

SMALL BUSINESS GUIDE TO HUMAN RESOURCE MANAGEMENT

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When you started your business, the first thing on your list probably wasn't what to do for your human resource management (HRM). You may have thought you could get away with not worrying about HR altogether.

But HR is the foundation of every organization. Since human resources are all about people — or your employees — it plays an integral role in making your business a success. After all, you have no business operation without the employees necessary to run it.

To make it easy for entrepreneurs to get started with human resource management, we've put together a guide to all things HR tailored to small business owners. Use this guide to simply gain a better understanding of HR or use it to learn how to effectively get your HR up and running and grow your business.

WHY IS HR IMPORTANT?

Human resources are the most valuable asset of any organization. If used properly, HR can be a competitive advantage to growing your business. For example, companies that are more focused on evolving their workforce are 1.7X more likely to meet financial goals and 3.5X more likely to retain high performers.¹



Not having HR can cause problems. Higher turnover, compliance issues, and lawsuits are the most common issues that occur when an organization doesn't have effective human resource management.

Turnover can cost an organization **33%** of an employee's total compensation.²

The average small business owner spends **\$12,000** a year dealing with compliance issues.³

Because of the risks associated with running a business and managing people, most business owners are aware of the importance of HR. The biggest challenge of HR for small businesses is understanding all that it encompasses and how to manage it in a cost-effective yet impactful way.

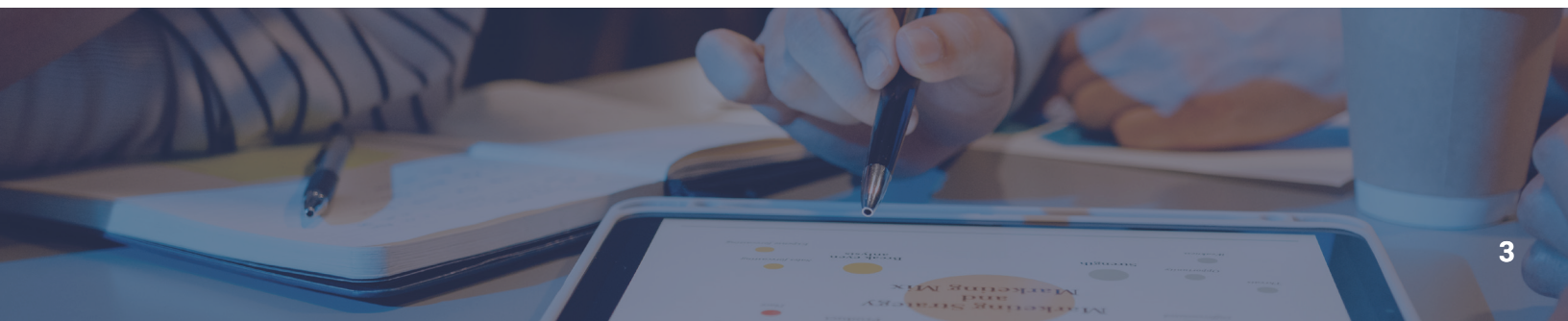
HUMAN RESOURCE MANAGEMENT (HRM) DEFINED

Human resource management is the formal system for businesses to manage people within an organization.

More specifically, HRM manages the lifecycle of employees from beginning to end (i.e., hiring, onboarding, training, termination). HRM is also responsible for the structure of your organization (i.e., culture) and crafting and communicating policies and procedures that maintain business operations and legal compliance.



The goal of human resource management is to acquire, develop, and retain talent to accomplish the company's objectives. It's also part of HRM's responsibility to optimize this talent to maximize company productivity. HR can't do this without aligning talent with the company's goals – which requires an HR strategy.



CRAFTING YOUR HR STRATEGY

According to the Society for Human Resource Management (SHRM), strategic human resource management involves a future-oriented process of developing and implementing HR programs that address and solve business problems and directly contribute to long-term business objectives. To craft an HR strategy, start by asking these questions:

1 Where are we now?

Any good business strategy starts with an assessment of the current organization. Observe what is happening in your business and why, particularly as it relates to your employees. Conduct a SWOT analysis of your current HR efforts – if there are any – to understand where gaps exist.

