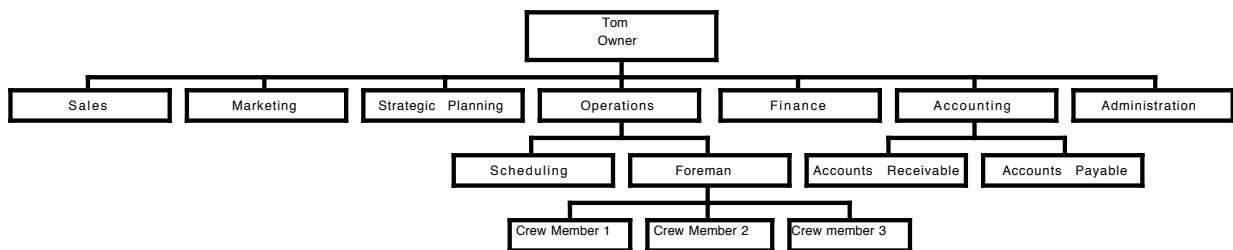


Figure 1

From this really basic organization chart we can determine there are fifteen positions in this company. What is the job of each position? What would you expect each position to require regarding compensation, benefits, performance measurement, personnel enhancement (training), safety, communication and reporting? Oh, as you think about this, realize you are wearing a lot of hats if you do it all alone. Also, when you consider all these jobs, are you pricing your service or product sufficiently to accommodate the cost for each aspect of these positions? My friend, the issue of pricing and COGS is another subject all unto itself that will be covered in the Financial Modeling Segment. But as you can see, there are a number of specifics for each position that have to be covered. This analysis of your company will force you to consider what are your functional processes and procedures. You will begin to look at the useful tools to communicate these tools and processes to your employees, such as the employee handbook and new-employee orientation.

Job Descriptions

As a first order of activity, this process will have you looking into what we mentioned a moment ago: What are the job descriptions? Our resources and links area on the web site will refer you to some of our trusted information for templates that can assist you with this. Or, you can just wing it and make up your own job description. But remember, the quality of the person that you will have fill a position will be determined by the clarity of the description, expectations and more. Otherwise they too can just wing it, and you will battle later on what they should or shouldn't be doing.

Oh wow, what a segue to the discussion about unclear role definition – Job Descriptions. My experience has shown, even at the corporation level, that if this whole area of job descriptions and role definition is not clear, you are going to have nothing but trouble. And I do mean with a Capital “T”. It is worse in a small business environment because the ‘spirit of the entity’ⁱⁱ derived from the employees can become contrary to the ‘soul and mind’ⁱⁱⁱ of the entity. Then you, the business owner, have an even more difficult

time modulating the potentially inane interactions, emotions and behavioral displays that affect your bottom line. Now if you, the business owner and executive member, don't like confrontation then you will have a difficult time dealing with personnel situations because you have nothing to use as a guide or reference for expected work output or behavior. At this point, you do nothing and let the stronger personality and spirit win or you become frustrated, incensed and passionately put that employee in their place. Gosh, you just might even end up firing them when all they needed were guidelines that come from understanding their job description, processes and procedures. If you let someone go, there is another potential can of worms that gets opened depending on what State you are in and the circumstances. This could be a legal matter that you may end up needing that attorney friend of yours for. That is unless you had some good termination guidelines in place, documented them in your employee handbook, and communicated them at the new-employee orientation. Nonetheless, this affects your bottom line! You just lost productive time dealing with the issue to start with and now you may have to go find a replacement, which will cost time and money based on what your production cycle demands.

Now might be a good time to take a closer look at the new-employee orientation. Whatever that looks like in your company. The point being that many small businesses do not have any form of a new-employee orientation. Usually the owner and other workers are so excited to have another warm body that the most that happens is showing someone where the bathroom, lunchroom and cleaning supplies are located.

Components of a New-Employee Orientation

Every business should have a simple new-employee orientation presentation and set aside at least two hours to present to the new employee at least the following basics:

- The job description with roles, responsibilities and location of material to succeed.
- Compensation and benefits including pay, bonuses, vacations, breaks and lunch policy, and others.
- Who's Who in the Zoo. Who are the other people in the company and how do they and the new employee fit in the scheme of things.

You may want to add several other key points but at least with these basics you should obviate 80% of new employees questions. And hopefully avoid some HR hassles down the line.

