



*By Linda Jelinek
Senior Consultant
Blue Prairie Group
Linda@blueprairiegroup.com
www.blueprairiegroup.com*

Good afternoon, Everyone

Thank you for joining me today. I'd like to thank Lorman for the opportunity to share some of my knowledge and experience with you. Today, I will be talking about how to set up a human resources department. At the end of the session I will be happy to take any questions you may have.

To start, let me first tell you a little about my experience in human resources. I have been a generalist in HR for over 17 years, and was responsible for managing HR functions for the last 6 years. I am currently a senior consultant with the blue prairie group, a HR and investment consulting group based in Chicago.

My plan today is to take us through a practical process that hopefully will give you an outline on either putting an HR department together or refining the department that already exists.

Ok, Let's begin...

I think the best place to start is to figure out why the human resources department exists. I know that some will stay that we are here to cause frustration to everyone by making silly rules or by creating silly processes that add to the manager's workload instead of eliminating it. And you know what? Sometimes they are right! Not about the fact that the rules and processes are silly, but that it requires effort to manage people. After all, people can be unpredictable and no two people are the same.

But, if they manage correctly, then the rules and processes ensure that employees are treated consistently and fairly, that managers have a gauge in which to measure employee productivity, and your company will have an environment where people are engaged in the success of the business.

Sounds like a pretty tall order, and it is. So how do you get there? Human Resources play several roles in an organization.

- First, HR is an **advisor** to top management, preferably reporting to the CEO. Why the CEO? HR is intended to be an unbiased resource that provides counsel for the good of the organization. This can be difficult if HR reports into functional areas that have their own agenda. To be an advisor you must have a clear understanding of the direction of the business and what knowledge and skills are needed to get employees where they need to go. It also means that you will be in a position to advise management on the direction not to go. Don't let your senior management team persuade you to do something that is not for the benefit of the company. Your peers will respect you for having a clear direction.
- Offer sound, reasonable advice and stick to your guns! It's why you are there! Your senior management team will thank you – if not in the short term, then in the long run.
- The second role you will play is that of employee **advocate**. HR is many times the first stop an employee makes when confronted with a work issue or even a personal issue that affects work. You may be in a position to help, maybe not, but you should always be in a position to listen. In fact, should you be faced with a work issue that requires an investigation, you should do so promptly and discreetly. If you aren't sure how to handle an investigation, have either an external resource that you can call upon or take a class that will give you the tools to do it. I tend to think of human resources as part art and part science. This is one area that is science with rules to follow – and they need to be followed correctly.

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- For those of you in the service industry, you know that your front line employees are considered the **face of the organization** to your customers. Well, as HR people, you are the face of the organization to employees and prospective employees. Make sure that you have the tools at hand to show your prospects the best side of your business. If you are conducting an interview, make sure that your phone is either sent to another HR person or sent to your voice mail so that you are not disturbed. If you do not have an office, find a conference room or somewhere private to conduct the interview. There is nothing more unprofessional to a prospective employee than to give them half of your attention. Think about your external customers. Would you let one of your employees answer the telephone in the middle of a sales call? I would doubt that you would.

We've covered who HR is and the role it plays in the company. Now let's get into setting one up.

The first thing to do is to take inventory on what already exists. If you are a start up company, you may have very few, if any, existing programs or processes.

First consider **compliance**. We all have obligations for some compliance issues. For example, you will need employment posters – both federal and state. Do you have them posted? Do you have them posted in the correct place? You should have them in an area that is accessible to all employees. This can be in your breakroom or even in the HR department itself. If you work in a small space that doesn't allow for wall posters, make copies of all of the posters and place them into a folder that is accessible to everyone without requiring a manager to get them. Then, of course, make sure that everyone knows where they are!

Are you a government contractor required to comply with executive order 11246 by maintaining an affirmative action plan? If you have a government contract exceeding \$50,000 and have more than 50 employees you will need to have a process in place to ensure that you are tracking and reporting statistics on gender and ethnicity in your organization. More importantly, you will need to have a recruitment plan that considers all prospective employees equally and fairly and does not discriminate.

I recommend **putting together a compliance calendar** that keeps you updated on the timing of required filings and reports that you are responsible for.

You should also take inventory on whatever **HR processes** that you currently have in place. For example, how does your company currently handle vacancies? How do you collect hours worked information and how are people paid? Who is maintaining your employee data? Document each of these procedures then begin to ask yourself, and others, how each of these can be improved.

Once you have a handle on internal HR procedures, talk to employees outside the department to gain a better understanding of how the company is viewed by others (**organization culture**). What is working, what doesn't work? Do they like working at the company? Do they feel rewarded? Do they know how their job affects the success of the company? Also talk to your CEO. As the leader, he or she should be able to articulate the tone that they wish to set. Your job will be to figure out how to support their vision.