2 Where do we want to be?

Set HR objectives that align with your business objectives, mission, vision, and values. Think about what the future should look like in your organization and how HR will help you get there.

3 How do we get there?

This is where your HR strategy comes to life. Write out the HR programs and activities you'll need to complete under the corresponding business objective they're meant to support.

4 How will we know if we are on the right track?

Define your metrics for evaluating your HR strategy's performance (e.g. employee turnover, headcount, employee satisfaction, etc.).

Once an HR strategy has been developed, it's time to execute it. As a small business, you have options for how to manage your human resource efforts. You can either hire one or more HR professionals to manage HR internally, or you can outsource all of your HR to an HR partner – or you can use a combination of the two approaches.



Proactive vs Reactive HR Strategies

Learn more about how to improve your HR strategy

[Learn more](#)

EXECUTING HR INTERNALLY

To effectively manage all of your HR internally, you usually need an HR team, or at the very least one dedicated HR person on staff. As you grow and develop an HR strategy, look into hiring an HR professional who can do the following:

- ✓ **Administer** compensation, training, and benefit programs
- ✓ **Advise** and coach managers on recruiting and employee relations
- ✓ **Support** the documentation of staffing, training, and performance evaluations
- ✓ **Act** as a liaison between employees and management regarding company policies, practices, and regulations
- ✓ **Ensure** policies, procedures, and HR programs are consistently administered, aligned with organizational goals, and comply with professional standards and laws and regulations

Keep in mind, one HR worker can't handle everything. The duties above are a lot for one person to manage. Chances are, an HR person will be able to guide the strategy or support execution, but unlikely do both. Deciding which is right for you will depend on how much you're willing to pay for an HR professional and what additional support you may have.

The average starting salary for an HR professional is \$55,000.⁴ But to cover everything outlined above means hiring an HR professional with a bit more experience. An HR manager's starting salary is \$70,000.⁴ This salary doesn't include any legal expertise, safety consultants, or recruiting costs your business may need. Including that could put a total annual HR budget for staffing and resources over \$100,000.

Some small businesses may be able to afford the price tag and hire internal HR staff. However, there are disadvantages to this approach. HR expertise is expensive, employee-related liability and compliance concerns are 100% yours, and you or your HR personnel may not have enough time to focus on strategy when worrying about all the administrative HR tasks. An HR partner may be a better approach or a compliment to this option.



⁴ Payscale, median pay for HR in the Denver Tech Center, 2021

USING AN HR PARTNER TO EXECUTE YOUR HR STRATEGY

There are many benefits to using an HR partner. For example, if you find developing an HR strategy daunting, an HR partner can help with that. But they can also help you execute your strategy by taking on tactical HR responsibilities.

Many small businesses use a full-service HR partner to stand in as their HR team until they grow. Later, businesses may choose to hire at least one person internally to guide the HR strategy and partnership.

3 Benefits of an HR Partner:



SAVE COSTS

HR partners typically come at a lower or equal cost of an HR professional. But through their buying power, they also provide savings in other areas such as benefits and healthcare insurance.



STAY COMPLIANT

An HR partner can take on your business risk and reduce your liability by making sure you are compliant with federal, state, and local laws. As a business, one of the biggest challenges is keeping up with evolving labor laws. An HR partner with legal expertise can make this easier.







RELIEVE THE ADMINISTRATIVE BURDEN

HR comes with a lot of administrative tasks, processes, and paperwork. An HR partner can handle tactical responsibilities – freeing up you or your existing HR staff to focus on your HR strategy.

How to Evaluate an HR Partner

Not all HR partners are created equal. To truly leverage the value of an HR partner, look at whether they are:

			
LOCAL Local HR service providers are aware of local employment laws and regulations, your market, and often your type of business	CERTIFIED Have the IRS and Bonded ESAC accreditation	FULL-SERVICE Offer a breadth of services under one roof (e.g., payroll, workers' compensation, benefits, and healthcare insurance)	PERSONALIZED Have personalized customer service and a designated service team to support your HR needs

Further, an HR partner should be just that — a partner. Some HR services just push a platform and you never hear from them again. An HR partner will have technology and people dedicated to helping their clients.