Compensation and Benefits

There are six fundamental areas and as many again sub-areas that can fall into the categories of compensation and benefits. I'm not even going to list them all here but will direct you to the resources page on our web site. Of the six, I will address the four that I think are critical for the small business to have a grip on, because you as the owner want to know them and your employees are going to want to know them.

1. Wages:

"Hey Boss, What's the pay scale?" Ok, this is an easy one. You know that you are setting wages based on the job description and the research you did for comparative wages for that description. Correct? You know that the wage scale will allow you to price your product or service such that you will have sufficient margin in COGS so that the business will be profitable. Correct? You know that you will start someone at a point in the wage scale for that job description based on their experience. You know you have sufficient room in that scale to be able to give them a raise based on a number of factors like time on the job, cost of living and a performance plan/merit plan matrix. Correct? You know that your wage scale is competitive in the market place such that you can attract and more importantly keep good employees. And most importantly, you know how to and have a mechanism in place to communicate this wage scale and policy to the employee.

What happens if you cannot say ‘Correct’ to these points? I have seen many small businesses with disgruntled employees or a high turnover of employees because there is no wage scale policy in place. Worse, if there is one that is in the nebula of your mind or some stack of papers in the back of a bottom desk drawer, the employee is always guessing as to how they progress at the company. This is one of the key areas in which communication is critical.^{iv} There is a fundamental principle in fairness and equity when it comes to wages. This principle has a duality to it: the employee gives you a solid day’s work measured to the job description, and the employer pays a proper wage. In our society, to keep a good employee you need to be able to communicate the wage scale and, if there is one, what the bonus plan structure is. All this should be accomplished at the new-employee orientation.

2. Professional Growth

The simple aspect of professional growth is ensuring your employees get the training they need to perform to the level of expectations delineated in their job description. Also, it is a positive incentive that indicates you value your employees. When I had the landscaping business I sent my foremen to sprinkler design school. Then I worked with them to train the rest of the crews. This way each employee was gaining the training and the foremen were learning new skills and responsibilities that included: communication, training development, interpersonal relationship building, and enhanced personnel management. Giving someone a path that makes him or her a better employee is very positive to the bottom line. I have always had the belief that every person has the potential to fully succeed, and it is part of my responsibility to give them the tools, the hope and the incentives to develop their talents and skills. I have often taken the risk of training someone to move on to new opportunities as mutually agreed to. I also learned in the military that no one is indispensable and with that, I have no problem training my replacement. The fact is that at some point in time you the owner may go away. That may be due to natural causes or an accident. Who can step in and keep the business going? If you die, what legacy is in place to pass on so that those in your family who have been dependent on you will retain something of or from the business?

3. Retirement Plan

I have to preface this point by saying that I am not a retirement planning professional. You will need to seek out a professional who can assist you with the best plan for you and your organization.

Now most small businesses don’t think about retirement plans especially at the formation of the company. Yet as an individual the idea is not only to make money to meet your present obligations but to be able to provide for the years that our society calls retirement. The argument comes back that “I can’t afford to do that”. Well, you could look at your spending patterns and reevaluate what is really affordable. Just as a simple example, if you stop purchasing your favorite lattes before you head to work you could save about \$1,000 per year. Check out the article in the endnotes for more ideas on saving money.^v The point is that individuals can find a way to set the money aside for a retirement plan. The business can sponsor the plan and if you’re large enough it may be an incentive to your expense line item.

There are many different plan vehicles to choose from. Heck, I just learned that Costco^{vi} even has Small-Business 401(k) Plans that are cost effective for the self-employed/owner operator, the two to ten employee firm size and even a plan for larger companies. Talk to your accountant, attorney or financial advisor to find a plan for you. I know that the banks are even getting into portfolio management and your business bank may be the place for you to investigate.

The real point here is that you cannot afford not to plan for a retirement plan. With life-style and business modifications, you can set something up that is going to benefit all employees, that means the owner too, in the business.

4. Status and Recognition

This is a very interesting subject. Humans want to be noticed. It is an aspect of our very being that we want to know that someone is paying attention to us and that we are doing well. From our birth we desire this. So does that go away when you enter the work place? I have found in every environment I've been in that the whole demeanor of an individual, the office and the whole company can change based on what type of recognition the owner or supervisor give to employees.

Let me ask you a couple very blunt questions:

Do you, as the sole proprietor or owner, beat up on yourself when you err or do you learn from the error and take corrective action so as not to repeat the error?

