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Top 5 Small Business HR Mistakes: How to Avoid Common Employee Management Pitfalls



As a small business owner, you want to spend your time growing your business.

As it stands, you barely have the time to hire new employees, create an employee handbook, and manage all of the other responsibilities that come with owning a business. Without a certified human resources (HR) professional on staff, it can be challenging for small business owners to properly manage their employees, stay in compliance, and keep their business running smoothly. And that's when costly mistakes can happen.

The following are five frequent HR and employee management mistakes small businesses make and what you can do to avoid them.

MISTAKE 1:

Hiring in Haste

Hiring is one of the most important decisions a business can make and one of the most time consuming activities for business owners. Even just one misstep can lead to a bad hire, which can have a negative effect on productivity and morale. Not to mention substantial replacement costs associated with the time spent finding the right person – again!

To help you make the right decision, develop a hiring process and follow it consistently. Create a job posting that clearly outlines the skills and qualifications you're looking for. Additionally, consider asking pre-screening questions to weed out unqualified applicants and conduct phone, virtual and/or in-person interviews.

Once you select your candidate and extend a conditional job offer, you still need to do your due diligence. Where appropriate, use a reputable background screening provider to conduct job-related background checks.

It can cost a small business approximately **\$3,665** to recruit just one candidate.¹

Nearly **1 in 10** background checks disclose some form of adverse information.²



Use an innovative hiring solution, like **ADP Hiring, Powered by GetHired.com**, to post job ads to multiple job boards and quickly identify top candidates. Be sure to conduct job-related **background checks** as appropriate with a provider like ADP.

It's critical for employers to know who they're hiring before it's too late.

MISTAKE 2:

No Employee Handbook

A custom employee handbook is a valuable tool for communicating policies, regulations, and benefits to employees. It sets expectations regarding performance and conduct, saves you time by addressing routine employee questions, and satisfies various regulatory requirements to communicate certain information to employees in writing.

It is important to create and maintain a customized employee handbook based on state and federal employment laws as well as the policies and procedures that are unique to your business, like dress codes and employee discounts. As a central source of information on guidelines, expectations, procedures, and benefits, your handbook can help ensure that all employees receive important information. A well-drafted handbook with up-to-date, compliant policies can also help protect you from certain employee claims.

MYTH: Small businesses don't need an employee handbook.

FACT: Business owners focus their valuable time on running their businesses but may not have thought about putting important policies and procedures in writing. Setting aside time to develop and communicate these policies can help you better manage your employees and recognize potentially disruptive issues before they take up valuable time and resources.

A tool like the **Employee Handbook Wizard in RUN Powered by ADP®** will walk you through the process of creating a customized state-specific employee handbook, allow you to host your completed handbook online, and obtain and store employee handbook acknowledgments electronically.

MISTAKE 3: **Improper Pay Practices**

The exempt vs. non-exempt classification will dictate an employee's eligibility for overtime pay and even certain benefits. Improperly classifying an employee as exempt from minimum wage and overtime can trigger pay violations, especially given the Department of Labor's (DOL) focus in recent years on auditing these violations. Fines and penalties for back wages associated with pay violations can be costly.

The DOL has released mobile apps that help employees track tips, commissions, bonuses, deductions, holiday pay, and other pay-related information. Now more than ever, employers need to make sure they are paying their employees in accordance with all applicable wage and hour laws.

MYTH: All managers are exempt.

FACT: Job title does not dictate exempt status. Very specific salary and duties tests must be met in order for an employee to be considered exempt. Keep in mind that most employees will be considered non-exempt and that very few will meet the strict criteria required to be exempt.

**Up to \$1,000:
the maximum penalty**
associated with each minimum wage or overtime pay violation.³



In 2013, a Cary, NC restaurant agreed to pay a total of **\$145,636** to 13 workers in money owed for unpaid overtime, tips and hourly wages.⁴

To help ensure employees are properly classified, develop and maintain accurate job descriptions using a tool like the [Job Description Wizard in RUN Powered by ADP](#). Once classifications have been established, review them regularly, especially as employees' roles and responsibilities evolve, to ensure proper pay practices and avoid costly fines. You can also contact the [HR Business Advisors](#) at the [HR HelpDesk](#) with additional questions.

MISTAKE 4: **Missing or Incomplete Records**

As a business owner, not only do you have to maintain business licenses and tax forms, you're also required to maintain certain employee information. Even if not required by law, maintaining thorough and accurate documentation in a secure and safe place is critical for supporting employment decisions, from hire to fire.

You should setup a personnel file for each employee that includes hiring information, such as a resume and employment application, as well as handbook acknowledgments, performance reviews, disciplinary notices and other employment related documents. Medical and other types of records, such as background check reports and I-9 forms, should be stored in separate confidential files where access should be restricted to those with authority and a need to know the information.

If an employee's personal information gets into the wrong hands, the employer may be exposed to potential claims by the employee simply based upon disclosure, regardless of whether or not the personal information was used to make an employment decision.

An accounting firm in Bluefield, VA consented to pay over \$17,000 in back wages and damages stemming from, among other things, failing to retain adequate records of employees' wages, hours and other conditions of employment.⁵

Use an online document storage solution, like [Doc Vault in RUN Powered by ADP](#), for storing important employee and business records. Online storage provides a centralized location for all your records, which can be accessed at any time and from anywhere. It can also help protect you in case of a disaster, like a fire or flood, which could otherwise destroy paper records.

MISTAKE 5: **Terminating in the Heat of the Moment**

The decision to terminate an employee should be made carefully. Not following proper protocol may result in legal claims from disgruntled former employees, diminished employee morale from co-workers who are left to pick up the slack, and wage and hour violations stemming from failure to follow final pay requirements.

In some states, employers are required to provide employees with their final pay at the time of termination. Final pay must include payment for all time spent working, and in some jurisdictions, accrued but unused vacation and other paid time off.

In 2013, the Equal Employment Opportunity Commission received **73,588 complaints** alleging wrongful termination based on a protected characteristic.⁶

Your Termination Action Plan:

- Speak with a certified HR professional, such as an ADP **HR Business Advisor**, to explore alternatives and understand the steps involved before you take action.
- Have a member of your executive team and, if applicable, HR review all termination decisions.
- Ensure you have the appropriate documentation to support your decision and that your decision is based on legitimate business reasons.
- Collect company-issued property, provide final paperwork, and document the reason for termination.
- Comply with all final pay requirements.

For more information, please call 877-623-7729 or visit the small business *insights and resources* page at adp.com

Sources:

- (1) Society of Human Resources Management, 2011 For Smaller Firms, Recruiting Costs Add Up, The Wall Street Journal Online <http://online.wsj.com/article/SB10001424052970203764804577056603280231204.html>
- (2) <https://www.adp.com/tools-and-resources/adp-research-institute/insights/insight-item-detail.aspx?id=45E48D12-269B-454A-9236-457EF2D7C41C>
- (3) <http://www.dol.gov/elaws/esa/flsa/screen74.asp>
- (4) <http://pulse.ncpolicywatch.org/2013/02/12/cary-restaurant-pays-workers-145000-in-back-wages/#>
- (5) <http://www.dol.gov/whd/media/press/whdpressVB3.asp?pressdoc=Northeast/20130212.xml>
- (6) http://www.eeoc.gov/eeoc/statistics/enforcement/statutes_by_issue.cfm - 73,588 complaints based on all Discharge complaints reported to the Equal Employment Opportunity Commission (EEOC) for each category in 2013.

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