Problems that New CEOs Face

Advice on how to handle business and personal issues

Hiring, Organizing and Sharing

Hiring People

The most valuable resource of any company is the employees. The time and financial resources required to recruit the best and brightest are huge. So, when I see large turnover rates at companies, this tells me that employees are not important here. Why is this happening?

I have seen companies so desperate to hire the right person, especially when there are other competing companies, they will over promise on the job description. “What do you want me to do?” “I don’t know – how about anything you want to do?” “What will you pay me?” “Whatever I can get the customer to support.” “How much stock do I get when I join the company?” “I don’t know yet – just sign here.”

The thousands of dollars it takes to hire just one employee is a major investment, especially for small businesses. This cost is even more expensive if you use a recruiter (who takes their fee for finding the right person out of your profit – as much as 30% of the new recruit’s first year’s salary). So, hiring right and hiring smart is critical to every business. Here are a few tips to help you.

First of all – know exactly for what you are looking. Have you taken the time to write a very thorough job description that accurately describes in detail what this person will do? Is this position reflected on the company organization chart (more about this in the next section), and does it show the reporting relationship of who reports to whom in the organization? Do you have the entire compensation package planned – salary, bonus, possibly stock, benefits, retirement, training, education, etc.?

If you do not take the time to make sure that you have all of these various pieces in place, you are guaranteed to have an unhappy new employee in your company. New employees who believed they understood how the benefits package worked, but find themselves being “nickel and dimed” by unplanned benefit expenses will soon feel that their new employer was disingenuous with them when they were negotiating for the position. Employees who feel this way will leave – but only after they have managed to poison the company’s reputation with all of their friends/customers. Your chances of recruiting from any disgruntled employee’s “circle of friends” will be slim, and you may suffer from an invisible negative “whisper campaign” in your business community that will keep people from joining your corporate ranks. Once you have a bad reputation in the business community – this will take years to repair, no matter how hard you try or what remediation programs you put in place.

Recommendation: When you hire someone. Make sure you have all of your hiring requirements in place, and fully understand what you are offering in salary and all other benefits. If you do not have a complete understanding of this, you should not hire anyone. If you do, you risk having your business reputation ruined.

Why an Organization Chart?

The importance of having an accurate organization chart is discussed in a number of management books. My favorite, which I recommend every new entrepreneur read, is Good to Great. This book addresses hiring the right people to put on your business "bus". It also discusses how you, the CEO, need to fill out the organization chart for your company, and complete accurate and thorough job descriptions for each of the positions on the organization chart. Once you have your organization planned, drawn on a chart and have completed job descriptions, then you can begin hiring your key people – and they will know what is expected from them. I can't agree more.

I know companies that have no organization charts at all. Per their CEOs, everyone is supposed to know their role in the organization. Unfortunately, these companies have employees who do not know their roles and responsibilities. Instead, since they are equally tasked by the customer and the CEO, they try to keep both happy without understanding how their position fits into the overall corporate strategy. They see no clear career path. How do you get promoted and into what position? It is human nature to want to know the roles and responsibilities and how you fit in the organization. This is why you must develop the corporate organization chart before you develop the corporation.

Recommendation: Develop the organization chart for your company that represents what your company will be in the future. Take the time to make sure it is accurate and there are thorough job descriptions for each position. At first, put your name in each box on the chart. This is the roadmap to your corporate future, and will allow you to accurately convey to employees what their roles and responsibilities will be in the organization.

Equity Sharing – what Percentage?

Many people have gotten rich by selling their businesses. Other key people inside these companies also got rich since they were shareholders. But, as the owner of the business, how much should you give away to marquee employees?

There are a number of rules regarding corporations and stock (this assumes that you have either a C-type, or S-type corporation). If you are a limited liability corporation, LLC, what is the percent ownership of each of the LLC partners? The bottom line for most businesses - ownership is a percentage game.

If you start a corporation or LLC, you may be the 100% owner. If you decide to start a woman, disabled veteran, minority, etc-owned business, there are rules. A majority of the stock, or ownership, in the company must be retained by the person who gives the company its special status.

Regarding stock ownership by employees, I recommend that no more than 5% of the company be given away to any employee. Stock ownership should be distributed over an agreed period of time (say 3-5 years) and tied to corporate performance objectives. For example, if a key employee is able to bring in X millions of dollars, or Y%, of new business in Z years they will receive 1%. For each additional X, Y or Z (as you write in a very easily and clearly understood agreement), this employee will receive another specified % until they reach 5%. At the time that a single employee owns 5% of the company, and if your business is wildly successful due to the efforts of this employee, you will want to renegotiate the agreement to reflect more ownership in the company, or larger cash bonuses. Be careful that your employee stock/ownership agreement is clear and specific so you can manage their expectations. If there is a “misalignment” in interpretation of the agreement, your marquee employee may quickly become your competitor when they leave your company and move down the street to work for a much more generous and understanding company.

Have enough stock available to entice a reasonable number of key people. Small businesses may decide that they only need a limited number of stock shares (say 10,000) for their needs. But if you give employees 5-100 shares of stock, they may feel that this isn’t a generous offer on your part. If you have 10,000,000 shares of stock available, you can give out thousands of shares of stock, and this may seem more generous on your part, even though it may represent less of a percentage in ownership in the company. Be careful to have enough stock for your future needs, and do not issue additional stock, diluting ownership to earlier recipients. This will be interpreted as bad will on your part to these shareholders.

Recommendation: Using stock or company ownership as an incentive to attract and retain key employees is an excellent idea, as long as you have clearly written and understood agreements in place, and stock awards are tied to personal and corporate performance. Do not give any one employee more than 5% ownership in your company.

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