

Top 5 HR Compliance Concerns for Small Business

As the economic horizon continues to shift and belts tighten, small and medium-sized companies — who typically have between 10 to 500 employees and represent 99.7 percent of all employer firms according to the U.S. Small Business Administration (SBA) — may wind up being so focused on core business issues that they overlook one of their most potentially serious and costly issues — human resource compliance. Unlike their large-company counterparts, they lack the time and resources to build infrastructure and processes that are beyond core business objectives.

But if entrepreneurs and smaller business owners are focused solely on growth and product, how do they know what issues to look for in order to protect the company? Let's look at the Top 5 HR Compliance Issues that they may face.

1. Exposure to Workplace Litigation Not Being Addressed

According to the Equal Employment Opportunity Commission (EEOC), race and sexual discrimination are the first and second most prevalent forms of workplace discrimination. But few businesses provide training regarding racial and sexual harassment, which opens the door to wrongful termination when employees leave their jobs.

Yet despite the possibility of being sued, small business owners are not addressing the problem head on. For example, only 23 percent of small businesses provide employment discrimination and/or sexual harassment training (based on a random survey of 300 privately held businesses conducted by Chubb Group of Insurance Companies).

Employee turnover contributes to employer liability by creating potential wrongful-termination cases. Studies show that a company's legal costs in a wrongful termination lawsuit can run up to \$85,000, and that winning plaintiffs receive judgments averaging \$500,000.

2. Current Benefit Regulations and Laws Not Being Followed

The cost of compliance with benefits regulations is often a bigger burden for small companies, primarily because the associated overhead expense is spread over a smaller workforce. According to a U.S. Small Business Administration survey, small companies spend up to 80 percent more per employee on federal regulatory compliance than large companies. Poor management of personnel-related tasks can make compliance even more costly.

For the small business owner who offers retirement and health and welfare benefits, keeping up with all the new regulations and changing laws can be daunting. The required tests must be conducted, plan provisions must be properly applied, required notices and documents must be provided to employees, and all required government filings must be completed. Plus there's the alphabet soup of HIPAA, COBRA, FMLA, and the rest to consider.

3. Multiple HR Policies and Procedures to Follow with No Qualified Guidance

For a small to medium-sized business, the human resource "department" is usually one person who wears many hats. This HR generalist may be responsible for compensation and benefits, HR management, labor relations, legal issues, staffing, HRIS, training and much more. Besides, keeping up with all of these tasks, thorough independent research often falls into the "nights and weekends" environment, which can become both costly and time consuming.

While a typical HR generalist may know a bit about everything, rock solid HR guidance is crucial given the constant presence and oversight of entities such as the Internal Revenue Service (IRS), the Department of Labor (DOL), or the EEOC. The old adage "ignorance of the law is no defense" certainly applies when a company is faced with an audit, an investigation by a government agency, or even litigation. This is particularly true when areas of concern include everything from compensation and benefits to staffing and workers compensation issues. An HR generalist who makes the wrong decision about a crucial employee issue — even something as simple as asking the wrong question in an interview — can result in significant consequences.

4. Paperwork Administration Results in Substantial Errors

With every new hire comes a mountain of paperwork. If a company doesn't have access to online services and must deal with hard copies, errors can multiply. Similarly, what happens when an employee enrolls in benefits? Payroll must ensure that the adequate deductions are made. When an employee undergoes a life status change and alters his or her benefits selections, benefits and payroll must be adjusted accordingly and within the legally required timeframe.

All of these administrative processes tend to "live" in different parts of the organization, and yet they're utterly dependent upon one another. At each step, when information is transferred from one HR process to another, there is a chance of error. Multiply this possibility by the number of employees and the reams of paperwork, and that possibility starts looking like a probability. When one area fails, the whole process comes to a halt.

Mistakes cause employees to focus on the errors rather than appreciating the benefits that HR delivers them. Many employees don't realize how much money a company spends on employee benefits. The costs are staggering and can easily reach between 5 and 10 percent of an employee's salary, depending on coverage options. So instead of saying how great it is to get top-quality benefits and flexible spending accounts, employees are complaining that the wrong deductions were taken out of their paychecks. This type of negative "water cooler" conversation can spread rapidly.

5. HR Functions Not Being Coordinated

As demonstrated above, in order for the correct amount of deductions for benefits to be taken out of an employee's paycheck, accurate information must flow to and from payroll. Payroll data and benefits recordkeeping need to work in sync. Otherwise, payroll deductions can be wrong. When that happens, employees notice and valuable time is wasted to implement corrections.

If different vendors are employed for the payroll and benefits recordkeeping function, the small business owner is the one who must ensure that everything is coordinated and running smoothly. This entails fielding calls back and forth from the vendors, while trying to understand the technicalities of the different systems.

But what about using one of the myriad of payroll software now available? Having the right software still does not address the need to integrate the payroll and benefit functions. So now, in addition to making sure the software runs correctly, owners still need to communicate and transmit the information to their benefits record keeper. On top of that, the payroll software must be continually upgraded.

Getting Help

Many of these landmines can be avoided with a little careful advance planning, and most importantly, by seeking outside help. Many small businesses work with an outside HR consultant or a lawyer who specializes in employment issues. TriNet provides several HR services for smaller companies, including payroll and benefits administration, as well as assistance with many aspects of employer-related risk management and compliance.

Whichever option a small business owner chooses, he or she faces the obvious need to let qualified experts provide strategic guidance in regards to these issues. The return on investment for taking precautions against running afoul of the law is not only in the prevention of costly errors, but in the satisfaction and productivity of the entire workforce.