Tallwood Venture Capital

Human Resources Best Practices

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Human Resources Key Tasks

	Formation – Series A	Series A	Series B+
	Employees: 0-5	**5-50**	**50-100**
Compensation	• Establish a stock and salary guideline based on Series A funding budget for both. • Develop a stock "budget" based on the headcount plan through Series B.	• Track the stock and salary budget. • Review stock and salary twice a year (or more frequently if the headcount grows quickly) to ensure internal equity. • Identify an external appropriate benchmark to remain competitive. Review salaries and stocks against the benchmark. • Modify the stock guideline if the value increases based on milestones.	• Generate a new stock guideline based on Series B valuation, risk assessment, and business phase (volume production, for example). • Continue periodic review of external benchmarks for all positions. • Generate a sales compensation plan if appropriate. • Review total compensation IF the company is profitable. Consider a bonus plan.
Benefits	• Identify a health insurance broker to support the company from formation through Series B. • Implement a Basic Benefits Program, including: health insurance, dental, vision, 401(k), Section 125, and disability.	• Evaluate benefits and the cost at renewal time, once a year. • Track and evaluate employee feedback on the benefits package and support; make changes/additions accordingly. • Keep the same package if the level of satisfaction is high.	• Evaluate benefits and the cost at renewal time, once a year. • Consider a 401(k) corporate matching plan if the company is profitable. • Consider a "cafeteria plan" if the cost is equivalent to a fixed plan.
Staffing	• Develop a headcount plan through Series B, based on the business plan. • Develop a recruiting and hiring process. • Develop a recruiting/staffing budget.	• Establish a resume tracking and documentation system for all recruiting activity. • Evaluate cost per hire against the budget. Evaluate resources and the productivity of resources; make changes accordingly.	• Evaluate staffing resources requirements and consider an internal full-time resource if headcount grows at a steady pace. • Evaluate staffing success based on retention and the quality of hires. • Review/improve the staffing process if HR issues are increasing.

	Formation – Series A	**Series A**	**Series B+**
	Employees: 0-5	**5-50**	**50-100**
Organizational Development	• Define roles for founders and executive staff (founders and non-founders). • Discuss fundamental values to establish the cultural foundation for the company. • Provide coaching for founders and new executives with an external consultant, especially if there is no previous experience building a company.	• Develop a performance feedback process that encourages frequent (quarterly) communication with all employees. • Define all roles in the organization, modifying them as required by the business plan in a growth phase. • Define a corporate communication process that includes company-wide as well as departmental and one-to-one meetings. Execute on the plan consistently. • Provide all employees with training on "change management" and corporate policies (e.g., sexual harassment). Provide managers with training on hiring skills, compensation management, and achieving peak performance.	• Assess HR requirements/needs and determine the need for a full-time VP of HR. • Provide all employees with an individual development plan based on interests, aptitudes, and value to the organization. • Develop a training program for the whole organization that will address individual development, starting with the executive staff. • Establish a training budget, primarily on a cost-per-employee basis. Consider also the recruiting budget and balance these two requirements.
Administration	• Hire a HR Administrator. • Set up a HR documentation system (both automated and physical) based on the legal requirements for personnel record keeping.	• Audit records periodically (twice a year) to ensure legal compliance and discipline on the maintenance.	• Maintain records.

Chapter 1: Staffing

Staffing Definitions

Staffing is the process of hiring people. The process consists of four basic steps: (1) defining requirements; (2) identifying qualified candidates or "sourcing"; (3) interviewing and screening; and (4) closing. A critical fifth step is that of "integrating" employees once they are hired; this is better addressed in the GDT section of this guide.

Headcount Plan: A matrix that determines the number of employees that need to be hired during a period of time, typically in a year or between series of funding. The matrix is compartmentalized by function and by quarter, reflecting what the founders and managers have determined is required to reach the business objectives during the period. Headcount plans are a reasonable tool to measure progress on a regular basis, as well as to reassess the original plan as new information becomes available to the company.

Hiring Manager: The individual ultimately responsible for hiring. Whether it is initially the founders and executives, or second-level managers later on, it is critical to clearly identify the hiring manager and convey full accountability for results or lack thereof. In the same way that managers are responsible for completion of projects, hiring is a responsibility to be managed and completed.

Job Description or Specification: This document specifies the requirements for the position(s) at the company. It includes the skills and qualifications required, level of experience, education, and the specific role/job definition. Many times a start-up company will seek several individuals with very similar backgrounds and experience (IC designers, for example) to develop different blocks or participate in the development process at a different phase. In this case, the "qualifications" are similar, and, depending on the level of experience and/or talent, the person will be targeted to work on a different part and/or block. It is critical to keep in mind the potential talent of each candidate, assigning the years of experience as an appropriate weight in the overall evaluation. Raw talent might be of greater value to the organization, depending on the complexity of the problem and the overall team intelligence. A job description is a framework or "base", designed to be flexible and fluid as the team is built. See Sample Job Description in the Appendix.

Recruiting: The on-going process of exposing the company's start-up opportunities to talented individuals and attracting them to join the company, based on a plan or opportunity hire.

Staffing Process

The following is a typical staffing process. As a "process", it can be safely assumed that skipping steps can result in management challenges at a later date. This doesn't mean that the steps have to prevent an expedient flow or impede the decision-making required to meet the aggressive schedules in a start-up. All processes executed in a start-up have to meet key requirements; they must be: needed, flexible, traceable, and results-oriented. This process needs to be managed and monitored by the hiring manager; initially this is done by the founders and early employees and executives. (Click on highlighted terms for definitions.)

1. Pre-Selection Steps: Defining Requirements and Resources Decisions

Step One: Define the requirements (job descriptions) for all positions in the headcount plan for the first 6-12 months. Use the Skills/Needs Matrix as a tool to quickly define requirements (see under GDT section).

Step Two: Budget a "cost per hire" based on current data. In 2002, it would be reasonable to estimate an average 20% of payroll as a recruiting budget. This would be a conservative estimate, and it does not include relocation expenses. Depending on location, relocation expenses can vary anywhere from $3k to $25k for positions below executives.

Step Three: Communicate requirements to all current employees periodically. Do this verbally and via email. Remind all employees that this is the most critical challenge for the company.

Step Four: Determine if an internal full-time or part-time resource is required (see details under Contract Recruiter or HR generalist). This would be recommended if the number of openings exceeds three to four per month for six or more months. Below these numbers, it is possible for the founders to fill this role.

(Note: Steps one though four can all be decided and executed consecutively in the first two weeks after funding. For a list of potential sources of candidates, see Managing Recruiting Resources).

Step Five: Determine if a retained search is required for any of the positions and hire a search firm if needed (see details under Retained Search Firms).

Step Six: Contact a few (three to six) contingency search firms and engage in a relationship with them to become a source for qualified candidates (a Contract Recruiter will do this, if one is in place). (See details under Contingency Search Firms).

2. Selection Steps

Step One: Review and screen candidates and resumes. There are times, especially with internal referrals, that resumes might not be quickly available. In this case, relying on the judgment of who has referred the candidate can save time. A phone call to preliminarily screen a potential candidate can be sufficient to determine the quality of the fit.

Step Two: Phone-screen qualified candidates. See details under Interviewing and Selection.

Step Three: On-site interview. This is a critical part of the process. See details under Interviewing and Selection.

Step Four: Reference Checking. See details under Reference Checking.

3. Closing Steps

Step One: Generate a winning offer and extend it to the candidate. See details under Making an Offer.

Step Two: Closure. This involves an acceptance and a successful integration of the new hire. See details under Increase Chances for Offer Acceptance and Integration and Assimilation of a New Employee.

Managing Recruiting Resources

There are multiple sources available for recruiting. Depending on the volume of staffing required in a period of time and the type of roles, sources should be assessed periodically and changes made accordingly.

- **Internal Referrals.** A primary source of referrals at all start-ups is the founders and early employees who recommend previous colleagues or classmates. Some companies choose to allocate a "referral fee" in the form of cash or other reward to those employees who refer others. It is best, however, to instill a culture where referring candidates is simply part of being a team player in a start-up.
- **Contract Recruiter.** Individual(s) specifically hired to execute staffing for the company. This person is hired as a temporary contractor to fulfill a role for a period of time (start-ups usually have a ramp-up time in hiring, ranging from 6 to18 months). This individual is dedicated to sourcing, screening resumes, facilitating communication with external recruiters, interviewing candidates, and facilitating the staffing process with the team. Depending on the level of experience, some contract recruiters are involved in negotiation of offers, checking references, and managing retained searches.
- **Independent, Contingency Recruiters**. This is the second most commonly used source. A fee, typically based on the base salary of the person hired, is paid only after the individual is hired. There are many recruiters, and it is important to sort out those who will deliver high-quality candidates from those who will just submit unscreened resumes. Dedicating time up-front to screen recruiters, check references, and decide with whom it makes sense to work will save time in the long term.
- **Retained Searches.** These are reserved for executive recruiting and very unique and hard-to-find individuals. A fee is paid in advance of the hire, usually in three installments – the first one when the search is initiated, the second one after 30-45 days, and the last one after the person is hired. Some retained recruiters will negotiate for stock in lieu of, or in addition to, cash. Given the magnitude of the expense, it is critical that the hiring manager (or someone internally who is dedicated to staffing) invests time and energy in managing the search with great focus.
- **Ads.** Advertisements in local newspapers and other publications are less effective sources, but are still popular under certain circumstances. Internet postings are more effective within the high-tech community. These sources require a large amount of time for screening and sorting
- **Job Fairs.** Although a less effective source for a start-up, job fairs are sometimes useful when there are multiple job openings and someone dedicated to recruiting (internal recruiter).
- **Industry Trade Shows.** Trade shows are an informal and sometimes effective source for candidates. While not established to serve as recruiting avenues, trade shows are an

opportunity for individuals to learn about companies and vice versa. It is useful for those working a trade show to know how to "pitch" opportunities, as well as effectively introduce the company, to potential candidates.

- **Informal Gatherings**. Anytime start-up employees are in a situation where talented individuals converge, it should be considered a potential source, and employees should be prepared to recruit. Informal gatherings can be the most fruitful ground for recruiting talented individuals.

Internal Referrals

By far, the most fruitful resource for hiring is referrals from current employees. The advantages of hiring individuals whose performance is already known outweigh any third-hand recommendation. It is in the spirit of a start-up to promote and value the choice that employees have made by joining the company, and it is this attitude that makes it attractive for others to want to do the same. Management should prioritize internal referrals and give those individuals timely attention and response. Hiring in the early stages requires an intrinsic sense of urgency, and this is also the most expedient way to meet hiring plans.

Contract Recruiter

Hiring and managing a contract recruiter who will succeed in the role requires the same effort as that of hiring and managing any other employee. Most importantly, evaluating the individual in a timely fashion will save the company money and critical time.

- **Selecting a Contract Recruiter**. Selecting a known entity is best. Founders and first employees most likely have encountered a contract recruiter or can make just a few phone calls to identify a credible individual. Investors and friends will also have referrals. Previous experience in the same market/industry is very helpful, although not mandatory. The ability to quickly understand what is needed, experience recruiting for start-ups, and references vouching for timely results should be part of the basic criteria in selecting a recruiter. This individual should be interviewed by at least a couple of hiring managers. A critical trait of a contract recruiter is the ability to establish quick rapport with anyone – an in-person interview, or even a phone screen, should prove successful in testing this trait.
- **Negotiating a Rate.** Rates for contract recruiters vary widely and do not always reflect quality or effectiveness. Qualified candidates for a start-up are always in high demand and difficult to recruit, so the employment rates do not affect start-ups positively or negatively. A slow market will have lower demand for recruiters, but excellent recruiters are as difficult to find as good engineers. A contract recruiter should be paid based on his or her qualifications and proven execution. Rates for contract recruiters are always negotiable and can include stock, if the company is willing and the individual will accept stock in lieu of cash.
- **Establishing milestones/measurements.** Very simply, the headcount plan should be met on time with high-quality individuals. Three months should be sufficient time to evaluate the performance of a contract recruiter. The number of candidates interviewed and resulting hires, as well as the quality of candidates, are all measurable goals. It is important, however, to review all the reasons why hiring is not happening. Hiring managers are ultimately responsible for making this happen! Being available to interview, making decisions quickly, and being able to successfully close on candidates are all out of the control of the recruiter. The communication

must be two- way between the recruiter and management, and both sides must be accountable for the results.

- **Sourcing versus Managing the Process.**
  Some contract recruiters are exceptional at sourcing candidates via cold calling or following up on referrals. Others are better at managing the hiring process. If the hiring managers are not experienced and have difficulty allocating the appropriate amount of time to hire, or there is a lack of administrative resources, a recruiter who is better at managing the process might add more value. Recruiters who are very good at sourcing are difficult to find, but they can save the company money and time. Only the best recruiters are able to perform on both fronts, because the skills required to perform each function are very different (selling versus process management).

Contingency Search Firms

If a contract recruiter is in place, most likely he/she has already worked with contingency search firms and knows how to negotiate fees, collaborate, and manage the relationship. If this is not the case, the task of managing several contingency firms can be daunting and, at times, a waste of time. A few helpful tips:

- **An individual recruiter's reputation is key.** In other words, the relationship and credibility does not lie with a firm, but with individuals. Select firms on the basis of previous knowledge of success working with a particular recruiter.
- **Limit relationships to three to six search firms maximum.** It is easy to establish relationships with contingency firms, and more is not necessarily better. It is best to provide existing search firms with information, feedback, and enough time to improve the chances for success, until it is established that the source is not working (e.g., poor quality candidates, poor matching of requirements with candidates submitted, too many resumes requiring basic screening, high maintenance in terms of communication, ill representation of the company, etc.). Time spent t pays off in the long term. Provide the search firm with details on requirements, company information, and any selling information available. Update them on a regular basis, and screen information carefully so that recruiters don't disclose confidential information inadvertently. If the first interviewee is not appropriate, take the time to give detailed feedback on why the person was not appropriate; the recruiters should learn and do a better job of screening next time.
- **Establish ground rules for communication.** This will save time. For example, a "quick and dirty" rule could be that the company would not respond to a resume submitted unless there is interest. This assumes that the recruiter will figure out quickly what candidates are appropriate by elimination; it might not work for everyone. Other rules include how the company wishes for candidates to be presented (resumes via e-mail or fax, phone introductions, or other) and what should be the expected turn-around time. A reasonable time to review a candidate should be no longer than 48 hours. Hiring is the most important task in a start-up, and timely response should reflect that priority.
- **Decide up-front if you wish the recruiter to be involved in offer negotiations.** This depends on the level of experience of the hiring managers who are managing recruiters and extending offers. If the company does not wish to involve the recruiter, explain this up--front and agree on what information is desired in this area. For example, the recruiter could simply convey the candidate's existing package. Recruiters can be extremely effective in helping with

negotiations, but the process still needs to be managed by the company. There is not a greater bond between a hiring manager and a prospective employee than to discuss compensation; missing this opportunity could be a shame.

