



## HR DEBT: HOW IT BUILDS UP AND HOW TO PAY IT DOWN

# We all know what debt is. You solve today's issue by making it tomorrow's problem.



**94% OF EMPLOYEES SAID THEY WOULD STAY AT A COMPANY LONGER IF IT INVESTED IN THEIR LEARNING AND DEVELOPMENT.<sup>1</sup>**

**But how can there be debt in a workforce? Or debt in morale? It's not as clear-cut as an auto loan, but a workplace can accrue what's known as HR debt.**

Unlike the black-and-white clarity of financial debt or the software compromises that create technical debt, HR debt is more nuanced. It's a form of interpersonal, personal or even psychological backlog, or debt, that can carry a **real financial cost** for institutions.

Borrowing in this sense can result from insufficient conflict resolution, unresolved HR complaints, and poor HR record keeping. And the interest rate can be quite high. By taking the easy route today, HR teams and companies can face **high turnover and poor team performance** for years. In this article, we'll dive into what HR debt is, how to manage it and how to address it.

## **CAUSES OF HR DEBT**

HR debt can build up from a variety of weaknesses in a business. For startups in particular, **HR issues** can cause large stumbling blocks as businesses try to scale. Let's look at some of the origins of HR debt.

### **Poor HR processes**

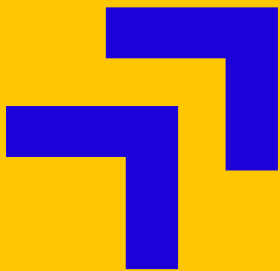
**HR processes** like onboarding, training, performance appraisals and off-boarding are all key to the success of a company.

If a company doesn't establish a standardized training protocol, new employees can feel thrown into the fray. **Without a structure** in place to handle feedback and complaints, employees won't feel their voices are valued in the long term.

A company might save time and money—in the short term—by handling performance appraisals in an informal, ad hoc manner. But it can make **employees feel undervalued**. When they leave for greener pastures, it causes even more of a headache for HR to fill their roles.

<sup>1</sup> LinkedIn, "2020 Workplace Learning Report" (2020),

**A COMPANY CAN MAKE BETTER DECISIONS ABOUT RAISES AND PROMOTIONS WHEN IT COLLECTS PEER FEEDBACK AND PERFORMANCE REVIEWS.**



### **Lack of HR data and analytics**

The lack of HR data or analytics is often at the heart of HR debt, as most systems and HR processes require data. The lack of data can hinder an organization's ability to make informed decisions about their workforce. Without access to relevant data, HR departments may struggle to identify trends or patterns in their workforce, such as high turnover rates or skills gaps. This lack of insight may make it difficult to develop effective strategies to retain employees or identify areas for improvement in recruitment, training and DEI (diversity, equity and inclusion).

On the other end of the scale, properly handling a disruptive team member is challenging for anyone; this is another reason why HR needs to work with facts, collected as data. If a problem employee needs to be dismissed, you can't look at the non-existent records on that employee. Had the company established the necessary policies, protocols and collected data about that employee, it may be easier to address certain HR issues such as: How many complaints have come in about the employee? How were those complaints addressed? Did the employee's performance change after the intervention? Instead, valuable time and resources will have to be spent investigating this crisis. Another example of HR debt.

As we know, HR isn't all about complaints. We could tell a similar story to show how **data collection and analysis** helps award employees with good records. A company can make better decisions about raises and promotions when it **collects peer feedback and performance reviews**. Beyond the individual, it can be vital to track different teams' efficiency within the organization. Are they consistently late with their deliverables? Or are they ahead of schedule? Keeping tabs on details like this also can help as an organization grows.

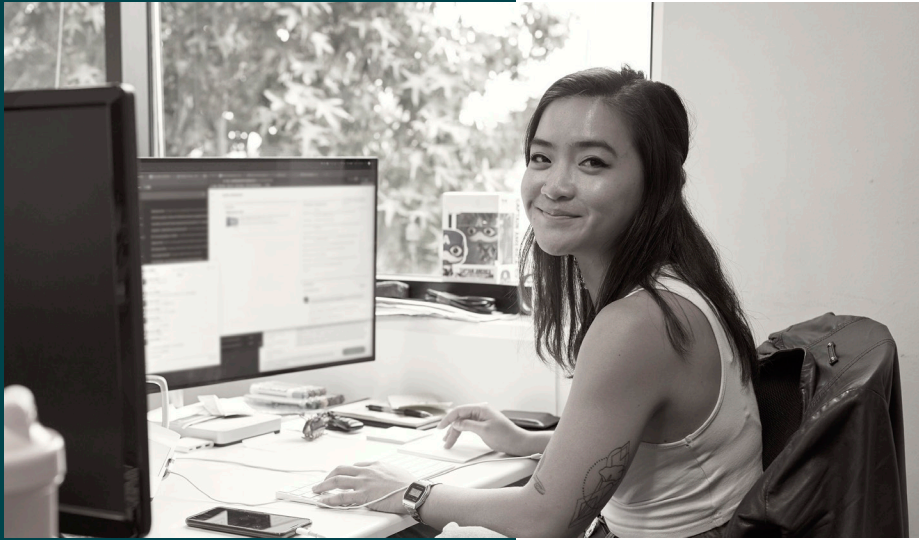
### **Poor communication between HR and management**

Where is the business scaling to? What is the five-year plan? How do we intend to make our institution's goals a reality?