Speaking of vision, your company may or may not have a vision or mission statement. It's a great way to share both internally and externally how your organization operates and what it hopes to accomplish. I also suggest putting together value statements that give your employees a road map for conduct. For example, it may include a statement on ethics, or community citizenship. One warning – if you don't mean it, don't say it!

All companies have, or should have, a **business plan** to outline the short and long term goals. You should also have a business plan for HR that reflects many of the initiatives outlined by the other business areas. At this point, since we are just taking inventory, you should see if such a plan exists, either formally or informally.

For those of you with **union** employees, you will need to find out the details of the contracts. They should tell you about pay and benefits. You may want to include any action items on your compliance calendar to that nothing here is overlooked.

You have now taken inventory and have identified your current processes. The next step is to figure out if there is anything that needs to be done differently. I think the biggest consideration here is to take into account the direction of your organization. For example, are you in growth mode? Or are you expanding your geographic area? You will need to think to the future to make sure that you have processes that will accommodate the changes.

The best way to do this is to talk to your peers. Remember, in the advisor role, much of what you do is in direct support of the other business lines. The last thing you want to do is to put a process in place that doesn't support them.

It's interesting. Over the years as I have met with other senior managers and have asked them about their prior experiences with HR, those that have had negative experiences, and therefore don't always see the value, are those that had HR departments that were built around their own internal issues and not built to support the rest of the organization. To be successful in HR you have to remember that your customer is the employees and managers, and ultimately the shareholders, of the company.

I'd like to spend some time going over the details of each functional area of HR to give you an overview of the types of issues you should be addressing.

The first area is **compliance**. You should research the employment posters that you are required to have. If you don't know, the **department of labor** has a great website that can give you the federal and state postings that you will need to place in your breakrooms or common areas. As I mentioned earlier, your obligation is to make these available to all employees. You can use the nice laminated posters that vendors can sell you, or you can print out the posters from the website and have them on hand in a file. Again, if you don't post them, employees need to know where they are located and have easy access to them.

EEO-1 reports, vet 100 reports are annual reports that reflect your employee population by gender and race or veteran status. As I mentioned earlier, you may also be required to maintain an affirmative action plan for your organization. This document will be a statistical analysis of your employee population based on gender and race compared to census data for your geographic area. The document will also include an action plan that shows your good faith efforts in hiring and promoting minorities and women in job categories that are considered statistically underserved. If you are required to maintain an affirmative action plan, my best advice would be to talk to an expert to make sure that your organization has a sound plan.

Your benefits plans will also require compliance with federal laws. Cobra, the law that entitles health insurance participants and their beneficiaries the opportunity to continue their health insurance after certain qualifying events. HIPAA, or health insurance portability and accountability act, tackles several things, from employee privacy to certificates of coverage. My best advice to you is to talk to your health insurance provider to see if they will provide this service for you. Of course for a fee. Many of them will take care of these notifications at the time an employee enrolls or has a change of status.

Many of these reports require that you put information in a spreadsheet or share statistical information on a report. You should have some type of **technology** to help you organize and maintain employee information. If you don't have any type of HR database, you should investigate installing something. There are several products out there that are either web based or PC based that are reasonably priced and will save you time and money in the long run.

Next you will want to review how you are handling internal procedures. One of the most basic, and yet most time consuming in labor, is collecting employee data. We have: applications, resumes, EEO summaries, insurance forms, tax forms, I-9 forms, emergency contact forms, etc., etc.,. While some large organizations have electronic capability of collecting and maintaining employee information, most of us still use the old fashion method of paper. Needless to say, our desks can easily be overwhelmed with paper. The best answer that I have found is to have a system or checklist that you keep to be sure that all information has been collected. If

your managers are responsible for collecting some of the employee data, then give a checklist to them as well. I think most managers will be happy to help as long as they know what it is that they are supposed to be keeping track of.

You should also have a system for your personnel files. **The rule to follow for your employee files is that they should only include information that can legally be used for making employment-related decisions.** Employment decisions include hiring, firing, promotion, demotion, layoff and training opportunities. I like to use a file folder that has the two-hole punch at the top and has a divider in the middle. This will let you organize your file to have, for example, application and resume on one side, performance reviews and discipline actions on the second side, salary changes and payroll data on the third side, and paid time off records on the fourth side. I don't recommend a file that includes pockets since it seems to ask for you to put something in them that doesn't belong.

What are some of the things that don't belong in an employee file? Medical records or insurance forms, EEO information, i-9 forms or immigration records or wage garnishments. Why don't they belong there? Employment decisions cannot be made on the basis of sex, race, national origin, color, religion or veteran's status, so all documents containing such information must be kept separately! As a consultant, when I conduct file audits, I have to say that most employers are in violation of this rule.