- **Provide information, maintain communication, and evaluate performance frequently.** If the company has delivered on its end by communicating effectively with the recruiter, but the recruiter is not performing, direct and clear feedback is needed. If the time spent is not yielding timely results, it is best to terminate the relationship swiftly and move on to new resources.

Retained Search Firms

These are typically used to hire executives and other key roles in the company. The fee structure is independent of delivery, other than the last payment, which is contingent upon the base salary of the individual hired. This is a tighter and more expensive relationship than that of a contingency recruiter, and the expectations are higher from both sides. Most of the tips for managing contingency search firms apply here as well, along with these additional points:

- **Check references with recent employers and candidates placed by the firm.** The references should be able to comment on the success rate, quality of candidates, quality of communication and information dissemination to company client and candidate, process management, and credibility.
- **Compare apples to apples**. Many large retained search firms have more experience with larger organizations. A search for a VP of Engineering for that environment is very different from a search for the same position in a start-up. Each search firm selected should have conducted many searches of the same nature, e.g., start-ups in a particular market segment, ideally in the geographical area of the start-up. This background will enable the search firm to quickly assimilate information and adequately "sell" the opportunity to desirable candidates.
- **Manage the relationship.** Most retained recruiters are very experienced and tend to want to control the relationship if allowed. This has to be a two-way relationship, where both parties provide each other with guidance and support; no matter how experienced the recruiter; he/she can't know more about what is required than the company client.
- **Negotiate the fee.** Most retained search firms prefer not to negotiate fees, and you may be encouraged to accept the terms as presented. It is worth it to negotiate, especially if there will be repeated business and the value of the relationship will go beyond one placement. The typical terms are 30% of annual salary, and, in some cases, complete cash package plus expenses plus stock. Stock in lieu of cash has leverage when negotiating, and the expenses should be capped or reduced if the number quoted is flat.

Other Resources

Depending on the level of headcount, there are many other external resources for recruiting that may be appropriate, such as Internet postings and traditional newspaper or trade magazine advertising. These resources require a high level of maintenance from a dedicated internal resource that will take responsibility for screening, responding, and managing the process.

Interviewing and Selection

Effective interviewing and selection of candidates requires both skill and intuition. Founders, new executives, and all employees, ultimately, can build skill in this area, with training and coaching early in the process. This training is highly recommended, because in addition to building skill, it develops a consistent process that will facilitate the selection. Intuition is natural and some individuals acquire it with experience; others might "have it" without experience.

Basic interviewing tips include:

- **Use phone screening** as the first step, when appropriate (for example, an internal referral would not require a phone screen). Always use this method when the candidate is not locally based. The phone screen should be scheduled to allow plenty of time for a meaningful discussion. There are many people who might be "phone challenged", not comfortable, or otherwise dislike talking on the phone. This doesn't mean that the individual would have difficulties communicating otherwise. Use caution when judging discomfort or questionable "phone behavior".
- **Develop a process for interviewing:** an order to follow, a schedule, and a mechanism to provide feedback. Stick to the process and schedule, and communicate the feedback to the hiring manager in a timely fashion.
- **Develop a few questions before the interview**, based on the position and what is known about the candidate (from his or her resume). Be prepared to switch gears if needed.
- **During the interview, behave as would be expected in any social situation:** be on time, be polite and considerate, observe body language to detect discomfort, and stick to the subject. Most importantly, listen to the candidate's answers. The ratio of listening/talking should be 80/20 during the early phases of the interview process.
- **Take notes either during or immediately after the interview**. The notes should provide an evaluation against the specific role for which the person is interviewing. This is for legal reasons, but also for practical ones, to have relevant information to make a rational decision.
- **Stick to job related questions and comments.** In general, do not discuss, ask questions about, or comment on anything of a personal nature. Intuitively, most people know what "personal" is, but when in doubt about a particular topic – don't proceed.
- **Spend no less than eight hours interviewing or interacting with a candidate before extending an offer**. It is nearly impossible to evaluate an unknown person in less time. This is a combination of phone screen, one-to-one interviews, team interviews, and social interaction.

Reference Checking

References are critical even when someone known has referred the individual. The higher level the candidate, the more references are required to gain a full understanding of what can be expected from the new employee**.** Recruiters typically check references during, and prior to, referring a candidate. It is important to get this information in writing. In addition, it is also critical to do a direct reference check by the hiring manager or someone else internal to the company. See Sample Reference Check Form or Sample Reference Check Form for Senior Executives/Leaders in the Appendix.

Basic tips when checking references:

- **Check at least 3 references**. In the case of a manager/leader, check with a previous subordinate, a manager, and a peer. In the case of an individual contributor, check with peers and a manager.

- **Make sure the references are recent** (within the last 5 years), and/or that they cover an extended period of time for more experienced individuals.
- **Prepare questions in advance.** An example of potential questions can be found in the appendix entitled Sample Reference Check Form.
- **Thoroughly cover all areas of concern or potential new challenges for the individual**. Explore performance patterns as well as behavior patterns. Most people don't change behavior easily.
- **Document references, and compare notes with other input** to check for consistency of opinions.

Making a Decision

A team discussion involving all that have a vested interest in the hire is the best way to reach an informed decision. Discuss all information: revisit interview input and reference information. While a consensus decision is ideal, there are times when hires will be made against a singular recommendation. In this case, it is important that the dissenting party is equally committed to making the hire a success.

Making an Offer

The hiring manager is responsible for extending the offer. The offer terms are typically approved by the manager (based on the Salary and Stock Guideline), the CFO, and CEO when these individuals are on board. When a HR Consultant is in place, this person would also participate in this process.

1. **How to determine an appropriate offer:**
   - Consider the existing compensation package; make sure this information is complete and accurate.
   - Consider the peer group's packages to maintain internal equity.
   - Consider the existing external benchmark information.
   - Consider the value proposition the individual brings, and make exceptions to the guideline when appropriate.

2. **How to extend an offer:**
   - Whenever possible, do it in person.
   - Prepare an offer letter (see Sample Offer Letter in the Appendix) and go over the terms of the offer.
   - Address the job opportunity again, the conviction that it is a good match, and the excitement about the relationship.
   - Request an answer within a reasonable period, no longer than one week.

3. Increase Chances for Offer Acceptance

Making an offer is only a phase in the process of hiring someone. There are many ways to increase the chances for success in this process:

- Follow up the offer with an e-mail message, offering to answer any pending questions or concerns. Request that founders and other executives extend the same offer to the candidate.
- Invite the candidate to a team lunch or dinner and begin to engage him/her in job-related discussions. If there is a concern of confidentiality, ask that the candidate sign a NDA.
- If appropriate, invite the candidate and his/her spouse to a social occasion involving other team members and their spouses.
- Send flowers to the family.
- Provide the candidate with multiple sources for information when there is relocation involved.

Integration and Assimilation of a New Employee

The first 90 days of employment present risk for both employee and employer. It is the period of "discovery" for both parties, the period during which all previous perceptions are confirmed or invalidated, and the period when it is easiest to become quickly disillusioned based on original expectations.

Basic Tips for Successful Integration:

- Be prepared to welcome the new employee with all the tools required to perform the job and become part of the team, ideally on the first day. This includes workspace, work tools, and expected facilities. Someone in the organization (typically, the office manager) should be responsible for making sure everything is ready for the new employee.
- Have an immediate list of what the new employee might do in the first few days. This includes meeting with varied team members to get up-to-speed, reading specification or other relevant company or product information, preparing files, etc.
- Contact the new employee regularly, by in-person visit, phone call, or email. Ideally, spend time in-person with the new employee daily.
- When appropriate, assign a "mentor" in addition to the management structure. This is usually a peer with more experience, for example, a team member.
- Provide feedback frequently, weekly at first and then every other week, etc. Confirm whether the employee is on the right track, and correct course in a timely fashion. Real- time positive or constructive feedback during the first 90 days will become an excellent foundation for future communication on performance.

Chapter 2: Compensation Management

Incentives and Rewards

In a competitive market for qualified talent, the objective of a successful incentive and reward system is to hire and retain the most qualified talent pool to meet the company's requirements.

In a climate where most start-ups offer very similar incentives and rewards, the key to differentiation is in "how" compensation is managed to yield the best return in performance from all employees.

Terms and Definitions

This section defines common terms related to compensation.

Incentive
An incentive is a long-term compensation program that motivates an individual to perform and deliver over time. These programs are articulated ahead of the pay off, typically defining goals and objectives to be met by the individual or the team. Incentive stock options (ISO) is the most common incentive in a start-up. Sales bonus plans is another example of an incentive program.

Rewards

Rewards are pay off for performance. Rewards come in varied forms, including a cash bonus and discretionary non-cash rewards (trips, gift certificates, extra time off). A reward system is a systematic method, with perimeters that are monitored, consistent for a group of employees (for example, management), and typically based on a combination of individual and corporate goals.

Base Salary

Base salary is the pay rate received for past work performed. Salaries are typically paid biweekly, bimonthly or monthly. Nonexempt employees receive a salary based on the number of exact hours worked. Exempt employees receive the same salary each period. There are specific legal definitions for nonexempt and exempt positions. Most non-manufacturing positions are exempt. (See Legal for further information.)

Compensation

Compensation typically refers to the combination of all rewards, incentives, and base salary, and in some cases, benefits. It is critical to refer to compensation in these terms in order to create awareness of the total remuneration the individual employees actually receive for work performed.

Benchmark
A benchmark is a compilation of compensation data from companies within an industry. In a technology environment, benchmarks are available in varied degrees of granularity based on specific market segments (for example, software, semiconductor, communications, systems, and the Internet). Start-up compensation information is more limited because effective benchmarks are dependent on the amount of data companies are willing to provide for the analysis. Start-ups can benefit the most from comparing data based on industry, geography, and capitalization (amount of money raised). A start-up company should consider an external benchmark for a reality check when creating compensation ranges, internal equity to preserve the integrity of the system, and what the market is paying at the time of hiring (last individual compensation, and compensation of most recently interviewed individuals for the same role). See Additional Resources in the Appendix for benchmark sources.

Internal Equity
Internal equity refers to the relative comparison of salaries and stock options for similar roles. While the external comparisons (benchmarks) are relevant to be competitive in the job market, internal equity is what builds trust and confidence in the company's ability to appropriately reward employees based on individual performance and contribution. Ongoing observation and analysis of compensation is critical to maintain and correct, if needed, internal equity. This requires an adequate system in place and an individual responsible for this task. The CEO, CFO, or HR consultant (in absence of a full-time VP of HR) are appropriate individuals.

Band or Range
An initial band or range for salaries and stock options can be easily created for a start-up. This initial band should have between 5 and 8 levels, depending on the number of positions and type of roles targeted for the first 12 to 18 months of the company. At least 70% of the population during this phase are of engineering disciplines; therefore engineering salaries typically drive the ranges. Other roles (administrative, marketing, sales, finance) can be integrated without much disparate within the ranges. As a result, the ranges are broad, with a 65% to 75% spread being normal. There is an overlap between the ranges and this allows for flexibility and management judgment in its application. Internal equity can be easier to maintain by observing these ranges at the time of hire and when increasing salaries or stock options. All employees are banded at the time of hire, and this becomes an element of tracking and sorting in the employee database. See Sample Band or Range Matrix in the Appendix.

Employee Database
There are several systems to track employee data, mostly dictated by the number of employees. Excel spreadsheets are typically sophisticated and flexible enough to track and report data on as many as 100 employees. All systems should be reviewed for capacity and capability after 12 to 18 months depending on the rate of growth. The database is kept up to date, entering employee data at the time of hire. It is recommended that a single person is responsible for maintaining the database; a capable and trustworthy administrator is typically assigned this responsibility in the earlier stages of the company. Access to this data is limited

to the CEO, CFO, and founders. See a Sample Employee Information Database as an Attachment (Microsoft Excel file).

Creating a Successful Incentive and Reward System

Traditionally, a start-up provides employees with an incentive stock option plan that presents a future upside opportunity that does not exist in most large and older corporations. In order to provide potential employees with a compelling and believable business plan that supports this premise, the vision or future must be conveyed with clarity and conviction by the founders and management of the company during the interview process. In addition, and more importantly, these plans should be re-enforced with actions and continued communication during the lifetime of the company. This is the only way that all employees can visualize their individual potential future gains to keep them motivated over time.

A system that works requires three basic management practices: (1) a well articulated vision (strategy), (2) consistent and on-going communication that ties the vision to potential individual future gains (management skills) and (3) action plans (tactics) that reflect and support the vision and the plan.

While individual employees have little to no control over (1) and (2), involvement, participation, and delivery on (3) is entirely in the hands of all employees. If the execution of the plan and related activities are well managed and progress is monitored, the reward mechanisms can be applied very successfully. This results in job satisfaction and a stable organization.

Modifying the program based on new information

In a start-up environment new information is absorbed and processed quickly, which in turns can shift priorities and focus to adjust the activities and meet the goals that reflect the changes. For example, a new competitor on the horizon or input from a key customer can result in changes of tactics or in the extreme case, strategy. It is a company's ability to be effective and quick in shifting gears that defines the timing and degrees of success it can experience in the long term. Consequently, the incentive and reward system has to be adjusted to maintain the same degree of motivation and individual commitment to the goals for all employees.