Do you cause yourself to go through emotional trauma that causes you not to want to press on and continue your efforts?

Do you run to the mirror to yell, scream or berate yourself?

Depending on how you answered the questions you may or may not want to read on. You see, this is the hardest and yet most critical aspect of Human Resources – how you treat yourself and your employees. The whole dynamics of human interactions has volumes written about it. My background in behavioral science, my Judeo-Christian beliefs and over 30 years of leadership and management have given me an excellent insight into how to treat people so that they will desire to perform to their highest level of excellence. The simplest way to increase performance is to say, “Thank You.” These are two exceptionally powerful words that restore the virtue of common courtesy. Go Google the phrase ‘saying thank you’ and you will get 6,010,000 hits. Yes, over six million hits.

With saying ‘Thank You’, I learned that recognizing achievements boosts individual morale and that of the workforce in general. It isn't very difficult to create a certificate for something. There are a number of simple and free sites on the web that let you develop certificates. Google the phrase, ‘free recognition certificates’ and you will get some great results. As you well know, the tragic way that we often recognize someone is in the negative. It takes practice for the owner/manager to recognize someone or a team for something positive. Remember the old adage, ‘One negative wipes out 10 at-a-boys’ so as a small business owner or manager, you have to build up the reserves with your employees since you are bound to impact them negatively at some point. Hopefully, you look to a business coach that can work with you on management practices and communication skills.

Regarding leadership management, NCDCS, Inc. can work well with you in this area. I personally enjoy building leaders. But I like to give good references to those whom I believe deliver some of the best information. One such gent is John Maxwell. The quality of information that Maxwell brings to leadership and management development reaches the very ‘mind and soul’^{vii} of those in the organization. All of us that lead a company need to find quality mentoring tools and training material for our own benefit and that of those we are developing to succeed. My suggestion is that you start with these three books by John:

The 21 Irrefutable Laws of Leadership: Follow Them and People Will Follow You

Leadership 101

The 21 Indispensable Qualities of a Leader

Health and Safety

“Hold up Tom! In your four checks off points at the beginning of this you had health and safety up there as A key points yet you really didn't dig into it.” Thank you for challenging me on that one. There are two aspects to this issue, and I will cover them in the reverse order.

Safety is everything in that you do. I learned from the ol' military days, 'Safety First'! Our friends (a matter of opinion and not always true) at OSHA and other state regulatory agencies have volumes of compliance material and laws that one must be aware of depending on the business you are engaged in. In the simplest aspect, there are guidelines on what desk to have, how you're computer keyboard should be located and what type of monitor you should use. This is all under the rules for ergonomics in the workplace. If you are engaged in any service or manufacturing you will have all sorts of rules to comply with for personnel, environmental and other safety issues. Please, please, I beg you, PLEASE go check the laws and rules that are applicable to your business. You do not want to get caught up in having any government agency auditing your operation and finding you in a state of non-compliance. This could cost you money!!! Also, you don't want some employee getting hurt and then you are tied up in the 'workers compensation' stuff that could occur. My bottom line here is:

Pay Attention – Safety First!

Wow, now we have to think about the issue of Health. This is difficult since most people consider this discussion to focus on company health insurance plans. Once again, I will qualify this with the fact that I'm not an insurance expert. But I will tell you this has been an ongoing conversation in every business venture that I have ever started or participated in.

We all know that health care is expensive and that it really comes down to affordability. My opinion is that this is one of the most inane issues that we have to deal with and I absolutely do NOT believe this is a function of government. So we as small business owners need to press on our State legislators first to better regulate the insurance industry and corporate medical entities. Or on the facetious side, take all the money you would put into your small business and invest in health-care corporations and insurance companies and live off the profits. Heck, this industry makes more return on investment than oil companies. OK, enough with that, but that is the reality of your thoughts and some of the many issues as to why you may not look into a group plan.

Let's think about why you might want to. Again, your going to need to talk to a real insurance pro about this but, my purpose here is to get you to look at all aspects of doing business correctly from the start and preparing for success.

Here we go. Even if you are a one-person sole proprietorship, LLC or corporation – you need to consider your health insurance options for you and your family. You can go out and purchase an individual policy and that may be cheaper than any business plan. You may never intend to grow your business beyond yourself but, if you recall the organization chart we did earlier, it may be inevitable that you will get some help somewhere in the future. Oh, for all of you that have your spouses working with you...and you don't necessarily consider their work on the payroll...well, that's another discussion, but they are working for the company and you have to cover their health care one way or another. So it becomes of interest to first understand who all is part of the business activity and what is the best way to provide a plan.

