



# 5 HR CHALLENGES FOR SMALL BUSINESSES—AND HOW TO TACKLE THEM

Employers of all sizes often struggle with effectively managing their employees and ensuring compliance with what sometimes feels like a never-ending list of employment laws. Smaller employers, however, may face greater barriers since they typically do not have a dedicated human resources staff and the other resources larger businesses tend to have. The following are 5 common HR challenges faced by small businesses, as well as helpful hints for addressing them.

## HR CHALLENGE # 1: HIRING QUALIFIED EMPLOYEES



Despite a rocky economy, nearly half of all small employers say they are concerned about attracting and hiring qualified employees, according to a [survey](#) by the ADP Research Institute. Hiring the right employees is critical for productivity and employee morale, not to mention avoiding the headaches and replacement costs that come with a bad hiring decision.

### Action Items:

Small business employers should develop and implement a sound hiring plan in order to attract strong candidates. Prior to recruiting, employers should establish the job-related criteria they will use to make hiring decisions, including years of experience, requisite skills, and educational background. When recruiting, seek a diverse group of candidates and consider posting job advertisements on a variety of platforms, such as online job boards, social media, or with community organizations and local colleges. Once you have established hiring criteria, develop an effective screening and selection process that is applied consistently to all candidates. Reviewing employment applications and pre-screening questions, as well as conducting telephone, virtual, or in-person interviews, will help you weed out unqualified candidates and choose the best candidate for the job.



## HR CHALLENGE # 2: RISING COSTS OF BENEFITS

Many employers realize the importance of offering employee benefits in order to remain competitive in the marketplace. But with the rising cost of health insurance and other traditional benefits, it can be especially challenging for small employers to leverage a benefits program to attract and retain talented employees.

### Action Items:

Employers should weigh their options for obtaining health coverage, including purchasing plans through the SHOP Marketplace, which was created as a result of the Affordable Care Act. The SHOP marketplace gives small businesses some of the advantages that large employers have historically experienced, such as greater purchasing power, the ability to pool risk, and more choices among health plans. Employers that do purchase a plan through SHOP may be eligible for the Small Business Health Care Tax Credit.

Employers should also consider offering low-cost or non-traditional benefits, such as paid time off and flexible work schedules. Employees may find these benefits valuable in maintaining a work-life balance. Other cost-effective options include employee discounts, casual dress days, and an employee recognition program.

## HR CHALLENGE # 3: EMPLOYEE PRODUCTIVITY



Small businesses tend to operate very lean, and productivity is a top concern for many smaller employers. In fact, ADP's survey found that more than half of small employers cite focusing on employee productivity as their top strategy for staying competitive.

### Action Items:

If productivity is lacking, it is important to figure out the source of the problem, and evaluate whether decreased productivity stems from, among other things, lack of motivation, training, or capacity. Supervisors and their employees should openly discuss productivity issues and collectively develop solutions for improvement. Employers should hold employees accountable for their performance and consider providing regular performance evaluations to help with feedback, setting goals and documenting progress. Employers should also ensure that employees are motivated and engaged by offering challenging work, recognizing contributions and accomplishments, and providing development opportunities.



## HR CHALLENGE # 4: CREATING AND MAINTAINING AN EMPLOYEE HANDBOOK

All employers, regardless of size, should have an employee handbook to help ensure that employees receive important information about company guidelines, procedures, and benefits. A well-written employee handbook can set expectations regarding performance and conduct, address routine employee questions, and satisfy various regulatory requirements to communicate certain information to employees in writing.

### Action Items:

Employers should understand the impact of federal, state, and local employment laws on the policies and procedures set forth in their handbook. Consider consulting legal counsel for guidance. When drafting your handbook, take into account your company culture and consider common employee issues and questions so that you can address them proactively.

Once your handbook is distributed, obtain an acknowledgment from each employee, demonstrating that they have read, understand, and agree to abide by all company policies. New employees should acknowledge their receipt of the handbook at the time of hire. Once in circulation, review your handbook regularly to determine if updates are needed due to changes in laws and regulations or new company practices and procedures. When updates are made, obtain a new acknowledgment from your employees.

## HR CHALLENGE # 5: COMPLIANCE



Of those small employers surveyed by ADP, 43% indicated that they have moderate, slight, or no confidence that they can keep up with changing employment laws. Seventeen percent of small employers said they had been subject to an internal complaint, agency complaint or investigation, or lawsuit in the past 3 years. Wage and hour issues and recordkeeping responsibilities are among the most concerning for employers, perhaps as a result of increased government enforcement in these areas.

### Action Items:

Wage and hour violations typically result from improper classifications of employees who have either been misclassified as exempt, or misclassified as independent contractors. Therefore, it is important to ensure that all workers are classified correctly under both federal and state law. Employers must also make sure that non-exempt employees are paid for all hours worked and receive overtime pay whenever they work more than 40 hours in a workweek (**Note:** your state law may have more stringent requirements, such as a daily overtime rate).

Because of the many record retention obligations under various employment laws, employers have expressed concern about establishing and maintaining proper recordkeeping procedures. Employers should make it a practice to retain all employment-related records by creating a personnel file for each employee. Employers should also keep a separate confidential file for each employee for any records related to an employee's health or medical condition, or information reflecting an employee's age, race, disability, or other protected characteristic. Access to this file must be restricted to those with authority or a need to know the information.

## CONCLUSION:

Small businesses are not immune from HR challenges. In fact, given their size and resources, small businesses may face even greater HR challenges than larger businesses. However, with proper policies and procedures in place, small businesses can proactively face HR challenges and focus on running their business.

HR411 has many resources to help small employers address their HR obligations, including an HR HelpDesk, staffed by a team of certified HR professionals ready to answer your HR-related questions, an Employee Handbook Wizard that allows you to create a customized employee handbook based on state and federal employment law, Doc Vault (an electronic document storage system), and much more.

1 Source: Competition, Cost Control & Compliance: Strategies to Navigate a Changing HR World (2011), ADP Research Institute

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