Rewards in early-phase start-ups can be mostly based on corporate goals

As companies grow, individual goals can be managed in greater granularity and separate from the corporate goals. This is why it makes sense to be more generous in the distribution of stock options in the early phases (pre and post series A funding, pre-product delivery, and pre-strategic relationship). During this phase it is an "all or nothing" mentality, all employees are key to the outcome and there are more "like" roles (for example, engineering). It also makes sense that during this phase the existence of bonus plans and other individual perks are minimal to none, although there are exceptions. In addition to stock options, discretionary, small-scale cash bonuses for extraordinary accomplishments of and for the entire team can be extremely rewarding, creating good will and high morale. For example, the successful tape out of a chip on or ahead of time. "Small" in a high-tech environment is between $500 and $1000 per person. If the team has 20 people, this is a maximum of a $20K expense that would have a very high return for the company. These bonuses must be discretionary and random as to not create an expectation for the future. The goal met needs to be meaningful and everyone in the company ought to participate.

Importance of Information

Many managers underestimate the value of information for employees. The need to know is highly personal and subjective, but it can be safely assumed that most people like and want to know what is going on at the company in general. When management is aligned and the information is consistently communicated to all employees in varied forms (1-1, team meetings, company meetings), it creates a sense of participation in the building process of the company. While there is information that should be kept confidential and limited to senior management (for example, M&A activities and individual salaries) for legal reasons, most information can be shared and actively communicated to all employees. Customer visits and feedback, vendor relationships, investors opinions, market research, product findings, and even bad news, is information that employees want to know as soon as it is learned. Management serves as role model when taking on the practice of effectively and timely communicating with employees. This behavior leads to all employees doing the same and not picking up bad habits, such as holding back information for misunderstood protection of positions or to use for personal gain (for example, to negotiate a better individual position).

Qualities of and Effective Reward and Incentive System

Reward and incentive systems must be clear. Lack of clarity leads to speculation and dissatisfaction even with the most generous reward systems. In larger companies with mature systems, tenure drives salary levels, and position drives bonus programs. While this system can reward low performers and might not tie rewards to results, it is typically perceived by employees as clear and consistent. In a start-up environment, tenure, or years of experience, and positions are mostly irrelevant and unrelated to the reward system. Defining criteria becomes a challenge because it might not be as black and white as tenure and position.

Common criteria in a start-up environment can include:

- Specific and unique skills (what are the skills?)
- Creativity (new solutions, new methods, new ideas)
- Productivity (tasks are completed quickly and correctly)
- Management skills (what is expected? how are these proven?)
- Negotiation skills with external parties (vendors, customers, strategic relationships)
- Communication skills (written documentation, timeliness, clarity, effectiveness)
- Team work (delivering to the team, helping when needed, staying on task, reducing and managing conflict, constructive behavior, respectful).

When rewards are delivered, it is critical to identify the criteria and reasons that determined the reward. This reinforces the behavior and performance, and the employee is more likely to repeat it in the future.

Decisions have to be justifiable at all times

Management has to assume that, employees share individual compensation information. While great efforts can be placed into maintaining compensation information confidential (some companies have a confidential clause referring to compensation documented), more often than not, employees are very comfortable discussing their compensation with peers. For this reason, compensation decisions have to be based on clear rationale and rules applied consistently across the board. Many managers prefer to not address differences among employees in order to avoid conflict and not hurt someone's feelings. This might appear to be a good short-term solution that gives the manager time and creates a perception of resolution. In the long term, employees will continue to seek explanations for differences. Almost without exception this issue is brought up by the employee with lesser pay, one who has not received the additional stock or bonus, or has not been included in a reward mechanism. If management has made a good decision, this means that the employee is not up to par with peers, is showing less performance, is already very adequately compensated, or in the worst case, is a poor performer and needs to improve. The focus of the justification should not be on the other employee who received the reward or is higher paid, but on the reasons why the employee raising the issue was not benefited. This discussion can be constructive and productive, although temporarily unpleasant and uncomfortable for both manager and employee. However, the alternative (lack of clarity, sense of unfairness, perception of avoidance of issues by the manager) is worse. See Achieving Peak Performance.

Compensation Changes

Time of Hire

Initial compensation and negotiations that lead to an agreement establish precedence for future changes. As in all negotiations, a win-win scenario is a constructive foundation for the relationship between employees and corporations. It is critical to gather thorough and accurate data of the candidate's current compensation and benefits package during the interview process. This requires experience and skill in asking such questions, because most people consider this information to be very personal and confidential. Ideally the hiring manager possesses such skill, or they are guided by the professional recruiter involved in the process (or a HR consultant if available).

There are three fundamental components to an existing package:
(1) base salary; (2) stock options; and (3) other benefits and perks that result in income during the year, such as 401K employer matching, bonuses, and car allowance.

Stock options are more complex, especially if the candidate is currently at a publicly held company where the stock can be converted into cash. A clear understanding of options, vesting periods, current value, history, and future potential value is critical to formulate a competitive offer and sell the future value of a privately held company against the value at hand.

The market typically drives base salaries, and it is typical for candidates to expect an increase even though the opportunity is of a different nature (start-up, stock options, and career upside). See Executive Compensation for executive's packages.
It is expected that bonuses, pension plans, and other perks are not offered by a start-up company, but this does not detract candidates from attempting to be compensated for all elements. Start-up companies often use sign-on bonuses as an enticement to join and to offset some of these other compensation elements. There is a risk in doing this for most employees, as it sets precedence and becomes the norm instead of making it an exception. The norm ought to be to negotiate a fair and competitive offer, where both employee and start-up win. Most companies would note in writing,

on the offer letter, that this bonus must be reimbursed should the employee terminate employment in less than two years.

Annual Review

There is an expectation that salaries are reviewed periodically, annually being the preferred time frame for employers and as often as possible being preferred by employees. The frequency is highly dependent on how simple or how complex management makes a performance review system. Annual reviews typically address a financial need to formulate a disciplined budgeting process. Finance automatically budgets an increase for the company overall, based on industry data and what can be afforded. In a more progressive management system, employees could receive base salary increases and bonuses whenever it is deserved, based on performance, extraordinary contributions and after a period of continued good performance, which fits into the annual or periodic increase. High-tech employees, mostly engineers, are on a very steep salary increase curve in the first 2 to 5 years of employment. Their increases per year are typically twice as much as more experienced employees, especially for strong performers. After that, the curve begins to flatten to be more aligned with general industry averages in any given year

Supply and Demand

There are exceptions related to skills that due to industry demands, become highly desirable (supply and demand). The rates for these employees can increase above everyone else overnight. These changes are obvious and must or "should" comply with the demands. In compensation terms, this is called an adjustment or correction.

Executive Compensation

With the exception of founders, compensation packages for executives can be more elaborate than for all other employees, if the individual being hired is perceived to add value beyond that of the particular functional role for which they are being hired. For example, if the executive is considered "portfolio" quality, the company can choose to provide an extremely competitive package that matches or exceeds the current compensation on all fronts.

Portfolio-quality Individual

A portfolio-quality individual has been recognized publicly as possessing skills and qualities that make a difference between failure and success for an organization. There is an expectation that this individual will automatically enhance the overall valuation of the company. Their vision, leadership, and ability to convey a compelling message to broad audiences reduces the risks of a start-up, and thus add value beyond their functional expertise. Stock options remain the primary incentive to join a start-up, and executives are not exempt from considering this as their primary motivation. There are wide ranges of stock option numbers depending on the timing, the level of experience, and the potential the individual represents for the company. When negotiating with an executive, and the executive recruiter participating in the process, it is critical to clearly identify what is the potential future value of the stock options. A start-up cannot afford to match with cash what a current executive at a mature and successful company can make, and stock options are the key to breaching that gap.

Executive Compensation Levels

In the past five years, salaries for executives have been more in line with the salaries earned at more mature companies. Offers from start-ups have been more competitive than in the past. However, any executive from a mature organization where the potential for earning grows steadily and conservatively over many years, has to be prepared to trade in this package for the higher risk, substantial return of a start-up stock options. Relocation bonuses or assistance are common in an environment where searches for executives are typically done nation wide.

More critical than paying the right amount to attract executives is to actually manage the expected performance with the same degree of discipline, if not more, than for all other employees. In other words, companies must get what they pay for when compensating executives. If the highly compensated executive is not delivering and executing according to the business plan, the company has a fiduciary responsibility to evaluate the performance and act accordingly, including terminating the employment for lack of performance.

Founders Compensation

Founders usually struggle defining their compensation requirements, and need the assistance of the board of directors in order to arrive at a fair and reasonable number. All individuals, including founders, have a basic cash requirement and are entitled to the same benefits all employees receive. Typically founders' salaries are based on the role they are expected to perform during the first stages of the start-up company. When there are two or more founders, it is common for them to negotiate the same salary to cement the concept of a team with an equal stake and responsibility. This is also generally the case for stock options, although not the rule. It is common for founders to have lower salaries than executives that are recruited later in the life of the start-up. In the past five years, founders' salaries have been in line with what they would receive as individual contributors in their area of expertise. An exception is when one of the founders is experienced and qualified to be the CEO, or vice president, in which case they probably receive a higher salary reflecting level of experience and expectation. Founders' stock options are documented in the term sheet, which defines their percentage of ownership along with the investors.

Founders' base salaries can be reviewed when the executive team is in place and the roles are defined according to experience, role, and expected contribution. This is typically no earlier than six months from the incorporation date, and no later than a year.

Creating Salary Ranges and Stock Options Ranges

Salary Ranges

The number of ranges is highly dependent on the number of different functions the company expects to hire in the first 12 to 18 months. In a technology environment, engineers dominate the population constituting no less than 80%. In this environment, having more than eight salary ranges is unnecessary, including one range for executives, four ranges for engineering, and two ranges for support or entry-level personnel. Marketing, sales, administration, finance and operations personnel can be easily integrated into these ranges. Salary levels are market driven, and companies can decide to be ahead of the market, at market, or below market. Market data can be found in available benchmarks, but are also driven by the salaries of candidates being interviewed for varied positions. See Band or Range.

Stock Options Ranges

While there is an attempt to find consistency on what stock option ranges should be within a defined industry (for example, semiconductor, software, communications, and systems), the merging of technologies and cross-pollination of skills required is forcing start-ups to respond to the demands and competition for talent. Founders typically negotiate a total percentage of options, which is dedicated for employees. This number is highly dependent on the valuation of the company at the time investors fund the company, and how much can be available to employees. It is also dependent on the type of industry/technology area; benchmark data exists to provide start-ups and investors with this data. Hype and visibility of historical stock option percentages received by high technology employees in the past, have created expectations as well as demand for higher numbers of options than ten years ago. The only answer to keeping expectations in line with reality (the pool is finite) is to create a compelling argument for the potential high value of the options as the company grows and becomes successful.

The following list represents a typical distribution of stock option pool within the first 6 to 12 months at a start-up, with an ending headcount of 40 employees:

- x% for a non-founder CEO (plus or minus 2% depending on time of hire)
- from x-3% to x-5% for non-founder executives
- y% for key 4 to 8 team members
- z% for all others

Again, at any given time there is available benchmark data to support whatever percentages the start-up chooses to distribute amongst employees and executives. Investors and board members typically have access to the most recent negotiations and would have intelligence on this subject. Ranges provide the company and potential employees with an opportunity to consider the value of stock options against other forms of compensation. At the same time, it provides boundaries for like-roles to ensure reasonable internal equity. Individuals tend to negotiate and appreciate stock options based on past experience, and their perception of what stock options represent in a time frame. A stock range prevents management from rewarding negotiation skills, and focuses on the potential added value that the employee can bring to the table, depending on their role.

Stock ranges should be evaluated when there is a material change in the valuation of the company (round of funding), at the time of a meaningful milestone (for example, product into production, first large customer order, and first official strategic relationship), or following multiple indications that the range is inadequate to attract the desired quality of candidates (multiple offers rejected due to perceived low number of stock options). During the initial stage of a start-up, a stock range typically is effective for no less than 12 months. The ranges can be reduced anywhere from 25% to 50% depending on the progress and impact on the valuation, as well as perceived risk level reduction. It is most critical to remain consistent across functions and levels when changing the ranges. For example, executive ranges ought to be reduced at the same rate than individual contributor levels.

Dilution Debate

Many savvy employees attempt to negotiate anti-dilution stock deals to maintain their initial equity position. For example, the employee receives x% of the company's stock, equivalent to 1K shares. On a subsequent round of funding, the number of outstanding shares increases by 30%. The employee expects to receive additional 0.3K shares to be kept whole and immune to the dilution that has resulted from additional funding.

There are three good reasons to avoid this negotiation:

- Angels and investors from the initial round of funding are affected by dilution.
- Setting a precedent by doing this for one or a few employees can quickly result in all employees demanding the same benefit, creating an unnecessary management challenge.
- The stock option pool must be preserved to enable the company to hire additional key employees as it grows into a more mature, yet critical, stage.

Start-ups can best address this issue in a proactive manner by continually conveying a sense of confidence in the potential value of the stock, clearly articulating the growth expected and how the quality of talent will be maintained, and remaining consistent about not negotiating anti-dilution stock deals with employees. It is natural for employees to request what they wish for themselves; the key for management is to respond confidently and maintain a position without hesitation.

Bonus Plans

Bonuses are not the norm in a start-up environment and any attempts to negotiate a bonus when joining a start-up should be discouraged if not avoided. When companies begin to generate revenue or have goals that can be measured in financial terms, bonus plans can be articulated clearly and objectively. There are exceptions to this dictated by individuals, typically executives, who require a guaranteed bonus to join the company. Start-ups can risk its focus and relationships by implementing premature bonus plans. Traditionally, it has been difficult not to pay any part of a bonus plan that has been committed by a board of directors. This creates unnecessary conflict between a board of directors and an executive team at an early stage.

Developing a bonus plan that effectively motivates and drives a team to succeed is a challenging task and it requires expertise and experience. A CEO who has not implemented plans in the past, or not in a similar environment, can benefit from consulting with a compensation expert to develop an effective bonus plan.