If HR doesn't know the answer to these key questions, it can't help as the business scales. **The HR department** can be essential in identifying areas of instability or potential growth. And if the organization does require a massive reshuffling, HR can do much of the heavy lifting.

We want to reward our most innovative and hardest-working employees and encourage them to stay and grow with the institution. When a company's leadership develops **regular, formal communication** with HR, it helps to expand internal routes for career development. Paying now to establish these communication channels, instead of taking on HR debt, helps a company to **keep its best and brightest**.

HR debt can have a profound impact on an organization's productivity, from top executives to the entry-level worker.



### COSTS OF HR DEBT

Unlike monetary debt, costs for HR go beyond simple “interest.” It’s more nebulous and harder to add up. Problems that go unaddressed in one area of an organization lead to more problems elsewhere. For example, one toxic employee can **turn work into torture** for everyone and potentially result in claims, costs and damages.

#### Loss of productivity

HR debt can have a profound impact on an organization's productivity, from top executives to the entry-level worker. HR debt requires time and attention from management to resolve. If management is constantly dealing with HR debt, they may be distracted from other important tasks, such as strategic planning or overseeing operations.

It also creates an administrative burden for HR staff as they deal the inefficiencies creating a backlog on their regular workload. This often may include delayed hiring, lack of proper employee development and on-boarding, which amplify their own sources of lost productivity.

Employment-related legal and HR compliance issues from HR debt, such as discrimination or harassment claims, may also arise from HR debt. These issues can be costly and time-consuming to resolve, taking away resources that could be used for more productive activities. HR staff may not have the time or resources to keep up with the changing HR laws and regulations. This may lead to non-compliance and may lead to fines, lawsuits, and other employment-related legal issues, which can be very costly and time-consuming.

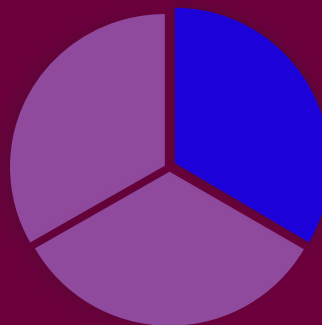
Finally, HR debt can create the self-propagating cycle of low morale, which leads to employee disengagement (“quietly quitting”) and eventually to absenteeism and ultimately increased turnover. Employees who feel their concerns or well-being are not being addressed are less productive and may be more likely to leave the organization.

Top-performing employees who become disengaged may become more likely to leave. These employees are likely to have higher expectations and standards for their work and workplace, and when they become disengaged, they may feel unfulfilled or undervalued. Moreover, top-performing employees often have a stronger sense of their worth and may be more confident in their ability to find new job opportunities if they feel unhappy in their current role. They may start to look for other opportunities that better align with their needs and goals.

#### Negative impact on employee morale

If HR can create a **safe environment** for employees, they might feel empowered and comfortable enough to start offering suggestions and complaints. Through that process, they could feel more respected and heard. If they see the company responding to their input, trust develops.

What if a company doesn't take the time and effort to create a safe environment? If there's no **workplace culture** of sharing safely or trust in HR, discontent might be vented in unhelpful ways. Keep in mind that an unsafe environment or a toxic employee could result in unlawful conduct that may lead to claims, penalties, attorneys' fees, settlement costs, or damage awards that can be significant. Failure to provide employees with a complaint



**MORE THAN 1/3 OF WORKERS WOULD PASS ON THEIR PERFECT JOB IF CORPORATE CULTURE WAS NOT A FIT.<sup>2</sup>**

process that timely and thoroughly investigates those complaints and takes appropriate action can also result in violations of employment laws and regulations.

Of course, we want our teams to have social cohesion. We want them to be friendly and productive and feel socially satisfied by the collaboration they engage in. Confronted with a difficult coworker, employees' frustration will mount. It's only natural. Which company do you think will be more successful? The one that has channels for relaying frustrations to human resources in the form of **reported, trackable complaints**? Or the one that has built up its HR debt and left its employees to work things out on their own?

### **Financial losses due to turnover**

Left unchecked, dissatisfaction eventually leads to **high turnover rates**. This, in turn, can cause financial losses. It costs more to bring in a new employee than keep one on board. Plus, a company that loses high-performing employees while keeping malcontents and **bullies** is on a dangerous path.

This is where the **interest on HR debt** really spikes. With constant staff overhauls, HR must play a catch-up game of scouting, hiring and **onboarding**. Clients don't know who to contact and they begin to wonder how the turnover will affect the quality of your product or services. New contracts may not come in the way they used to.