I think that the most direct way that HR contributes to the success of the organization is in the recruiting or staffing area. It's certainly one of the main processes that your management team looks to you for guidance. Have a plan! The most basic element is the **job description**. These help clarify roles and they are also the basis for developing a salary structure. If your organization does not have job descriptions, or they are not updated, this will need to be addressed immediately. They will help you determine the skills and experience as you look for talent outside the organization or for promotions from within. They are the tool to help you determine which employees are exempt from overtime pay. They will create clear paths for employees that wish to advance in their careers. They can be the basis for determining whether or not someone is successful in their position. Let's see, what else do they do? Well, I think you get the picture, they are important.

There is no one format for job descriptions but they all should contain the job name, the department, the supervisor job title and the date created. They should have a summary of the position (which many times is used for advertising) and they should have the essential job functions. They should contain any critical skills or experiences that someone coming in to the position should have. Remember, these are minimum expectations.

Staffing is one of those areas where you will be advisor to the management team. They will look to you to help them source candidates and interview for fit. I have found that interview guides, or a preset list of questions, helps to keep interviews on track and makes sure that the same questions are asked of each candidate. This will give you and the hiring manager a level field so to speak when deciding on the best person. The interview guides are based on the skills and knowledge that you picked up from, you got it, the job description!

I'm going to address **benefits administration and payroll** together, since they are both very transactional. These are also the items in HR that everyone expects to be done 100% correct every time. You won't get the "thanks" when they are done right, you will only hear the "boos" when they aren't!

Whether you use a PEO, or professional employer organization, for this or not, you will need to have a system for collecting the forms and entering the correct information. You should have someone audit your work to make sure that you have input the data correctly. There's another reason why you should have this work reviewed – at least the payroll data. As a good practice from an audit perspective, and from this I mean internal audit, you should have anything that affects accounting and the financials reviewed by a second person. That way there is no question of improper billing or payroll.

Now on to the dreaded **performance management process**. You could hear the groans from managers from a mile away when that time of year came up. Employees would just be happy to know how much more they will

have in their pay check and not worry about having the conversation with their boss. But this is where the rubber meets the road. This is where your organization goals can be cascaded down to department goals which can then be translated into individual goals or activities. If this isn't how your evaluations are set up, you need to review them for changes. If your employees can't articulate what the company is striving for and how they are having an impact, then your performance management process isn't working.

Remember when I said that it takes effort to manage people? This is the most time consuming process for your management team. And yet it is also the most critical in what they do. I have seen too many people bogged down in the evaluation form and not spend enough time focusing on the purpose. If your form doesn't tell your employees what you believe to be the most important thing they do and will be accountable for, then throw it out and start again! The whole point of an evaluation process is to be able to provide direction, share successes and give constructive feedback on how an employee is performing their job and the impact it has on the company's success.

Does your form evaluate employee's appearance? Does it evaluate how nice they are or how neat their work area is? Unless their job is to be the neatest person in the company, then you are measuring the wrong thing. You are measuring something that is an everyday expectation and not something that will have an impact on the organization's success.

Most of my work experience is in the banking industry. We like to use numbers to add up the rating and cross reference this to a salary matrix. This is great, as long as we are measuring the right things! But when our evaluation form says that someone deserves a 4% pay increase because he dresses professionally, and doesn't address the missed service opportunities then we have picked the wrong thing to measure.

Don't be afraid to use your company goals as the basis for creating a performance management process. And be sure to have managers use "**smart**" goals. This is an acronym for **s**pecific, **m**easurable, **a**ttainable, **r**elevant and **t**ime based. If the goal includes these elements, an employee will have a very clear understanding of his or her expectations. In return, it should be clear what the reward will be if the employee is successful in accomplishing his goals.

These processes are what I call the blocking and tackling of human resources. These are the things that you will need create and maintain to have a basic human resources department. However, once they are in place doesn't mean that they will stay the same forever. As your organization grows and changes, you will also need to review your processes to make sure that they reflect how the company looks today.

Not only are the needs of employees and management constantly changing, the business is also changing. Jobs and the skills needed to perform those jobs will also continue to evolve. Check in with your management team to see if they have any issues that need your attention.

Which really leads us to the next question which is "**how well do you understand your company's business**"? Do you meet with your management team on a regular basis so that you know the issues that they are facing? It's a great start to have the blocking and tackling under control, but to really be an effective HR department you also need to understand the needs of the other business areas.

So get out there and find out what is happening with other areas of the business. Meet with your finance department and understand not only your budget but also what issues they are facing. Meet with the sales force and learn how they view the business and the customer. Understand the products or services that your company offers. You will need to know this if you are recruiting the right talent.

Meet with your operations team. Get to know how they feel about internal customer service.