Sales Commission Plans

The first person to be on a sales plan is typically the first VP of sales. This individual is hired to bring in revenue, and a successful candidate has a current compensation package involving a high variable element based on results. It is common for a VP of sales to have a variable element that increases the earning potential substantially. . The variable component is directly related to revenue, in the form of a percentage. The VP of business development can also have a variable component, which is difficult to measure because it is typically based on developing strategic relationships, at time without a direct financial component attached to it. Bonuses for a VP of business development are usually a flat amount. It is critical that an incentive of this nature is managed very carefully by an experienced CEO.

Sales commission plans can be complex, and must be strategically aligned to the company's objectives. For this reason, there are compensation consultants who specialize in sales plans, and can offer a wide range of options depending on the nature of the business. A plan needs to be in place prior to building a successful sales force. Individual negotiations and plans formulated by default instead of by design result in a poorly managed sales organization, and either over-rewards sales personnel, or fail to provide an adequate incentive to build sales for the company.

Stock Options: The Greatest Incentive to Join a Start-Up

Stock options are the greatest compensation differentiator and competitive advantage for a start-up. If an employee joining a start-up does not view stock options as the primary incentive to make a change, to excel in performance, and to maintain a positive spirit, a start-up might not be the right environment for that employee. This does not translate into a culture of greed or grandiose expectations; it is up to management to create a healthy culture that drives well-being for all employees, growth, and success. Stock options are the symbol of shared ownership and shared responsibility for the outcome. After investors, employees are the first shareholders of a corporation and as such have a vested interest in its success. If employees do not share in the responsibility, they do not have a clear vision of the expected value of stock options. This is a balance that can be created by educating, informing, and generally articulating where the company is going, why, and how does the vision position the company for long-term success. A successful company can provide successful careers and enrich the lives of those who participate, especially those that share in the risk and contribute at an early stage. This is the value of equity participation, and the greatest gift a start-up can offer to its employees.

Chapter 3: Growth, Development, and Training

Maturing a start-up gradually and succeeding at building the talent base along the way is a noble and achievable goal. A successful transition from an idea to an organization lies in the company's ability to have a strategy and a plan to develop the individuals in the organization. Coupled with a focus on how to build the best culture for that particular organization, the chances for long term success increase significantly in the first two years of a start up. If staffing is the first challenging task founders and executives face, quickly integrating and building a high performing team runs as a parallel and critical leadership mission.

Formulating a Growth, Development and Training (GDT) Strategy

In formulating this plan, the original management team and the board of directors should consider the following:

> **Note:** *The timeframe defined in these considerations should be aligned with the business plan and the development cycle. If the development cycle is three years, this should be the timeframe. The timeframe used here is 12 to 18 months, which is a reasonable expectation for most technology products, so it is a generalization.*

- What are the current roles of the founders? What are their roles when a complete executive team is in place?
- What are the roles of the first executive team for the first two years of the organization?

- What is the desirable business and product result in 12 months? 18 months? Which form of organization can support that result?
- What are the skills required to successfully develop the product and to build the business as planned?
- What are the processes required to support the organization?
- What is the training and development the organization can support for its employees during this period? (time, funding, management investment)
- What is the expected performance level and how will it be measured?
- How to nurture a culture that provides the appropriate foundation for building a successful company?

Founders Roles

The talent base starts with the founders of the company, those individuals with the concept, business plan and vision. Typically there are two or more founders in a start-up, and their talents and skills can be complementary in nature. This combination results in a complex challenge that is also the first organizational challenge a start-up faces: what should be the role of the founders in the long term?

Most founders start companies with the intent of executing their ideas on a hands-on basis. Few founders begin in a purely management role, or possess previous experience in a broad management role. Executive titles are typically held as a matter of practicality, and in the beginning there is an understanding that these titles are held for a specific period of time. However, there are exceptions, and some founders take on roles and responsibilities with the long-term goal to remain and grow in that executive position. On occasion, term sheets have contingency clauses that mandate the hiring of a CEO or another critical role investors have identified as a risk. Unfortunately, few start-ups address this issue in a timely fashion and with sufficient sensitivity, resulting in delayed conflict that is managed during painful transitions. This can be avoided if the board of directors, or a member who takes this on as an important role, methodically addresses the long-term desired and appropriate roles for the founders during the first few months of a start-up. This is a healthy beginning of an organizational development process that facilitates the recruiting of talented executives, maintains the original intent of the founders' vision when they created the company.

In considering the roles, the assessment is no different from how to evaluate any individual and potential future role. The following questions must be addressed by a facilitator (board member or HR consultant) with the founders:

- Aptitudes and interests: How does the founder prefer to spend time?
- Professional goals: Where is the founder in the path to the ideal position? Is the ideal position to create products? Become a CEO?
- Experience and skills: What are the strengths of the founder? How have those strengths manifested in the past? Is the founder a proven people manager, who has built and managed teams and projects in the past?
- Role vision: What roles do the founders envision for themselves in two years?

When a founder, or all the founders have expectations and beliefs that do not match the needs and requirements of the organization, the challenge to effectively manage growth is monumental. Frequently this issue is neglected and postponed because it presents a risk that investors are unwilling to take lightly: the loss of a founder due to a mismatch of expectations. There is hope that the founder can process this in time and change their position, or that a new CEO can address the issue successfully. In some cases, this strategy works. Most of the time, however, procrastinating does not work and making changes becomes increasingly more difficult and conflictive.

Not addressing this issue cripples the company's ability to adequately identify executive roles, and the roles for the rest of the organization. One way of including the founders as part of a complete solution is by positioning the well-being of the company above all individual interests, expectations, and career goals. In other words, what is best for the company? Who is the best person to perform the job for the company at this time? When positioned in this way, few individuals can still deny the best chances for success for a company they started. Seldom does an individual wish to risk the success of the company by placing a personal goal above the company.

Founders provide a role model to the rest of the organization that is equal to that of executives who join later. When founders demonstrate a flexible and corporate-minded behavior, the rest of the organization follows suit. Specific titles and roles lose significant value if the company fails; if the company succeeds, any title has value in the job market and within the organization.

Executive Roles

Executive Roles Generic Objective

The executive team of a start-up is responsible for delivering on the business plan. Progress towards meeting the objectives of the business plan is monitored by the CEO or board of directors. An executive team is successful when the objectives of the company are being met. Timely intervention, and changes within the executive staff and organization if needed, can save a start-up from falling behind or completely failing. If the executive staff is managed with this in mind, and there is buy in that this is the primary performance measure, it is possible to achieve a highly accountable and responsible team.

Ideally the CEO can formulate a plan that includes identifying requirements, and then hiring the executive team in the order required by the business objectives, in a timely fashion. Usually the founders are eager to move on with their vision and products. Hiring a CEO, if there is not a founder who can be in this role, becomes another hire that needs to happen as soon as possible. Under these circumstances, other executives can be hired prior to the long-term CEO, and the question of how to define roles and responsibilities becomes a team effort, consisting of the board of directors, founders, and existing executives. Whether or not this team has professional guidance through the role identification process, the team must define and describe the organization based on current information.

Many founders and executives come to a start-up with both critical views and complementary views of their prior employer. It is critical to remember that a start-up provides an opportunity to be creative, innovative, and unique on many fronts, not only technically. It is possible to discard concepts that were perceived as ineffective, demoralizing, or boring. It is also possible to integrate proven concepts that work regardless of the environment. But its possible to duplicate what has existed in a company with different people, different vision, and different experiences at a different time. Whenever duplication is attempted, the great risk is to see the same result: employees move on for the same reasons they came to the start-up.

The organization should reflect the needs of the business, the targeted markets segments and customer base, as well as the supplier base and financial targets. The organization is there to serve the business, deliver on the objectives, and do it in the most efficient and timely manner possible. The flow of a product from concept to production defines how information is transferred from organization to organization and what skills are required to successfully deliver to the next stage in the process. Until all of this is sufficiently clear to drive the organization with conviction, an executive of a start-up must be flexible.

Executives are hired to build and make the company successful – if this works, the executives are also successful. Because executives lead the company, they must manage their own expectations and personal professional objectives to be aligned, and behind the objectives of the company. A start-up provides executives with an opportunity to build a company and make a difference – this is the reward. A start-up cannot provide an executive with top-down professional development, and a long-term career path that can be expected from a more mature and stable organization. This is because start-up executives are the "top", and they are fully responsible for creating a long term for the company and the rest of its employees.

Role Clarity between Founders and New Executives

It is common to have role conflicts between founders and new executives, even when the executive has been recruited without anticipating conflict. It is easier to address this conflict if this is a challenge that can be managed openly. Many times the conflict does not exist, or can be easily resolved by making changes in the process or altering the organization slightly. Sometimes there is a personality clutch that is reflected in the roles, but there is no material conflict. Ideally, the CEO can facilitate these discussions and changes without the termination of either team member. Sometimes a third team member can be effective at identifying solutions. If the status quo is getting in the way of timely results, and creating conflict within the organization, and if two executive team members are unhappy, a change is mandatory. This change can come in the form of behavior, organization, function, or process flow.

Establishing a Functional Working Relationship between Founders and Non-founder Executives

This is not different from any other effective working relationship and it requires respect, trust, credibility and open communication between the team members. What is different is that an entire organization is dependent on these individuals and often it is this relationship failing that can result in total failure (closure) of the start-up. Teams that confuse criticism with challenge, team work with getting along, effort with productivity or openness with complaining, find themselves frustrated and resentful when the heat is on. If executives and founders are not satisfied with their roles and interactions, the rest of the company easily becomes polarized according to loyalties to specific individuals, not to the company

Ideal Leadership Qualities

In addition to having the discipline and functional knowledge to add value to the business, the start-up executive team can maximize its performance by having the following qualities:

- Able to communicate information to a variety of audiences: This requires listening skills to have clearly captured the information, and the ability to articulate the information adequately.
- Flexible, adjusts to changes readily and quickly: By design a start-up must be able to respond (not react) to new information. New information most likely drives the organization to redefine a position in an area of the business. Executives must be the first ones to step into the transition and drive the change with conviction.
- Approachable: A start-up executive must lead the entire company at any time. This requires developing a strong perception of approachability from anyone related to the company, or interested in learning about the company. This is a broad range of people including employees, prospective employees, vendors, and potential customers. The attitude must be "open for business, come in". Managing time becomes a challenge, but the interactions need not be lengthy or a waste of time. A direct, friendly and meaningful exchange can be very quick.
- Constructive: Solution oriented, visionary in how to solve problems, embracing challenges as a natural part of creating a company, and timely in driving solutions. Being right is less important than being timely and influential.
- Passionate: Passion comes in different forms, and it is important to not confuse passion with euphoria or exuberant behavior. Passion can be detected in body language, dedication, commitment, actions, and words. Start-up executives must be passionate about the vision of the company and their enthusiasm and attachment to the outcome must be felt, especially by the organization.

Aligning Organization with Business Objectives

To achieve a desired result, you must define an organization that can most effectively deliver on this result. This task requires a simpler way of looking at the objectives of the company with a practical end in mind. For example, developing a single product and having full control of development, manufacturing, and selling this product, defines a different organization than a company developing multiple products, outsourcing sales and manufacturing, and focused on building IP value. It is also natural to expect that an organization that is effective for a company of less than 100 employees and under $50mm in sales, changes when these perimeters change. It is acceptable to openly discuss an organizational structure as being stable as long as it serves the business objective. Setting an expectation that a structure is permanent or for five years, or that even the intent is to have it last for this term, is anti-intuitive relative to a start-up environment and the reality of most start-ups. Start-up organizations are flexible, fast moving, focused on delivering on the objectives and continually challenged by change.

Selecting the Appropriate Organization to Support the Business Goal

There are many organizational models that work. Keeping in mind that a start-up can organize in any way its leaders choose, consider the following models.

Functional

Typically start-ups organize by function in the beginning. These functions are: engineering, marketing, administration and infrastructure (finance, facilities, HR, IS), sales, and operations. There are products and businesses that might require further granularity in each one of these functions in order to maximize the existing talent and the value of the company. For example, an organization could have an engineering organization might have three individuals who are peers responsible for development of the product (that is, CTO, VP of engineering, and VP of architecture); and two individuals responsible for operations (VP of production and VP of process technology). Remember that the objective of these titles and the purpose of these roles is how to best support the business. A start-up that is perceived as top heavy is unattractive to prospective employees, investors, and potential customers. However, the perception, is not due to the titles, but to a behavior and attitude that can project a power-based organization, rather than a knowledge-based organization. When companies begin to develop multiple products, attack different market segments or geography, or wish to change their business model (fables to manufacturer), the functional organization can cease to best serve the business.

Cross-Functional

This model works best when start-ups have a business model with multiple products. For example, the business consists of either building products and providing services, or building products with shared technology but targeting different markets. In these cases, cross-functional organizations, with a general manager or vice president, are more effective in delivering the desired results. Cross-functional organizations require higher levels of management skill, versatile individual skills (such as global understanding of product development, manufacturing, selling, and marketing processes), and more complex measuring mechanisms for individual performance. At the same time, this can be a highly rewarding and interesting organization for many employees and executives who wish to develop skills in multiple disciplines and have close exposure to different functions.

Secret

Often organizations that are perceived as secret are really just organizations in transition where the leadership has not effectively managed the change. The need to know one-s place in a social structure is part of human nature; denying that need creates uncertainty and discomfort within an organization. Employees need to see how they fit into the organization. If the organization is a work in progress, subject to change, or in transition, employees still need to know how the organization is evolving and how they fit in. In this situation ignorance is not bliss, and entire organizations can become unproductive and defocused when there is a sense that the organization in place is a secret for just a few to know. The key to successfully managing changes and transitions is to maintain a flow of effective communication about these changes, and how they are affecting the organization at each phase. This requires time and energy on the part of the leading team, because people respond to and process change differently. The burden of responsibility lies with the leadership, and this means that the leading team must become experts at managing change.

