

Before You Hire Your First Employee

First assess the implications of putting workers on payroll. Then limit future legal headaches by creating an employment policy

By [Karen E. Klein](#)

I own a professional services firm where [I have] a team working with me part time on a per-project basis. They all have other full-time jobs. I would like to get to the stage where I can hire two to four employees full time, but I'm wondering how and when to do that. Can you share some advice and ideas? — W.M., Riyadh, Saudi Arabia

The decision to move from self-employed to employer is among the most important a business owner must make. The added cost of employees can swamp a young company, particularly in an economic downturn or if there's a sudden decline in business.

The most cautious strategy would be to wait until demand dictates that you must hire—because, say, you are routinely turning down work—and when you do, hire people who add to your bottom line, such as sales or administrative employees.

It is frustrating to work exclusively with “sidepreneurs”—people who leverage expertise from full-time jobs but can never make your projects their top priority, says Rhonda Abrams, president of [PlanningShop](#), a Palo Alto (Calif.) publisher, and author of *Successful Business Plan: Secrets and Strategies*. “I’m in a similar situation, and it’s very difficult when you can’t even schedule a meeting with all the people you need, because one’s available only at noon and someone else is available only on Tuesdays,” she says.

LOSING FLEXIBILITY

But once you move from independent contractors to employees, you're "changing your business model from variable-cost, low-regulation, and highly flexible to fixed-cost, highly regulated, and somewhat inflexible," says Derek Alderton, a business consultant and lecturer at the UCLA Anderson School of Management. At least in the U.S., employers must meet a host of tax and labor requirements. And it would be far more difficult to lay off an employee if your projects were to dry up.

Here are some exercises to help you plan:

- 1. Calculate financial impact.** Familiarize yourself with laws and costs that apply to employers in your country. Be sure to include "not only their direct salary or wage, but also the employer share of taxes, insurance, holidays, and vacation time," says Gene Fairbrother, chief executive officer of [MBA Consulting](#) in Dallas. "At the very least, get your CPA to show you what last year's financial results would have looked like if you had been complying with all the costs and regulations for employees, rather than project contractors," Alderton says.
- 2. Consider alternatives.** Could you hire student interns, temps, or part-time employees as a way to test the waters? "An intern or recent graduate can be hired full time per project or for a set time with the possibility of full-time employment depending on the growth of the firm," says Philip Moorcroft, president of [MGPS](#), an expense management consulting firm in Toronto. Bringing in a temporary employee or hiring a contractor as a part-time employee could increase the attention paid to your projects, minimize your costs, and allow the contractor more time to expand his or her moonlighting to make up for lost wages.
- 3. Make realistic projections.** "When you're working on a project-to-project basis, you don't know how long things are going to last," Abrams says. "Look over your existing contracts and see how many are ongoing, or could become ongoing. Then hustle to get signatures on proposals so you will be more confident about the future."

If you want to expand your company, at some point you will need to bite the bullet. "The virtual company goes only so far," Abrams notes. When you do hire, start slowly and be ready to deal with fallout from your existing contractors,

Alderton says. “They will rightly perceive the new employee as being a threat to their own incomes or choice of desirable projects.”

Even with just one employee, you should create a manual that states your employment policies in writing, Fairbrother recommends. “Having your policies in place could save you considerable confusion and headaches later on, including legal costs if an employee or ex-employee challenges you,” he says. Search for sample employee manuals online or buy software that allows you to develop your own handbook. He recommends Nolo Press’s [*Create Your Own Employee Handbook*](#).

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