And your HR debt is further multiplied by the effort required to hire and train new staff.

### **STRATEGIES FOR REDUCING HR DEBT**

Once a company recognizes its HR debt, it can begin to take steps to **wipe it out**. Here's a look at different strategies.

#### **Invest in data-driven HR processes**

Again, **data changes everything**. Although someone mired in HR debt may need to wade through a backlog of data, it's well worth the effort. It'll inform best practices, empower high-achieving staff, justify letting go of poor-functioning staff and alleviate HR burdens.

HR can use data to identify the most effective recruitment channels and analyze candidates' resumes to make more informed decisions and predict which candidates will most likely be successful in a particular role. This can help HR teams to invite to interviews and to select the best-fit candidate for the job.

HR can use data to help identify top performers and catch red flags early to retain employees. It is also useful to gauge ongoing employee sentiment and uncover where and how your employees may be struggling. This can help you diagnose causes of attrition in order to help reduce turnover and absenteeism. HR data can also provide insights into diversity, equity and inclusion in order to help create a more supportive workplace culture.

<sup>2</sup>Robert Half (2019)

## Teamwork between HR and management can be invaluable for resolving internal disputes.



Equitable compensation ranks high on the list when it comes to how employees decide whether or not to separate from a company. Collecting data from a pay equity review on an annual basis, preferably with the assistance of outside counsel, may collectively impact culture, the employee experience and retention.

In short, HR data can improve the entire employee journey from 'hired to retired.' A positive, productive employee experience and engagement is important for talent attraction and as a retention tool. Most HR functions collect employee data in silos, but HR teams should consider an integrated view of the "hire to retirement" employee journey to improve the employee experience. It requires work, but it is possible.

Best of all, there's an array of providers to help you with this process. From payroll processing to onboarding, TriNet offers comprehensive HR solutions. Leveraging HR data can help HR department to focus on bigger-picture issues and visions.

### Improve communication between HR and management

Teamwork between HR and management can be invaluable for **resolving internal disputes**. It's critical that behavioral issues within staff are addressed swiftly. As we said earlier, serious issues can arise when HR and management staff aren't in **good communication**.

HR is often the communication connection between employees and executives. This helps management and employees make better and more informed decisions on how to grow the organization. It also helps everyone align with company goals and achieve its objectives.

When HR is the trusted advisor to leadership, it can make significant leaps to the organization's growth. By building trust in internal communications, HR offer employees

first-hand, accurate, and reliable information about wages and benefits, organizational policies and rules, company news, and other vital HR issues to support a positive company culture. This helps management and employees make better and more informed decisions on how to grow the organization. It also helps make sure everyone is aligned with company goals.

HR communication can increase employee creativity and motivation by engaging employees, maintaining good company culture, and boosting both the individual employees and the organization. This can keep employees connected and lay the foundation for future growth and success.

Good communication can improve employee creativity by up to 93%, which can, in turn, contribute to improved productivity.

By creating more consistent dialogue between the HR department, employees and management, both **small and large-scale issues** can be addressed.

### Develop a culture of continuous learning and development

Stagnation is one of the worst feelings in a work setting and is a **precursor to burnout**. A key piece of job satisfaction is engagement. Are staff being challenged? Do they have the means to develop themselves and continue learning within their career?

Even if an organization has limited opportunities for **career advancement**, employees can still feel like they are growing. HR can accommodate this by setting up training opportunities, seminars and even collaborations with local educational institutions.

## HR Solutions for Today's workforce

Lean on a reliable ally to guide you through employment-related issues so you can minimize future HR debt. With TriNet, you have a proven foundation of HR expertise, access to benefits, risk mitigation, compliance, payroll and technology.



### BOTTOM LINE

HR debt may occur when companies skip the work of creating important data-driven processes. It can cause **interpersonal issues** in a workplace to fester. Problems can build up. Risk exposure to claims and significant costs can increase. Good people leave in search of better treatment and clearer opportunities. And when those people find new employers, the stories they tell about your company will not help your reputation.

The reality of HR departments is that they're constantly facing **new HR-related issues and company needs**. If there's an issue with payroll processing or timesheets that needs addressing immediately, they might be tempted to put old employee complaints on the back burner.

With so many moving pieces and piled-up problems, getting out of HR debt can be daunting. This is why TriNet offers **overarching HR support**, from time tracking and benefits administration to document management and talent retention. We help small and medium-size businesses by providing HR best practices and guidance so the businesses can manage their HR debt with healthy growth.



## About Us

TriNet (NYSE: TNET) provides small and medium size businesses (SMBs) with full-service HR solutions tailored by industry. To free SMBs from HR complexities, TriNet offers access to human capital expertise, benefits, risk mitigation and compliance, payroll and real-time technology. From Main Street to Wall Street, TriNet empowers SMBs to focus on what matters most—growing their business.



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