Skills and Needs Matrix (SNM)

Identifying the skills (core competencies, expertise) that are required to meet the needs of a start-up is an easy exercise to plan, but difficult to execute. Throughout the organization, it is possible to identify what experience, talents, and skills are needed to perform the functions that enable the product to be completed and sold. When the team consists of a couple of founders and a few other employees, formulating a matrix that clearly identifies the gaps to be filled by others (leadership skills and experience included) enlightens and clarifies the recruiting requirements to be successful, at least on the initial objectives. Headcount plans are generated this way, albeit focused mostly on technical requirements, and the outcome of these planning exercises can be partially successful. However, when this matrix is not kept up-to-date, and nobody is accountable for making sure the gaps are getting filled with new hires, over time the company might become crippled from a single or a couple of holes that were critical to its success.

It is not a mystery that skills that are more difficult to find are also more critical and valuable to an organization. Technically, there are roles where the demand exceeds the supply and the competition for talent is brutal. The same goes for leadership skills, such as recruiting and motivating employees to achieve peak performance. Finding proven experience and a successful track record in these areas becomes the main challenge for a start-up in the early phases. Start-ups can be tempted with compromise and reducing standards in order to meet these needs partially. The enthusiasm and commitment to maintain a high-quality standard can wear off after months of efforts without results. This is a mistake that costs the start-up time, money, and reputation. In the process, headcount continues to add up, and even though needs have not been met, expenses continue to grow. Cash and stock options continue to be spent and the uniquely talented individual who can add value to the company has not been hired yet. A regular review of the SNM (See Sample Skills and Needs Matrix as an Attachment (Microsoft Excel file)) and a conscience choice to focus on the critical gaps, investing time and money to make that happen, must prevail as a modus operandi for the leadership at a start-up from the beginning. As the company grows, individual executives can keep track of progress by organization and function, but in the beginning it is the role of the CEO or an executive to identify and search for the resources to fill the critical gaps in the matrix.

Introducing Processes in a Start-up

Introducing the appropriate processes, procedures, and structure at the right time is a typical challenge for a start-up. In an environment that is intrinsically intuitive, creative, and fast paced, excessive and premature introduction of a formal organizational structure and systems that support it can defeat several of the original objectives entrepreneurs desire to achieve by starting a company: to be flexible, to make quick decisions, to avoid red tape and to be there first. How can management processes be effectively introduced?

1. Define process simply: A process is composed of the steps to get something done efficiently and it can be repeated to achieve objectives as planned. Even in the absence of documentation or formal introduction, processes exist for most organizations, and management and employees are adopting processes as part of getting the job done. Therefore, processes are in place from the early stages of a start-up and can be embraced by the organization as an effective mechanism to achieve the goals.

2. Decide what processes are critical and introduce them as soon as they are identified. The following processes should be considered when starting the business:
   a) Hiring process: How are employees hired?
   b) Offer approval process: What are the steps to extend job offers and who approves them?
   c) Purchasing: How are materials purchased, and who has signature authority? What are the levels of authority?
   d) Design review process: How will the development progress be reviewed? How will the progress of each development block be communicated to the company at large? What are the mechanisms to provide feedback and improve the process and/or add ideas?

Who is responsible for facilitating this process and driving action items to closure? (Typically it is the VP of engineering.)

e) Strategic planning process: What is the business plan? Who is responsible for reviewing the business plan as new information is generated from customers and other sources? How often should the business plan be reviewed? Who owns the business plan? (Typically it is the VP of marketing or the CEO.)

f) Corporate communication process: How often does management communicate with all employees? What information is shared? What are the avenues for communication?

g) Performance management process: How is performance of the corporation and its employees assessed? What are the metrics? What is the feedback mechanism?

3. Allow those executing the process to define it, document it and communicate to the population. Because all activity takes place within the confinement of a small organization (usually no larger than 50 people in the first year), the task of propagating this information should be simple and quick.

4. Role models speak louder than documents and rules: If the executive team is not inclined to follow the processes established, it is best to not have them at all. Limit processes to what the executive team is willing to model, drive, and monitor. This is the old "walk the talk" culture model.

   There is usually more conflict as a result of attempting to avoid the subject of process, or pretend that lack of processes enables the organization to be more flexible and respond faster to external input. If process is positioned as positive, necessary, and useful from the beginning, all employees embrace it and contribute by performing in their roles with process in mind. At the same time, founders and executives should not introduce too much process too fast. The appropriate number of processes and degrees of complexity is in direct line with the number of products, employees, and in general, growth.

Achieving Peak Performance

The concept of managing performance in an environment of highly educated individuals — most of whom are experts in a field and have a vested interest in the success of the company (equity holders) — can be replaced with a performance expectation and management that focuses on constantly raising the performance bar to achieve peak performance in all dimensions at all levels, starting with the founders and executive staff.

Formal performance reviews are ineffective in providing start-up employees with timely, constructive, and positive feedback. A popular exercise is to create a formal communication forum that forces managers to provide employees with feedback, but this practice fails to enable sustainable high levels of performance in a growing and fast-moving organization. It becomes a legal tool when performance issues occur. When a start-up focuses on positively driving high levels of performance as an expectation for the entire organization, instead of managing performance issues, it is possible to create a more functional and productive organization. This innovative system is more compatible with the goals of a start-up, and provides the organization with a disciplined communication process to ensure fair treatment of all employees.

The following leadership skills are required to achieve peak performance company wide:

- Hiring: hiring high-quality talent increases the chances of success in developing a high-performing team. A leader capable of consistently hiring well has the best foundation for a high-performance level in their organization.
- Communication: a successful leader is capable of clearly and timely conveying expectations, plans and objectives, business information and feedback on progress or issues. An important communication skill often underestimated or overlooked is listening; a leader who listens to employees, integrates their input into the execution of plans, acknowledges ideas and initiatives, and understands individual motivations is effective in influencing performance, especially under stress.
- Conflict resolution: delays in resolving conflict result in low morale and low productivity. Effectively resolving conflict consists of a direct and objective approach to an issue, with all parties involved, in a timely fashion (as soon as the conflict is identified), and facilitated with objectivity and a cool head. There is no greater conflict than a difference in expectation and delivery, most commonly known as a performance problem.
- Motivation: there are two types of motivation that must be understood by a leader – intrinsic and extrinsic. Intrinsic motivation is difficult to affect, drive, or improve. This quality comes from within, and drives individuals with a force that can not be equaled to an external influence. Extrinsic motivation is that which comes from the outside, specifically the manager and the environment. An excellent leadership quality is to know each employee and understand their intrinsic motivation, and how it can be complimented and enhanced by external factors. For example, in general employees enjoy a casual and comfortable work place where creativity and innovation are nurtured instead of mandated. The leader should provide such environment and observe how employees react to changes and additions as the company grows. Information, such as news about customers, findings, and new technology is also known to keep employees motivated. While the concept of financial motivation is the easiest to comprehend, the work force for which high technology start-ups are competing can not be paid enough to do something they do not wish to do, and job satisfaction is clearly the best ongoing motivation in a start-up.
- Decisiveness: indecisive leaders fail to achieve peak performance in their teams. Procrastinating in communicating to the employee how they are failing to deliver on the expectations weakens the overall team's performance, which results in low morale and disrespect for the leader. Early detection and clarification of expectations can constructively shift a course that otherwise is heading for disruption and ultimately complete failure. Deciding to be direct and clear, and in the worst case to terminate the relationship, strengthens the team and enables the leader to succeed.
- Fairness: Leaders are not in a popularity contest. Being fair requires objective observation and measurement of performance across teams at different times, based on the current challenges. This means that individual employees are evaluated on different scales over time. The concept of consistency in a changing environment is very difficult to apply and expect the same outcome each time. A leader's sense of fairness and objectivity as perceived by the team, comes from the ability to manage different situations using judgment, knowledge, and information, not from being consistent without room for new information. A fair leader listens, gathers information, reaches conclusions, and communicates their judgment with clarity.

Ideally, employees are screened and hired in roles where they can add value and for which they are well-suited. Leaders clearly communicate goals and expectations, and create a highly motivating environment where all employees are treated with respect. Communication is direct and frequent, and conflict is resolved in a timely fashion. This level of functionality and performance can be achieved if the leaders are committed to maintaining high standards and performance in line with the vision of the company.

Timing and Form

All employees can benefit from a quarterly communication between manager and employee; it can be referred to as a quarterly review, feedback forum, or any other creative name leaders choose. The names have more positive connotation than a performance review. The discussion, including a concise written form, includes the following:

1. Accomplishments in the past 3 months: What did the employee accomplish, what was the contribution to the team and the start-up, and how did the employee add value. This tracks and monitors progress or lack thereof.

2. Skills and experience demonstrated: How did the employee perform their function, what specific skills were manifested and with what level of expertise, what was the quality of work, and how did the employee show initiative, innovation, and creativity. This validates how the employee adds value in the organization.

2. Constructive behaviors: What behaviors enable the employee to be an effective team player, what behaviors were demonstrated that the company wishes to nurture and encourage, what specific behaviors can contribute to the employee's growth and development at the company. This re-enforces the desired value system and gives the employee confidence in existing constructive behaviors.

4. Limiting factors identified: what skills, experience, or behaviors can limit the growth of the employee within the organization? This addresses performance issues caused by inadequate skills, lack of experience, and destructive behaviors. This is not necessarily of critical nature, and can relate to growth or development of skills, such as in the case for inexperienced employees.

5. Next 3 months goals: This concerns corporate and individual goals, which are subject to changes, and expectations regarding limiting factors, if necessary.

This is a working document and a foundation for discussions that take place between feedback sessions. The language in the written document must be direct, concise, and descriptive. The document can be sent to the employee before the discussion, especially if the manager wishes to get feedback on the communication. The verbal discussion can be more interactive and place information in context and in more detail. These exchanges are meant to develop rapport and establish a functional working relationship, position the manager and all other employees as equal team members, and form a habit of clear and regular communication contributing to achieving peak performance. See Sample Quarterly Feedback Form in the Appendix.

Performance and Compensation

Companies make great efforts to align compensation with performance. While this is a noble goal that validates the perceived contribution, it does not necessarily reflect the true value each employee adds to the overall goals of a start-up. Especially in technical roles, compensation is market driven and tainted by a demand that far exceeds the supply. Compensation changes after an employee has shown levels of performance that can have a greater impact, motivate, and drive higher levels of performance in the future, when delivered in a timely fashion. Real-time rewards, upon completion of product, upon delivery of technology or intellectual property, upon successful negotiation with customers or vendors, or after a period of time demonstrating consistent quality of work, yields job satisfaction, which is the ultimate goal of the employer.

In practicality, the financial consequences might not be different from an organization that reviews salaries annually. Rarely can a start-up show material results in less than one year, and employees usually do not expect otherwise.. It is also practical to have a budget and be fiscally conservative yet competitive. Therefore, a start-up can project that salary changes will not exceed a certain percentage of the budget. However, with less than 100 employees, the budget should be in line with the quality of the team and the achievements. An industry average budget might or might not be sufficient to reward a start-up team. The company should exercise judgment that goes beyond the financial consideration because the risk of losing talented individuals, and the cost of replacement, can far exceed the benefits of a meaningful reward.

The quarterly feedback process and documentation should be considered when making compensation changes. Individuals have to be rewarded for having results and for how they achieved those results. Rewarding only results can create a cultural value system that lacks disciplined process, or is forgiven of unacceptable behaviors. Rewarding only efforts is also a mistake unless the efforts yielded beneficial results. Arriving at the fair compensation, the right reward mechanism, is not simply a question of equation or data, it is a judgment call that management makes with consequences attached to it. The better understanding management has of the organization as a whole, and of each employee, the better judgment that can be applied.

Executive Performance

All of the above applies to executives and founders. Communication, clarity in expectations and goal setting, monitoring progress, and providing feedback are equally critical to this team, and the failure to do so has worse consequences. The performance of this team defines the standards for the rest of the company, and the job satisfaction at this level must be visible to all employees. Conflicts should be resolved quicker than at lower levels, and changes should be made before the impact is felt throughout the organization. In the case of the CEO and founders, board of directors should expect and drive peak performance.

Training

Start-ups operate in something similar to dog years relative to human years. In other words, whatever happens in a start-up in three months can be compared to what can happen in a mature company in approximately two years. For this reason, a single day has a great significance in accomplishment, result, or lack thereof. It is natural for founders and executives at a start-up to be reluctant to consider training for themselves or the rest of the employees, which can take days at a

time. Also, there is a perception that those who join a
start-up are mostly experienced individuals who should not require training. While this reality has elements of truth, training should be considered as a necessary tool to build a culture with consistent values and methodologies that is unique to that environment.

Training at a start-up can be redefined to suit the company's needs. Training is instruction, a skill building avenue, and value system enhancing opportunity. The benefits of having a group of employees, including the leading team, in the same room for a period of time, learning or reinforcing a common-interest subject, are much greater than the potential utilization of the skill to improve performance. Language, behavior, and approaches to problems are described, practiced, and mirrored by the team with greater chances to effectively apply after the training. It is also an opportunity to erase old baggage and bad habits, and replace them with new and better information that is aligned with the values of the start-up. With this in mind, embracing training at an appropriate level for all employees is more palatable and accepted as useful.

Training Programs at a Start-up

The following programs can add value to a start-up during the first two years:

- Interviewing skills: Clearly the most critical skill for all employees as the company ramps up in the early phases. (See Interviewing and Selection.)
- Compensation management: A program for executives and managers emphasizing stock option value, and how to create effective incentives and reward systems in a start-up environment.
- Achieving peak performance: For executives and managers focused on motivating, maximizing productivity, driving performance to a higher level, and resolving conflict effectively.
- Harassment and discrimination: A program for all employees to create awareness of the law, and instill a value system that will naturally reduce the risk of sexual harassment and discrimination in the work environment.
- Project management: A program for engineering, marketing, and operations management to build skills, introduce tools, and create a discipline that is process oriented.
- Design tools: A program for engineers focused on utilization of new design tools.

With the exception of design tools, these programs should be semi-custom, integrating corporate philosophy and the appropriate emphasis to consistently drive a value system. Employees who request to attend training programs should be encouraged to do so with management approval on both cost and timing. The programs should be relevant to the job function, and have a clear and immediate application on the job.