The things that have to be looked at are many. I will only touch on a few and you can get more info from the forthcoming book and seminars as well as what we will be adding to our resource page on the web site. OK, consider these items with your finance team (which should include your CFO, accountant and insurance person):

- √ What is my personal health insurance costing me now?
- √ How much of the premium can be written off at tax time, and what are the tax advantages to having the company buy the plan and me contribute to it?

- ✓ What are the tax advantages to the company if the company contributes to the employees portion of the premium?
- ✓ How many personnel do we have in the company that could participate in the plan to drive the cost of the general plan down?
- ✓ Does each person pay their own premium or does the company pick it up? My thought is that for the small business each person pays for his or her own premium. See the example below.
- ✓ What advantages does this have from company integrity and performance standpoints with our employees?

And I'm sure you can come up with 100 other questions for your finance team. Oh, if you do not have a finance team, please contact us and we will help you understand how to build that team and participate as part of our Rent-A-COO or Rent-A-CFO services.

With that, Figure 2 is a simple example that comes from Costco Executive Membership.^{viii} The example here is a small business that has four employees. I'm not going to get into the details of the coverage but it is pretty good and competitive. There is a list of items that determine Group Eligibility & Participation. You will need to check on those specific to your state and situation and the considerations of the questions we asked a moment ago.

Employee	Gender	Age	Premium
#1	M	54	\$384.94
#2	F	57	\$539.19
#3	M	51	\$385.94
#4	F	25	\$276.62
		Total	\$1,585.69

Figure 2

One of the potential requirements of this group plan may be that the company contributes 75% towards to cost or \$1,189.26. But there is a definition in the requirements for 100% employee contribution. So once again, as with any financial decision, **ensure that you validate the advantages with your finance team.**

The final comment here is that you are going to buy health insurance one way or another, see what a group plan can do for your company, and it will be a blessing and incentive to your employees. On the down side, and proven in every small business that I have owned or worked with, if the owner does not do something with health insurance, the employees will moan and groan; that my friend does **affect Your Bottom Line.**

Human Resources Management Extensibility

The major point that I want to make here is that we primarily covered the Sole Proprietor and single member LLC. The extensibility of HR having significance to the SMB environment becomes more critical as one adds employees and moves to Partnerships, multi-member LLC and corporations (in particular "S" Corps). Every aspect that we covered and all the remaining areas are important to these types of business entities. You can learn more about these other areas in the forthcoming book and seminars as well as the resource page of our web site.

A Quick Summary

I have a few parting thoughts in summary. We know that a company is an organization that is alive. That living entity has components similar to real humans since it is created by, matured by and occupied by people. So the health of the organizational entity is only as secure and good as the well being of those in the entity. It is our responsibility as business leaders and owners to ensure that those that make up our companies have all that they need to perform the jobs we develop for them. We have to ensure that those that will join our endeavors have a clear understanding of their job description, roles and responsibilities, the training they need to succeed, the compensation and benefits that are fair in the market and show room to advance, and we need to know how to reward people with praise which does the most to bring loyalty to the workplace.

There is much more that we can discuss in these areas and we do go into more detail in our other materials. We also enjoy working with companies to coach them in leadership management and training development. My last thought here is that I want to **Thank YOU** for taking the time to read this mini-segment and investigate our other mini-series, Podcast and web site.

ⁱ Wikipedia, http://en.wikipedia.org/wiki/Human_resources

ⁱⁱ ‘Organization – A Living Entity’, NCDCS, Inc, 2007, <http://www.ncdcs.com/rlll.htm>

ⁱⁱⁱ Ibid

^{iv} ‘Communication – Are You?’, NCDCS, Inc, 2007, <http://www.ncdcs.com/rlll.htm>

^v ‘10 Simple Ways to Save Thousands of Dollars per Year’, <http://ww-success.com/blog/index.php/2007/02/17/10-simple-ideas-to-save-thousands/>

^{vi} www.costco.com then click on services, then click on Small Business 401(k) Plans

^{vii} ‘Organization – A Living Entity’, NCDCS, Inc, 2007, <http://www.ncdcs.com/rlll.htm>

^{viii} www.costco.com then click on services, then click on Small Business Health & Dental Insurance