To determine if a specific HR partner is right for you, ask these 3 questions:

1 Does the partner meet all of our HR needs?

You've gone through the effort of building an HR strategy and plan. If an HR partner doesn't align with your organizational goals, they're likely not a good fit. An honest HR partner will let you know if they think another option — such as hiring an internal HR person first or just outsourcing payroll — is a better choice.

2 Is the HR partner responsive?

Large HR service providers have a lot of clients and end up directing questions or concerns to a support team who will take days to get back to you. A genuine HR partner will have a real person who gets back to you that day. And a personalized HR partner can function as an extension of your internal team, making it easy to maintain insight and control of your HR.

3 Does the partner have internal HR expertise?

The whole point of using an HR partner is for their HR expertise. A well-seasoned HR partner will have staff members with ample years of experience and diversity, such as practiced consultants in benefits, workplace safety, and tax compliance. An experienced HR partner will also be a thought leader and answer your HR questions rather than direct you to additional resources outside their organization.



4 Signs Your Ready to Outsource Your HR

[Read more](#)

Because an HR partner can provide a lot, they may not be the right fit if you're only looking for someone who can manage your payroll or benefits. And if you only have a couple of employees or all of your employees are contractors – it won't make much sense either. An HR partner will be the best fit for your organization if your company is growing and has the resources to facilitate a partnership.

3 HR MISTAKES TO AVOID AS YOU GET YOUR HR UP AND RUNNING

Formally establishing human resources in your organization is an exciting step in the growth of your business! But as you can see, there is a lot that goes into human resource management. Before you get started, make sure you avoid these common HR mistakes small business owners make.

1 NOT delegating HR responsibilities

As soon as you hire your first employee, some sort of HR function is necessary. However, the first step business owners usually take with their HR is to handle it themselves. If this is you, we feel for you. It's a lot of work and responsibility to manage HR in addition to your business.

Research shows that 54% of business owners handle employment matters themselves – usually to save money. Personally managing HR is a mistake too many business owners make. Your time is more valuable when you're focused on operational matters. And as a business grows, HR obligations grow with it. If a business owner is managing HR, soon their entire time will be devoted to it – clearly not a successful long-term business strategy.

2 **NOT** hiring HR expertise

Once the HR responsibilities become too much for business owners to handle on their own, they look to delegate. While this is a good thing, whom a business owner delegates the HR function to is significant.

Handing responsibilities to another employee not versed in HR is another mistake small businesses make with their human resource needs. An administrative assistant, office manager, or secretary shouldn't be handling HR unless they have HR experience. It can quickly become overwhelming, take over their other job duties, and leave the business open to risk.

3 **NOT** realizing there is HR support out there

In some cases, small business owners have no idea that HR services exist to support them. As mentioned, many business owners don't start their company with HR in mind. But you have options when it comes to your HR.

It's totally up to you whether you handle HR internally, outsource all of it, or do a combination of the two. Once you realize there's HR support for your business, you decide when and how you'll take advantage of it.

WHEN YOU'RE READY FOR HR SUPPORT

Many small business owners and consultants agree that the time for HR support is when a business grows to 10 or more employees.⁵ At Obsidian HR, we find that any small business looking to grow can benefit from HR support regardless of its size. So whether you're 5 or 50 employees, here are ways Obsidian HR can support you:

- Securing & Offering Employee Benefits
- Handling Payroll, Compliance, & Legalities
- Managing HR Operations
- Onboarding & Growing Teams
- Motivating & Engaging Employees
- Training & Developing Employees
- Recruiting Top Talent

**Ready to get started?
Reach out to one of our
team members today!**

Contact us

⁵ SHRM How Small-Business Owners Successfully Delegate HR, 2018



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Follow us for more! We're constantly sharing information on how to be compliant with changing laws and regulations, hiring and retaining employees, and developing your HR policies and procedures.