Time Investment

How to manage time away from the job in a start-up is probably a greater challenge than the cost involved. Other than design tools, which is rarely less than a few days, training programs at a start-up should not exceed a single day, and if possible should be reduced to a half day. (This is why the semi-custom option is recommended.) The programs can be coupled with strategic planning off-sites or other periodic scheduled events.

Cost

The cost of training must be managed with the same degree of frugality as all other expenses at a start-up. Considering the cost involved in hiring at a start-up, at times exceeding $25K per employee, it would seem very appropriate to consider $2.5K per employee per year. During the first year, with a headcount of 20 this would total $50K for the training budget. This is a budgeting formula and can be spent in any way the company sees fit. If it makes sense to sign up 10 engineers to a design tools program and the cost is $20K, this would be an acceptable allocation given the importance of efficient design in a start-up.

Terminating an Employee

Remember that the employer/employee relationship is between adults who enter into an agreement between equals. When either the leaders or other employees in the organization begin adopting roles that are more similar to that of teacher/student (where grading and judgment prevail), parent/child (where responsibility and dependency is not equally shared), or union/laborer (where the employer is the enemy), there is a risk of creating a dysfunctional and unaccountable organization. To maintain an adult/adult relationship, the company's leadership must create an environment where information and accountability for results is shared, conflicts are addressed, and employees are treated with respect.

Employment relationships are mostly at will, meaning that both the company and the employee can terminate the relationship at any time, with or without cause. Companies can terminate the relationship without conflicting with the individual rights of employees under the following circumstances:

- Gross misconduct has been committed. This includes, but is not limited to, theft or any other criminal activity punished by the law, breach of confidential and proprietary information, and unjustified insubordination.
- The employee is not meeting job performance expectations.
- The job has been eliminated for business reasons and there are no plans for replacement.

Although not required by law, typically, companies give employees opportunities to correct the job performance by providing them with feedback and warnings. In a start-up environment, where every day and every role counts in greater magnitude than in a stable and mature company, job performance issues must be managed with fairness and thoroughness but also expediently. A reasonable process to follow consist of these steps:

1. The manager clearly identifies the issue (for example, productivity, lack of skill, poor communication skills, lack of experience, or behavioral limitations) and verbally communicates to the employee: a) the issue, b) how it affects the overall team performance, c) what is expected of the employee, and d) how much time the employee has to correct the issue.

2. The manager creates a disciplined forum to review progress, and support the employee over a reasonable period of time depending on the issue. For example, if the employee is behind on the task by four weeks, a reasonable period to recuperate should be at least two weeks because otherwise it is a set up for failure. If the issue is of a behavioral nature, the employee could be asked to improve immediately (for example, cooperate with peers, communicate information, or become constructive). Progress must be reviewed frequently, no less than once a week, and require the manager to be thorough in the review and the communication of progress or lack thereof. Progress and feedback on progress should be sent to the employee using e-mail, which is sufficient documentation.

2. If progress does not occur during the timeframe specified when the issue was first identified, the manager can terminate the employee. The manager can choose to provide the employee with one last warning, indicating clearly that it is the final warning prior to terminating the employment. This too can be done using e-mail, in addition to communicating the warning verbally.

This process is difficult and demoralizing for both manager and employee, but it is less painful than avoiding and delaying the inevitable conflict that will occur as time goes on. Setting expectations clearly, identifying the issue, and articulating the consequences are critical in creating a fair and disciplined management process in which all employees, including managers, can rely.

Nurturing the Desired Culture

The information available on culture can be overwhelming. Most founders strive to develop a culture that is optimistic, fast paced, innovative, team focused, and other qualities that can be difficult to maintain as the company grows. Cultures evolve as new team members are assimilated and bring a new and welcome dimension to the team dynamic. Each employee must feel that they can make a difference in order to have the start-up experience be special and personal. Founders set the initial tone and it is their standards and personalities that dictate the foundation for the culture of the company. The stronger their opinions and convictions, the stronger the foundation of the culture and how it evolves. If the founders are inclusive, communicative, and friendly, they appeal to those who are seeking this type of environment. If the founders appreciate intellectual property and technical talent, the initial team is intellectually strong and selective along these lines.

Rarely are start-ups founded by individuals who thrive on hierarchy, conservative practices, and the status quo; but at times individuals like this are hired early on, producing a culture clash. This is a good opportunity to see how the culture stands when challenged by an individual or a group of individuals.

Founders and Executives as Role Models

This can not be avoided or underestimated and it is a serious unstated responsibility. Whether it is about dress code, hours, communication style, ethics, or dependability, founders and executives set the tone, and part of the assimilation process is to expect the other employees to behave in a similar manner. Individuality is encouraged and acceptable in our society and in high-tech, but human nature redefines a social group behavior when the individuals have been together for a period of time and pursuing the same objectives. If the desired culture is to have aggressive schedules and beat the competition, the founders and executives have to show the killer instinct by achieving more in less time, and by personally investing time and energy in making things happen with a sense of urgency. If the desired culture is to balance work and personal life, the leading team has to show how to draw the line between work and home, and how to achieve results while maintaining this balance. Contradicting words and actions or sending conflicting messages, results in an incongruent and unhealthy culture that is dysfunctional and unproductive.

Mixing Corporate and Personal Values

Mixing corporate values with personal values is a mistake, and positions the leadership as the morality police instead of corporate leadership. In other words, corporate values have to be relevant to the business. For example, if the company conveys "friendly" as a value, it might have a connotation that has to do with a personality and not with a desired behavior; in this case "cooperative" is a more appropriate term and more relevant to the business. Semantics are very critical when describing cultural values, and leaders must keep in mind that the meaning of each word can be different for different people, especially in a culturally diverse environment. Terms such as "integrity", "ethical", and "truthful" have a range of reality that is mostly "gray". A corporate value can only be enforced when it directly affects the business. If the values can not be enforced consistently and repeatedly, it is not worth mentioning them as values.

Law and Rules

The law does not make exceptions, and rules have exceptions. In this context, laws are policies, and rules are guidelines. A start-up company should minimize policies in the beginning, and add them as needed based on population and overall growth. A start-up that establishes too many policies too early can inadvertently create a culture that manages "by the book" and not with the required judgment for a fast-paced, flexible, and innovative environment. Conversely, the policies that are in place must be enforced, without exceptions. This applies to founders, executives and all other employees. This consistency creates a broad sense of fairness and credibility for all other values. See Sample HR Polices and Procedures in the Appendix.

Time-to-Market and Highest Quality Dilemma

In addition to time-to-market and highest quality, there are many other potential contradictory values companies can state. It is important to reflect on this issue as values are conveyed. The reality of being able to deliver the highest quality product faster than anyone else is low and is a set-up for failure, which results in a schizophrenic environment. Individuals who embrace the concept of quality in its purest form are frustrated and conflicted when those who are tenacious about time-to-market are pushing to get the product out the door. Cultural values should represent the intent of the corporation, on how it wishes to do business, not to cover all possible motivations or agendas. A start-up is not one size fits all – by design it is an exclusive environment, where individuals with similar goals and aspirations come together to achieve something great. For this reason, less and more meaningful values stated are better.

Art and Science of Communication

It is easy to spend inordinate amounts of time learning and understanding what is the appropriate level of communication in an organization. Most founders and executives have experience with communication methods within an organization, consisting of staff meetings, company meetings, one-on-one meetings, off-sites, company-wide email, voice mail, real-time, periodic, and memos. Different individuals have different requirements to be satisfied with the level of communication in their environment. This is why management should attempt to satisfy most of the employees and not seek to achieve 100% satisfaction. Otherwise, this could result in frustration and resentment for management, and, eventually, a tendency to give up.

It is helpful to discuss communication requirements with the organization as it grows, starting with the first six employees. An initial practice of a weekly company meeting coupled with lunch is adequate and satisfactory until different functions begin to form (such as engineering, marketing, and operations). A monthly company meeting is typical and adequate until the company has at least 100 employees. The rest of the communication is entirely "need" dependent.

Leaders must use their knowledge of each employee and each employee's communication requirements. There are high-maintenance employees who need frequent and individual sessions to produce; there are also independent and self-sufficient employees who would prefer to have communication only when they initiate it. This is the art of communication – to intuitively know who needs what and when.

The science has to do with measuring the effectiveness of the communication. If projects are flowing smoothly from step to step (or at least there is clarity on challenges), if the majority of employees do not complain about communication and seem in touch with what is going on, if there are few conflicts between peers and there is a general cooperative attitude, and if there is adequate documentation on processes and methodologies, the communication is working and is adequate. Otherwise, the leadership must review and make changes, one by one, until the measurements indicate that the communication has improved. More communication is better than less, unless more time is spent attempting to communicate than getting things done.

Culture Happens: By Design or By Default

It is in human nature for groups of people to develop "group" habits; these habits result in a culture unique to that group. Unfortunately, it is also natural for some of these habits to be destructive and/or negative. If founders and executive teams ignore the cultural aspects of an organization, a culture will develop overtime and it will be culture "by default". This lack of intent in this critical aspect of a start up can be one of the greatest and most damaging negligence on the part of the leadership. Cultural values, habits, ways of doing business, communication and behaviors within the team have to be shaped, nurtured and modeled by the leadership, all the time. This results in a culture "by design".

Chapter 4: Benefits

Objectives

Employees today, and particularly the kinds of people early stage companies are seeking to attract, are increasingly sophisticated about benefits: they expect comprehensive options from health care to pre-tax spending accounts. While basic coverage such as health insurance and vacations is essential, a wide variety of options exist. Deciding whether to share costs and responsibility with employees, what is most important to your particular work force, and what you should provide and can afford will help you make good choices. Quality of benefits has become a competitive advantage and start-ups have less flexibility than they used to in terms of choices and how basic to keep the programs. The goal should still be to implement the most cost-effective and acceptable plan, and adding benefits should be considered only when affordable and sustainable. When in place, benefits are difficult to take away from employees. Improving benefits over time can boost employee morale; companies should evaluate adding or improving programs when affordable and sustainable. Offering every available benefit from day one leaves no room for further improvements, creates an environment of entitlement, and is too expensive.

Planning

In a start-up company, stock options provide employers with an edge in compensation. Salaries are mostly market driven with some opportunities to negotiate, in combination with stock options. A solid or innovative benefits package can be an important tool for recruiting and retaining employees, especially in a social environment where the cost of health care continues to increase and quality of care is critical.

Benefits Package

The type of benefits, levels of coverage, and mix of plans define the benefits package. Broadly classified, benefits include insured plans (health, life, and disability), paid time off (vacations, sick leaves, and holidays) and savings/401K plans.

Basic levels of health insurance for the employee and dependents, and paid vacation and holidays are the minimum benefits from a competitive standpoint. Life insurance, with options for additional coverage at the employee's expense, and long-term disability can also be expected, but the costs can be prohibitive for small organizations with cash constraints.

Cost

Benefits costs include the premium or direct claim costs, as well as the administration and communication expenses, brokerage or commission fees, and costs of complying with government regulations. Benefits inflation rates should also be considered. Spending more than 20% of salaries would be unusual in a start-up situation.

Cost-Sharing

Flexibility or choices in benefits and cost sharing are important benefits issues today. Plans can give employees choices – between two health plans or optional life insurance – and require employee co-payment, which is common practice at most start-up companies and some large organizations.

Employee involvement through plan choices and premiums go hand in hand. Employees who must actively select coverages often understand plans better, and as consumers, accept sharing costs and paying premiums. In addition, effective communication on insurance costs makes employees aware of the company's investment in them.

Typically start-up companies offer benefits at no cost for the employee coverage, and share the cost of dependent coverage. Requesting more than 20% of the premium from the employee would be excessive. For example in a family of four, the approximate premium could be around $500 per month, and the employee can be charged $100 per month. Most employees would find this ratio acceptable.

Selecting Benefits Plans

For those selecting a company's benefits plan, it is sometimes difficult to be objective. For example, if those persons selecting the plan have families, it is likely that a health plan more beneficial to families with children is considered.

To avoid subjectivity in the selection process, the CEO should insist on market survey information (Radford, AEA, and so on) justifying the proposed benefits plan. A human resources consultant can assist with the development of the overall strategy, and design and provide an objective assessment and recommendations.

In addition to types and levels of coverage, premium rates and funding mechanisms need to be negotiated and administrative responsibilities defined. Because of increasing cost and complexity and burgeoning government regulations affecting benefits, consultation with a benefits specialist or broker for actual plan selection and implementation is strongly recommended. Brokers should provide a matrix of plans with provisions and costs offered by different carriers for each benefit under consideration. They can also help with outsourcing administration of plans to the greatest extent possible. Brokers can generally be retained at no cost to the company, because their commissions are usually paid by the insurance providers themselves. (See Additional Resources in the Appendix for recommendations.)

Health Insurance

Medical Coverage

Medical coverage can include multiple plans such as an insured plan and an HMO (health maintenance organization). For cost reasons, when the company has 100 employees this should be implemented. Prior to this, executive teams are inclined to make decisions based on their own experiences with different health plans. In the early stages, a plan that covers pre-existing conditions (with limitations) and that provides a PPO (preferred provider option) saves an employee substantial deductible dollars. Coverage of at least $1 million in a lifetime will satisfy most individuals who are interested in joining a company at this stage. A broker who is experienced in working with start-up companies can provide the company with multiple choices of insurance companies that offer similar coverage.

Dental Insurance

Dental Insurance is a standard benefit even in small organizations. It is relatively expensive, so a modest plan that covers preventive care (reducing potential for major claims) is a good choice. Differences among plans are minimal.

Long-Term Disability

After medical insurance, long-term disability (LTD) is the most expensive insurance. Among start-up companies, the decision to offer LTD is not universal. If your philosophy is to provide employees and their families with disaster protection, it is important to include LTD. Although expensive, offering LTD gives the company additional leverage to recruit key employees that likely had this benefit at previous jobs.

Short-Term Disability

Short-term disability (STD) can be the second most needed benefit (more than LTD), because it is more common for employees to be affected short term by an illness than long term. (Pregnancy is also covered by STD.) Some start-up companies choose to offer STD from the beginning, while others add STD coverage as the company achieves financial milestones. This can become a competitive advantage when hiring because given it is not considered a basic benefit.

