

Start-Ups and Staffing: Better to Plan to Get It Right the First Time



When you are launching a new company, staffing can be your greatest investment, and the decisions you make are likely to have a tremendous impact on the success of your start-up. Many small companies start with a small staff, a mom-and-pop shop with just family and a few friends. Other venture-funded startups go into their launch plan with a list of key employees that they need on board to get things rolling.

However, many entrepreneurs enter into their new venture without a clear [human resources plan](#). Having a plan doesn't just mean identifying key employees and decision-makers; that's easy. It means having an HR strategy in place that is both compliant with the law, and is designed to attract and retain the talent you need to succeed.

Before you sign on your first employee you have to have a plan in place. Can you differentiate between a contractor and an employee? Have you established protocols for payroll that are compliant with state and federal tax laws? Have you established [general policies](#) for your company that are consistent with your goals, core values, as well as with risk management "best practices"?

And what about benefits? Medical insurance is becoming increasingly expensive and important to employees; they will also naturally start asking about things like a 401K plan. Many fledgling employers say to themselves "well, that benefit is a good thing to have so I guess I'll add that" but the reality is that the old "standard benefits package" has become cost-prohibitive for many start-ups. For example, until your business reaches a certain size, implementing a 401K does not make fiscal sense. The 401K rules are complex, and costly to administer, and in most cases a simple IRA will lower fees and allow employees to put away up \$11,500 and you can set it up with an employer match just like a 401K plan, but without the administrative hassles.

Before you write that first offer letter, you have to establish your benefit policies: Who is qualified to receive benefits and what should your benefits package look like? If you don't have a benefits package in place at the outset – and most start-ups don't – then how can you make a commitment as to what you will and won't offer? If you over commit to your first employee, it can cost you a lot

of money down the road as you grow bigger. If you under commit, it will be harder to attract premium talent. You also need to determine who is eligible for benefits. Do you want to include part-time employees at what are your policies around that scenario? How do you gauge eligibility? Will you pay benefits during the probation period? If you set the terms out in advance, then you won't run into concerns or legal challenges later on.

Now let's consider how you want to calculate time off. Do you want to offer paid time off, sick time, paid holidays? What about accumulated vacation time? These trifles don't seem to matter when you are just starting out, but failure to set a clear policy during the hiring process can lead to legal hassles when an employee leaves and wants to be paid for accumulated vacation time he or she may or may not deserve. You will also need to establish policies regarding medical disability leave, including maternity leave, since creating these "as they arise" can lead to sticky precedent-setting situations down the road. Other time off policies around bereavement and time off for voting should also be decided before you hire your first employee.

Then there is the old 1099 versus W-2 trap. Many start-ups hire consultants rather than employees to fulfill key roles to save administrative overhead. After all, a salaried position can result in twice the cost of the actual paycheck when you add in taxes, benefits, and incidentals. So while hiring consultants on a 1099 rather than employees on a W-2 may look attractive, you have to make sure the consultants don't appear to be full-time employees. Make sure you have contracts that clearly state they are not employees, and make sure your contractors can truly be classified that way according to the state and federal definitions. With the passage of the [new health care bill](#), the definitions defining 1099 supporters are going to become more complex so you have to take extra steps to stay in compliance.

Your best defense is to think through your staffing needs in advance, document those needs, and make sure you have protocols and procedures written out in employment contracts, letters of agreement, and employee manuals. Even if you haven't developed all your HR materials in advance, having a written plan eliminates any guesswork. So if an employee comes to you looking for paid time off or a raise, you have a written protocol you can point to that covers all employees.

A little pre-planning with the help of some HR professionals will save you a lot of time and money in the long run. Trying to retrofit policies to compensate for ill-conceived procedures is much harder than just doing it right from the outset.