Most important, meet regularly with your management team. Understand how they view the business and the direction that they are taking the company. Your business plan will in many ways reflect their objectives.

Speaking of your **business plan**. You should establish a plan that will take you out for the next three years. Why three years? Many of the objectives that you will set will span that amount of time. However, there are items you will accomplish in shorter time frames.

For the next year you should concentrate on short term goals. Three critical areas include compliance, staffing plans and performance management systems. This takes into account that you already have a payroll process and a benefits program. If you don't have these items, let's add them to the list.

I don't think that i can say anything more about compliance other than what I already mentioned. You are dead in the water if you don't have an understanding of what your compliance obligations are, so do your research and put together your calendar!

Staffing plans in the short term include creating job descriptions for your employees. I know that most employees like to think that they job they hold is unique in the company and I have seen titles that include programmer, systems designer, application engineer, and developer all for the same position within the same company! Create uniformity when you can and create titles and descriptions that potential employees will understand.

Put together interview guides and understand that employees, or most employees, are looking to grow in an organization. Do you have career paths? If not, you may lose your best employees to your competitor because they don't perceive an opportunity to move up.

Also on your short term goal list is your performance management system. While this can mean the form, i really am speaking about the process. How frequently will you be reviewing an employee's performance? Who will have the conversation and what will be measured?

If you are putting a process in place, and have given your employees a time that they will be reviewed, stick to your commitment! Don't underestimate the disappointment that employees feel if they believe that are going to be given a review and that review time is missed.

For your longer term plan, you should set goals on how you will use technology to make your life better! I know that spending money on an HR system may fall lower on the list of budget priorities, that's why I have listed this as a longer term goal. It also takes time to research vendors and, more importantly, know what you want for the system to do for you.

I really haven't discussed compensation or salary guidelines. If you are hiring on a regular basis, and you are not losing employees due to pay, then my guess is that you are paying salaries at the market rate. However, as you create career paths, you will need to start thinking about things like internal equity and rewards for significant contributions to the success of your company.

Incentive plans are wonderful things. If they reward the right results and behaviors then i think they are an essential part of your compensation plan. However, giving additional pay that isn't tied to a measurable result can be a dangerous thing. To give you a small example, an owner for a company gave to his employees one year a large bonus check at the holidays. He felt like the company was moving in the right direction and wanted to say thank you. The employees accepted the check and had a great holiday. The next year, when the company was doing well but hadn't significantly outperformed the year before, the employees were looking for their check and were disappointed that they didn't get one. "We got one last year, why not this year" they all wanted to know. The owner was very disappointed and a little angry that the employees didn't appreciate what they had gotten and couldn't understand why they should expect a check this year.

Well, both sides were reasonably upset. Neither one could figure out the motives of the other. I guess the message here is this: pay people fairly, reward them when appropriate, and always let them know what they need to do to get the reward. You can tie it to company performance, to department performance or to individual contribution. But always let people know what they did or need to do to.

Salary guidelines are good tools to help your managers as they review their employees to give them guidance on what percent increases that are allowed to give. Salary ranges can be helpful in establishing minimum and maximum salary for any given position based on external market value and internal equity.

If you aren't sure how to go about setting these up, the best advice I have is to talk to someone who has done this before.

Training programs on the surface may seem like they are the "nice to haves" in an organization. I would say that they are essential if your organization is going to continue to grow. Most companies can't afford to have their own internal training department. Many times training falls to the HR person. Whoever conducts the training is important but not the main issue. You should have a plan in place that gives your employees the tools to be successful and training is one of those tools.

I would break training into three components: product and service training, technology or systems training, and management or leadership training. If you have programs that address these topics, your employees will be armed with the skills and knowledge that they will need to be successful.

There are a few ways to develop a plan. You can use an outside resource to help you conduct the training. This can be fairly expensive but will put you in the position of managing versus doing. You can also provide training in house if you have the resources. I think this is most effective for product training. After all, who is the expert on your products?

Systems training and leadership training can be found for reasonable prices by using external resources. In fact, local colleges may provide group discounts for software training.

The final goal, but certainly not the least important, on your plan is **employee communications**. What does this mean? Many things. It includes your employee handbook, your internal communications such as your newsletter or your intranet website. If you don't have anything, I suggest that you put one together.

An **employee handbook** is the place to start. It should include your definitions of employment, your payroll practices, your standards of conduct and your benefits programs. I have seen so many off the shelf handbooks that are formatted in a generic fashion and don't even reflect the company's practices. If you are going to purchase off the shelf, be sure to tailor it to your company. Don't include rules that you don't intend on enforcing. The risk to a generic handbook is that you include a policy that you don't enforce or enforce inconsistently.

To summarize, to set up a human resources department can be a pretty daunting task. There are so many considerations. I hope this presentation gave you a roadmap to follow in getting started and a plan for continuous improvement.