Vision Care Insurance

Vision care insurance is generally inexpensive and worthwhile. There is not significant cost savings and it is best to not make it a roadblock in the hiring process.

401K Plan

A 401K plan has become a standard benefit at companies with as few as 10 employees. This plan is an excellent opportunity for employees to defer a percentage of their salary on a pre-tax basis into a retirement savings plan.

In the early stages of growth, companies do not match employee contributions. Instead, companies offer the plan selection and pay the administration cost, which ranges between $5 and 10K per annum, depending on the number of employees.

The greatest challenge in implementing a 401K plan is encouraging full employee participation. This is critical because the IRS limits the annual contribution if employees do not participate across the board (at all levels). Educating employees who do not fully understand the benefits of this plan is essential. An experienced plan administrator can assist in explaining the value of 401K to employees.

Section 125 Plans

Section 125 plans offer employees the opportunity to pay for their share of medical premiums, non-reimbursed medical expenses, and dependent care expenses with pre-tax dollars. These plans are rapidly becoming standard, and while they involve extra benefits, accounting, and administration, they are well worth offering.

Paid Time Off: Vacation, Holidays, Sick Time and Sabbaticals

In the early stages of a start-up company few employees take long vacation, or indeed, any vacation within the first year of work. Similarly, committed employees rarely take sick time off even if their health is demanding it. Having a simple policy from the beginning allows management and employees to plan the work load around necessary time off. See examples in Sample HR Policies and Procedures in the Appendix.

a) Vacation:

- Many companies have a progressive vacation policy where employees are allowed to accrue vacation time with length of service. Two weeks to start is typical. Under California law and the law of some other states, accrued but unused vacation is considered a form of wages that cannot be forfeited, must be allowed to accrue indefinitely, and must be paid out in cash at time of termination. The company could establish a policy where accruals are capped or employees are paid for any accrued vacation beyond an established maximum, for example five weeks. This allows enough time for scheduling and/or the completion of a specific project.
- Employees should be encouraged to give two month's notice for a one week or longer vacation, and at least one week's notice for a one-day vacation. Ongoing communication

between management and employees should reduce any schedule upsets that can occur due to vacation time.

b) Company Holidays:

- These days off are determined primarily by holidays observed by most companies. It is customary to have between 8 and 11 holidays during the year. Days such as the day after Thanksgiving, or other days between an official holiday and a weekend, are usually considered holidays, but the company does have the right to choose what those days are. These are generally called floating holidays.

c) Sick Time:

- The standard annual sick time ranges between 5 and 10 days. Accrued sick time is not paid at termination. Management should take appropriate steps to assure that sick time is not abused, including, for example, a requirement that absences be supported by a physician's written certification. Because this is a harsh approach that does not lead to a trusting culture, it is recommended only in extreme cases.
- An innovative approach, and one that establishes an adult/adult relationship (see GDT section) between managers and teams, is to establish sick time as needed. This allows employees and managers to exercise judgment without having specific time or a policy dictating how long is adequate. Issues of performance that can derive from this liberal approach should be managed independent from a sick time policy.

d) Combined Vacation, Sick, and Personal Time Off:

- Some companies combine vacation, sick, and personal time to provide paid time off (PTO). Benefits of this approach include putting employees in charge of managing their time off as is best for their individual situations (for example, taking a PTO day to care for a sick family member—neither a vacation nor sick day). PTO eliminates the sense of entitlement some people feel to use their sick time, sick or not. Relatively young, healthy workforces especially appreciate the combined approach.
- PTO usually starts at 15 to 20 days per year. As with standard vacation time, a maximum accrual is established. One disadvantage is that PTO can be more expensive, because accrued, unused PTO hours must be paid at termination. While more popular, this is a more costly system than separating vacation and sick time.

e) Sabbaticals:

- A start-up environment demands time commitments from employees that exceed the 40-hour work-week for at least two years. To compensate employees, several successful companies have implemented a sabbatical policy that provides for a six-week sabbatical after five or six years of service.
- Before implementing a sabbatical policy, it is critical to define its objective. A company should only have a sabbatical policy when it is in a position to comply with the demands of such a practice. First, in some cases sabbaticals can be treated as vacation time, in which case it accrues daily and must be paid pro rata in cash at time of termination. Second, some companies that have established sabbatical policies and later found it necessary to disband them, have found it extremely difficult to do so without causing serious morale and legal problems.
- Although a high percentage of employees use sabbatical time to interview for other jobs (35%), many employees return after taking their sabbaticals (85%), while others give the company an opportunity to re-recruit them.
- Formalizing a sabbatical policy might make more sense when the company is in a position to comply with the demands of such practice (financial and emotional.) A company's

performance is usually clear after three or four years in business and employees view an upcoming sabbatical as a tremendous improvement in benefits.

High Impact/Low Cost Benefits

Food

It is nearly standard to provide food for employees at various levels. Lunch for everyone at least once a week is common; drinks and snacks, donuts and bagels, and the occasional dinner are also typical at least during the first year. Some start-ups do more than this and none dare do less. Compared to all other expenses, food is inexpensive and buys lots of good will from employees. The company is fulfilling a basic nurturing need, and creates a caring and generous climate that most individuals appreciate at an emotional level. Sharing food bonds people, leading to better relationships and promoting communication.

Health Club Memberships

Most health clubs will gladly cooperate with an organization by negotiating corporate rates that can benefit employees. This is an attractive benefit and for some individuals an important gesture on the part of the organization. The cost of this benefit is shared, and the company does not need to pay over 50% of the total premium.

Conferences and Symposiums

Many start-up companies worry about their employees attending conferences and/or trade shows, and symposiums, mostly concerned about time spent away from the job. Engineers can benefit greatly from attending such events, which are typically considered a benefit. Again, considering the cost of hiring, retaining employees by providing this extra benefit can more than justify the expense, and it is perceived as a liberal management practice – a quality mostly appreciated by employees in a progressive work environment.

Chapter 5: Administration

Proper administration and maintenance of human resources information in compliance with the law is simple and easy when properly established at the outset.

Record Keeping

Personnel records are divided into the following categories:

Employee records — files dedicated to personnel records for every employee. Each file should contain the following information:

- Copy of the signed offer letter.
- Personal data sheet.
- Originals of signed performance reviews.
- Status change sheet (see sample attached). This form indicates any change in an employee's status including salary, title, or function
- Stock option document.
- Confidential and/or proprietary information agreement.
- Any documentation on corrective action procedures, formal or informal.

Employees have access to their own files. Hiring managers, functional executives, and human resources personnel are the only other individuals who should have access to this information.

2. Employee benefits records — files dedicated to benefits applications and other benefits-related information for every employee. It is important to keep these records separate for legal reasons. Personal data on employees (number of dependents, health problems, and so on) are irrelevant to their performance evaluation. Managers should not have access to this information.

   Each file generally contains the following information:
   - Copies of all insurance applications
   - All correspondence from insurance companies regarding the registration card, naturalized citizenship certificate, driver's license, and original social security cards).
   - Cobra information on terminated employees
   - Cobra information on employees who required it when joining the company

   Employees have access to their own files. The benefits administrator (or other human resources representative) and CFO are the only other individuals who should have access to this information.

3. Form I-9 (employment eligibility verification) and identification— Copies of documents such as U.S. passport, birth certificate, and alien registration.

   Legally, a manager cannot use this information when evaluating an employee for promotion or other status change. Managers should not have access to this information.

4. Payroll records—Records relating to individual payroll, including W-4, payroll deductions records, and changes

   Note: *Any legal action against the company by an employee accusing the organization of wrongful termination or discrimination involves an audit of these records. U.S. labor law is very complex and changes almost every year.*

Who Is the Records Administrator?

The records administrator is responsible for generating the files when an employee starts work at the company. This person is also responsible for maintaining these records and keeping them confidential. Because most start-up companies do not have a dedicated human resources representative, the records administrator is usually the person who also provides support in all other areas. In other words, this office manager, or executive administrator, is also the receptionist, accounts payable clerk, payroll clerk, and secretary to the entire company. This is usually the first support function defined by the company.

If the individual does not have experience maintaining employee records, it is critical to seek advice from a human resources consultant or labor law lawyer. The administrator must understand the heavy responsibility of keeping these records. If the administrator mismanages these records, the company could be held liable.

When the company can afford and justify additional administrative support, the records administrator should not be the same individual who supports the CEO, in order to avoid conflict of interest.

In the absence of an administrator, employee records should be maintained by the CFO or financial controller.

How Are the Records Kept?

Employee records should be kept at all times in locked, fireproof cabinets and placed near the administrator's desk. The records must be current and well-organized. All files should contain the same information on each employee.

About the Author

Human Rsources Best Practices was written by Cecilia Hayes, who has over 20 years of experience in the Human Resources field, specifically in the high technology industry. Her last corporate role was at S3 Inc., now Sonic Blue, where she was the VP of Human Resources. She started at S3 when the company was a new start-up and saw its growth up to 900 employees within a 10 year period. Prior to S3, she was a consultant for various early stages start-ups, most of which achieved successful IPO's or were acquired. Ms. Hayes has extensive experience in organizational development, compensation structures including stock plans, and labor law understanding. She has been a full-time consultant since 1998. Contact Cecilia at ceciliahayes@netscape.net or 208-890-6460.

Appendix

Additional Resources

Name	Contact	Discipline
Executive Recruiters		
Shawn Oglesbee Christian & Timbers	216-682-3116 Soglesbee@ctnet.com	CEO, VPs All high-tech industry
Gary Rockow	415-851-6000	VP Finance, CFO
Cliff Schuffle	415-356-7860 cliff@schuffleassociates.com	VP Finance, CFO
Aaron Woo	408-369-9500	VP, Dir., technical Semiconductor
Peter Legeti	408-249-1960 pligeti@aol.com	Director, technical Semiconductor HW
Davis Search Jason Davis Kevin Fox	416-782-7191	Director, technical Semiconductor, HW, SW, Systems, Comm.
On-Site Contract Recruiters		
Linda McGilviery	831-429-1649 lindamcgil@yahoo.com	Semiconductor, HW, SW
Kurt Sellers	408-225-4174	Semiconductor
Colleen Aylward Devon James	425-378-1682 colleen@devonjames.com	All disciplines
Benefits Brokers		
DH Insurance Alan Smith, Janet Crosby	408-774-2100	All benefits
Hover Insurance David Hover	800-300-7171	All benefits
The Heffernan Group Mike Hefferman	925-295-2501 heffA@heffgroup.com	All benefits
Integra Insurance Services Ryan Fenchel	408-562-2082 rfenchel@integrainsurance.com	All benefits
Compensation Benchmarks and HR Consulting		
Advanced HR	408-872-0377	Pre IPO Comp.

Name	Contact	Discipline
Dee DiPietro		All disciplines
SK Consulting Bob McGuire	www.skconsulting.com	All stages, Comp. & Benefits
Marie Zolezzi	530-582-5453 marie@zolinc.com	General HR
Pat Bashaw	650-494-0181 pbashaw@pacbell.net	General HR

Sample Job Description

Company Name

Job Title: Design Engineer

General company, product and market description without proprietary information.

(Assume this information will be widely propagated by recruiters and/or through advertisement.)

Position Description

Describe what the person will be expected to do, three or four bullet points, including time frames/milestones (if possible).

Required Experience

- Level of Experience (number of years)
- Should have focused on the implementation of (the most specific area of expertise required).
- Should be experienced in (other areas of exposure required)
- Ideal previous role within the organization (team member, project lead, manager, etc.)
- Demonstrated collaborative behavior, customer sensitivity, a sense of urgency and excellent communication skills.
- Should have experience utilizing the following design tools: .
- Degree required or equivalent.

Desired Experience

- Other requirements, such as : customer interface, experienced in developing design methodology, etc.
- MSEE or PhD/EE

Sample Reference Check Form

Applicant Name: ________________________________Date:_______________________

Position: ____________________Hiring Manager: _________________________________

Reference Name: ______________Phone: __________Email:______________________

Relationship to Applicant: (how did they know each other and for how long)________________________

Reference's Current Company: ___________________Position:____________________

What are/were the applicant's responsibilities and experience? (Gather facts: what did the applicant accomplish? What are some examples of projects/tasks/programs the applicant participated in, completed, directed, monitored, conceptualized, developed? What did the applicant need to know in order to accomplish these?– If reference expresses an "opinion" or "evaluation" of the applicant's work, ask: what gave you that impression? How did you come to that conclusion? – These questions will bring objectivity to the opinion and allow the reference to justify the comment with facts)

____

____

____

In what area does/did the applicant excel? (This is a way to ask: what are the applicant's strengths? – when the answer is not specific, ask: give me an example of a situation when the applicant demonstrated that ability/knowledge? Other useful questions: what are some of the strengths that peers recognized in the applicant/ what would customers, vendors, other organizations say about the applicant's capabilities? As a new employer, what can we expect as an immediate contribution from the applicant? How does the applicant solve problems?)

____

How does the applicant relate to others in the work environment? (how does the applicant deal with conflict with peers? What is the applicant's communication style? Give me an example of a situation where the applicant demonstrated a "team spirit"? Does the applicant generally drive decisions or support them? How does the applicant react when he/she disagrees with decisions made? What is the worst criticism the applicant's peers would mention?)

What areas can be developed based on your experience with this applicant? : (In what areas does the applicant need support from management? What is a specific area of growth you would mention for this applicant? What was difficult for this applicant to learn in past experience? IN our assessment, what would make this applicant a well-rounded individual (technically, personally, functionally)? What behaviors are not likely to change/improve? What characteristic did you have difficulty dealing with in your experience with the applicant?)

How does management motivate the applicant? (what management style is most effective with this applicant? What do you think drives this applicant? Under what circumstances would the applicant become unmotivated? Would you say that the applicant would respond to a highly structure or a flexible environment? Where the objectives in the previous position clearly defined? How does the applicant respond to ambiguity?)

____

____

What additional information can you provide regarding this applicant?

____

____

____

Reference Checked By: ________________________Title:_____________________________

Comments:

About the form: These are samples of questions that lead to substantial information. The person checking the reference needs to determine what questions is appropriate and in most cases, many questions are generated while talking to the reference. It is recommended, if not necessary, to base questions on the Job Description; the objective when checking a reference, is to verify if the applicant indeed has the qualities for the position based on previous experience and knowledge.

Sample Reference Check Form for Senior Executives/Leaders

Reference check for:____

Reference given by: ____

Reference performed by:____

Date of reference:____

Contact information:____

Questions:

When did you first meet _____ and under what circumstances?

What was the nature and quality of the relationship?

Are you still in contact with _____ and with what frequency?

Does he seek stressful or comfortable situations?

How does he handle failure or situations that do not develop as he planned or would have liked?

In instances of failure or problems, does he tend to blame himself, others, or does he step back and make a thoughtful analysis of the situation?

When he fails to succeed, how long does it take him to bounce back with alternative means to accomplish the same goal or with another new idea? Does he get frozen into one approach?

Can you think of anyone who might question his integrity?

Do you know any people who dislike or have disagreements with ______?

What are the best things or strongest points you can tell me about from the perspective of a future partner or investor?

Have you been able to observe how _______ works with other people?

Does he work better with peers or those he is supervising?

Does he complete projects or does he become distracted?

What do you think _______ will be doing ten years from now?

What do you think he really wants to be doing ten years from now?

If you had the opportunity to invest in a business led and managed by ___ would you?

How scalable is _________ management skills and capability?

Is _____ best suited for managing a small group, department, cross functional group, multi locations, or a large organization?

What are those areas where _________could expand his skills?

Is ____ tactical or strategic in his thinking?

Does ______ pay attention to details or not (finds them boring)?

How are __________ delegation skills? Does he micro-mange?

How secure was _________?

How was ______ at making tough decisions and judgment calls?

Other comments about _______?

Sample Offer Letter

Date

(name)

(home address)

Dear,

We are pleased to extend you an offer of full time employment as Title at Company Name . In this position, you will lead the company and report to Hiring Manager's Name.

Your starting annual salary will be $annual salary per year paid bi-weekly. In addition, you will be eligible for Company Name health insurance plan and other benefits as they are implemented for similarly situated employees.

Upon your acceptance of employment, we will recommend to the Company Name Board of Directors that you be granted an option to purchase number shares of Company Name stock at the price per share set under the Company Name Stock Option Plan, subject to the approval of the Company Name Board of Directors. As soon as this price is set, you will be informed. The shares will vest over 4 years after your start date; 25% after 12 months, and the remaining 75% on a monthly basis in equal amounts over the following 36 months. (this is the typical vesting, but it could be different).

.

We want to take a few moments to acquaint you with some of our policies. Company Name was formed on principles of working hard, doing things the right way and treating each customer as the top priority. We expect the highest quality and level of personal commitment from each employee. We are hiring people with the right skills and qualifications, not based upon any specific knowledge you may have obtained about potential clients or industries. For that reason, if you signed a confidentiality agreement with a previous employer, you should read it and honor it. Company Name does not permit the use of trade secret information belonging to others or the violation of any agreements to keep information confidential. You must also sign a confidentiality and invention assignment agreement at the start of your employment with Axiom. All employment with Company Name is on an at-will basis and is not for any fixed term.

If you wish to accept employment at Company Name under the terms set out above, please sign and date this letter and return it to me by One week after offer is extended. Your first day of full-time employment is set Start Date agreed.

This letter sets forth the terms of employment with us and supersedes any prior representations or agreements, whether written or oral.

We are extremely excited to have you join the Company Name team and look forward to working with you to build this Company together.

Sincerely,

Hiring Manager

Title

Sample Band or Range Matrix

COMPANY
SALARY AND STOCK BANDS **EFFECTIVE 1/03**
THROUGH 12/03

	SALARY			**STOCK**		
POSITIONS	**MIN**	**MID**	**MAX**	**MIN**	**MID**	**MAX**
Chief Architect						
Dir. Eng.						
VP Mktg.						
VP Ops.						
Principal Eng.						
Sr. Staff Eng.						
Mktg. Dir.						
Eng. Mgr.						
Staff Eng.						
PMM						
HW/SW Eng.						
PME						
Mktg. Mgr.						
Entry Level						
Administrative						

Sample HR Policies and Procedures

Effective Date:

Intent: The intent of these policies is to provide employees with clear communication on the rights and responsibilities they will have while working at Company**.** Two of these policies are necessary to comply with State and Federal laws (EEO and Policy Against Harassment); the Personal Time Off Policy has been established based on past practices and industry standards. Other policies are designed with management discretion and consistent with the philosophy that will frame how we build the Company.

Policy and Guideline: For the purpose of this document, "Policy" is defined as any definition of behavior or operating procedure for which no exceptions are ever made. "Guideline" is defined as any general procedure to be followed where each individual manager may exercise some degree of discretion based on individual circumstances.

EQUAL EMPLOYMENT OPPORTUNITY POLICY

Company believes that all persons are entitled to equal employment opportunity and therefore does not discriminate against its employees or applicants because of race, color, religion, sex, sexual orientation, pregnancy, national origin, ancestry, citizenship, age, marital status, disability, medical condition, Vietnam Era Veterans status, family care status, disabled veterans status or any other basis protected by law. Equal employment opportunity will be extended to all persons in all aspects of the employer-employee relationship.

POLICY AGAINST HARASSMENT

Company is committed to providing a work environment that is free of harassment. In keeping with this commitment, Company maintains a strict policy prohibiting unlawful harassment, including harassment based on an individual's race, color, religion, sex, sexual orientation, pregnancy, national origin, ancestry, citizenship, age, marital status, disability, medical condition, Vietnam Era Veterans status, family care status, disabled veterans status or any other basis protected by law. This policy applies to all employees, including supervisors and non-supervisory personnel. Furthermore, it prohibits harassment in any form, including both direct verbal, physical and visual harassment, and communications made through the Company's e-mail, voicemail and computer systems. Employees who violate this policy are subject to disciplinary action, including suspension or possible termination.

1. Definition of Sexual Harassment

Sexual Harassment refers to behavior of a sexual nature that is unwelcome and personally offensive to its recipients. Sexual Harassment is a form of employee misconduct that is demeaning to another person and undermines the integrity of the employment relationship.

Sexual Harassment includes but is not limited to unwanted sexual advances, requests for sexual favors and other verbal or physical conduct of a sexual nature when either (1) submission to such conduct is made an explicit or implicit term or condition of employment; (2) submission to or rejection of such conduct by an individual is used as a basis for employment decisions affecting such individual; or (3) such conduct has the purpose or effect of unreasonably interfering with an employee's work performance or creating an environment that is intimidating, hostile and offensive.

For example, unwanted physical contact, foul language of an offensive and sexual nature, sexually oriented propositions, jokes of a sexual nature, obscene gestures or the display of sexually explicit pictures, cartoons, drawings, screen savers or other material may be considered offensive to another employee and, thus, should not occur.

2. Complaint Procedure

Any employee who believes he or she has been subjected to inappropriate behavior by a coworker, supervisor or agent of the employer should promptly report, either in writing or verbally, the facts of the incident or incidents and the names of the individuals involved to his or her supervisor or, in the alternative, to the Human Resources representative at the Company. Supervisors should immediately report any incidents of inappropriate behavior to the Human Resources representative. This individual will investigate all such claims and take appropriate corrective action where it is warranted.

All complaints of unlawful harassment will be investigated in as discreet and confidential fashion as possible. No person will be adversely affected in employment with the Company as a result of bringing complaints of unlawful harassment.

We encourage employees to use the Company procedure for resolving complaints of harassment, including claims of sexual harassment, and we believe that this procedure is effective. However, employees may file complaints of discrimination, including complaints of sexual harassment or retaliation for having made claims of sexual harassment, with the California Department of Fair Employment and Housing ("DFEH") or the Federal Equal Employment Opportunity Commission (EEOC). Both the DFEH and the EEOC serve as neutral fact finder and help the parties voluntarily resolve disputes. If the complaint is not resolved by DFEH, it may be heard by the California Fair Employment and Housing

Commission ("FEHC"). FEHC may dismiss the complaint or may order a variety of remedies such as hiring, reinstatement, actual damages, compensatory damages or penalties. The DFEH can be contacted at (local address).

PERSONAL TIME OFF POLICIES

Company wishes to encourage employees to take adequate amounts of time off during the year, as well as when necessary due to health reasons.

OPTION I.

PERSONAL TIME OFF encompasses (1) all absences due to illness (2) personal reasons, and (3) vacation or religious observations.

Accruals and Procedures

1. PTO is accrued at a rate of 3 weeks (15 days) for the first three (3) years, and 4 weeks (20 days) beginning the 4th year of employment.
2. All employees accrue PTO as of the date of hire. Permanent part-time employees who normally work at least 30 hours a week will be eligible to accrue personal time off on a prorated basis.
3. PTO balance may carry over from year to year to a maximum of 240 hours. It is each employee's responsibility to schedule time off when the maximum approaches. Once an employee has accumulated the maximum of 240 hours personal time off, personal time off will cease to accrue until the total earned personal time off falls below the maximum allowance.
4. Employees must submit all requests for vacation leave to his or her Manager for advance approval. Salary will not be paid to current employees in lieu of accrued personal time. However, all earned, unused personal time off will be paid as wages at the time of termination.
5. As a guideline, mutual consideration in regards to critical corporate milestones and/or individual extenuating circumstances for PTO requests, is expected from all employees and supervisors.

Other Time Off

Company provides full time employees with other time off, not deducted from an employee's PTO, for the following approved purposes:

1. **Bereavement:** Up to 3 days with pay will be allowed in the case of death in the immediate family. Immediate family is considered to be spouse, children,

parents, grandparents, brother, sister and in-laws of any of the above. Managers may use discretion when these events take place in very distant locations (out of the US). **Individual exceptions can be made at management discretion**.

2. **Jury Duty or Appearance as Witness**: For 5 workdays each calendar year, an employee's salary will be continued in a full at the regular rate less any jury compensation. After the 5th workday, time will be granted without pay or personal time may be used. The employee must show the jury duty summons, witness subpoena or other legal process to his or her supervisor immediately after receipt so that arrangements can be made to accommodate his or her absence.
   Individual exceptions can be made at management discretion.
3. **Voting**: A maximum of two hours will be given if, due to work schedule and commuting distance, it is impossible for the employee to vote either before or after working hours.
4. **Military Duty**: A leave of absence to perform duties in the uniformed services ("military leave") is provided to eligible employees.
5. **Workers Compensation**: Company provides a comprehensive workers' compensation insurance program at no cost to employees. This program provides insurance for covered injuries or illnesses sustained in the course of employment, that require medical, surgical, or hospital treatment. Subject to applicable legal requirements, workers' compensation insurance provides benefits after a short waiting period or, if the employee is hospitalized, immediately.

   Any employee who sustains a work-related injury or illness should inform his or her supervisor immediately. No matter how minor an on-the-job injury may appear, it is important that it be reported immediately. This will enable an eligible employee to qualify for coverage as quickly as possible.

   After 30 days from the report of the injury, the employee may be treated by a physician of his or her own choice within a reasonable geographic area. In the event of injury requiring more than first aid, the employee may be treated by his or her personal physician in the employee notifies the Company, in writing, of the name of the personal physician prior to the date of the injury.

Neither the Company nor the insurance carrier will be liable for the payment of Workers' Compensation benefits for injuries that occur during an employee's voluntary participation in any off-duty recreational, social, or athletic activity sponsored by the employer.

OPTION II

COMPANY PTO POLICY

TIME OFF

Periodic rest and recreation is important to maintain a healthy attitude at work. As such, the company provides a paid Personal Time Off (PTO) benefit to eligible employees. PTO is to be used for any absence from the job including: scheduled vacation or personal time off, as well as unscheduled situations such as family illness, and emergencies. PTO accrual begins on your first day of employment, and time off can be taken as it is accrued with prior management approval. Requests to take more time off than accrued, which would result in a negative PTO balance, must receive prior approval from your manager and Human Resources. Unpaid time off may be requested, but also requires prior management approval. As of Date Company employees are eligible to accrue PTO benefits according to the following schedule:

YEARS OF CONTINUOUS SERVICE	HOURS PER PAYROLL PERIOD	DAYS ACCRUED PER YEAR	MAXIMUM ANNUAL ACCRUAL (days/hours)
1-3	5.00	15	30 days/240 hours
4-6	6.67	20	30 days/240 hours
6+	8.33	25	30 days/240 hours

"Maximum Accrual" means that should an employee accumulate 240 hours of PTO, no additional accrual will take place until the employee has used PTO to reduce the accrued hours. Company does not have a "cash out" option in lieu of PTO.

Sick Time Off

Company wishes to encourage employees to take "sick time off" as needed. We assume a relationship with employees that is based on trust and mutual obligation. Company employees should use judgment and consideration when deciding the appropriate length of time to take care of injuries and illnesses. Employees are responsible for communicating with managers in a timely fashion when they need to take sick time off. (Job related illnesses and injuries: see Workers Compensation explanation).

OPTION III

A combination of Vacation Time Off and Sick Time Off, typically 2 weeks each per year. Vacation Time Off is accrued and carries over from year to year, Sick Time Off does not. While this option is the most financially beneficial to the company, it is the least popular with startup employees.

Sample Quarterly Feedback Form

Review Date:

Name: Start Date:

Reviewing Manager:

Accomplishments during period:

(What was done – this would entail 3-4 major accomplishments, completed projects)

Skills demonstrated:

(Skills the employee used to perform in the role, degrees of expertise/fluency)

Skills required in the future:

(Skills that need to be developed in order to perform future tasks, skills that need to be enhanced/improved)

Behaviors that enhance teamwork and productivity:

(Constructive behaviors that are encouraged and rewarded)

Behaviors that can affect teamwork and productivity:

(Behaviors that negatively affect teamwork and productivity and require awareness/correction)

Future Plans and Expectations:

(Future projects, management expectations)

Other comments:

Reviewing Manager's Signature Employee's Signature

(Employee's Signature implies understanding of the feedback provided. Should employee disagree or have additional comments to the review, it should be provided in writing and attached to the review.)

(Original Copy to Personnel File)