CHAPTER 20  Managing Human Resources

CHAPTER OUTLINE

Spotlight: 37signals
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1 Recruiting Personnel

Explain the importance of employee recruitment and list some useful sources for finding suitable applicants

➢ The Need for Quality Employees
  ▪ No substitute for high-quality employees
  ▪ Recruitment and selection of employees establish a foundation
  ▪ Most successful companies move ahead of competition because they recognize that employees are the business to customers and others
  Discuss the availability of employees to small firms in different economic climates. Ask students if they think people are willing work for lower salaries in poor economic climates when jobs are difficult to find.
  Ask students if employers would find higher quality employees they are able to hire for a lower salary right after a downturn in the economy.

➢ The Lure of Entrepreneurial Firms
  ▪ Requires small firms to identify their distinctive advantages
  ▪ Small firms are able to offer professional, managerial and technical personnel greater job variety and freedom than larger businesses
  ▪ Drawbacks such as limited employee benefits may be offset with potential advantages
  Ask students what they have done or would do to find a job (either part time as students or full time once they graduate). Then compare the following sections with their answers.

➢ Sources of Employees
  ▪ Walk-Ins
  ▪ Help-Wanted Advertising
  ▪ Schools
  ▪ Public Employment Offices
  ▪ Private Employment Agencies
  ▪ Temporary Help Agencies
  ▪ Internet Recruiting
  ▪ Employee Referrals
  ▪ Executive Search Firms (possibly using headhunters)
  Discuss how the placement office on your campus works with small firms to help graduates and students find jobs.

➢ Diversity in the Workforce
  ▪ Workforce diversity
  ▪ Diversity in itself can bring innovation and have a positive effect on problem solving

➢ Job Descriptions
  ▪ Personnel must fit particular position
  ▪ Job description needed to outline or summarize the work to be performed
Job specifications are a list of skills and abilities needed to perform a specific job.

Discuss how the employer uses the job description, then ask students if they were looking for a position, how they would use the job description.

2 Evaluating Prospects and Selecting Employees

Identify the steps in evaluating job applicants.

- **Step 1: Using Application Forms**
- **Step 2: Interviewing the Applicant**
  - Behavioral interview appears to be predictive of a candidate’s potential for success on the job
  - Structure uses questions (some listed on pages 591-592 of chapter)
- **Step 3: Checking References and Other Background Information**
  - Careful checking with former employers, school authorities, and other references important to avoid hiring mistakes
  - Background check may be available that provides financial, criminal and employment history (databases available)
  - Cautions:
    - Keep in mind that the Fair Credit Reporting Act requires that the applicant be notified in writing that the report is being requested
    - Before you request a check obtain written consent from applicant to ensure legal compliance and give the applicant the opportunity to withdraw from further consideration
    - May be legally prevented from using some of the insights revealed to reject an applicant
    - Some entrepreneurs question the accuracy of the information that surfaces from criminal background checks
- **Step 4: Testing the Applicant**
  - Validity and reliability of any performance testing must be checked
  - Interpreting tests or adapting them to a particular business may be questioned
- **Step 5: Requiring Physical Examinations**
  - To check the ability of applicants to meet the physical demands of specific jobs
  - Drug screening of applicants permitted by the law

3 Training and Developing Employees

Describe the roles of training and development for both managerial and nonmanagerial employees.

- **Basic Components of Training and Development**
  - Employee training
  - Management development
- **Orientation for New Personnel**
  - New employee introduction to the job
  - Recognize employee sensitivity
- **Training to Improve Quality**
  - Training designed to promote high-quality workmanship
  - Ongoing supervision with special classes and seminars helpful to all employees
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- **On-The-Job Training**
  - May be used to identify abilities or skills required for particular jobs
  - Job Instruction Training (Exhibit 20-1 Steps in Job Instruction Training)

- **From Training to Implementation**
  - Barriers to implementation of training based in human nature
  - Features of T&D program
    - Put it on paper
    - Measure results
    - Get peers to help
    - Involve supportive superiors
    - Provide access to experts

- **Development of Managerial and Professional Employees**
  - Management development programs require serious consideration of the following factors
    - The need for development
    - A plan for development
    - A timetable for development
    - Employee counseling

4 **Compensation and Incentives for Employees**

*Explain the various types of compensation plans, including the use of incentive plans. Ask students how they determine what amount of money they need to make when they apply for a job. Then discuss the following bringing in the employee viewpoint and the employer viewpoint on each.*

- **Wage and Salary Levels**
  - Small firms must be competitive in order to attract well-qualified personnel
  - Payments based on increments of time or vary with the output of the employees (commission basis)

- **Financial Incentives**
  - Designed to motivate employees to increase their productivity
  - Piecework is pay based on number of units products
  - Keys to developing effective bonus plans
    - Set attainable goals
    - Include employees in planning
    - Keep updating goals

- **Stock Incentives**
  - Sometimes used to attract and hold key personnel
  - ESOPs may provide employees a share of ownership in the business which should result in improvements in productivity

- **Employee Benefits**
  - Supplements to compensation
  - May include such things as vacation time, holidays, health insurance, retirement compensation

5 **Special Issues in Human Resource Management**

*Discuss the human resource issues of co-employment, legal protection, labor unions, and the formalizing of employer-employee relationships.*
Co-Employment Agreements
- An alternative to direct hiring
- Professional employer organizations (PEOs)

Legal Protection of Employees
- Civil Rights Act
- Occupational Safety and Health Act
- Fair Labor Standards Act (FLSA)
- Family and Medical Leave Act

Labor Unions
- Unionization less common in service businesses
- Labor unions complicate the relationship between the small company and its employees

Formalizing Employer-Employee Relationships
- As employees are added the benefits of informality decline and the costs increase
- Goals must be specific, measurable, achievable, realistic, and time-bound

The Need for a Human Resource Manager
- Small firms may not be able to afford a full-time specialist
- Certain conditions favor the appointment of a human resource manager in a small business
  - Substantial number of employees (100 or more suggested as a guideline)
  - Employees are represented by a union
  - Labor turnover rate is high
  - Need for skilled or professional personnel creates problems in recruitment or selection
  - Supervisors or operative employees require considerable training
  - Employee morale is unsatisfactory
  - Competition for personnel is keen
- Owner typically functions as human resource manager in small business

SOURCES OF VIDEO AND OTHER INSTRUCTIONAL MATERIALS

The Human Challenge, part of the Venturing: The Entrepreneurial Challenge series produced by Vermont ETV, illustrates several creative ways in which founders of entrepreneurial companies have involved their employees in the growth and success of their ventures. When business owners understand and embrace the notion that motivated employees can make a major contribution to a company’s development, they are then able to work with employees to promote structures and activities that increase employee motivation, satisfaction, and performance. http://www.worldcat.org/search?qt=hotseries&q=se%3A%22Venturing%2C+the+entrepreneurial+challenge%22.
ANSWERS TO END-OF-CHAPTER DISCUSSION QUESTIONS

1. Why is it so important to have high-quality employees?

High-quality employees lead to high-quality work from capable and motivated personnel. Poor quality employees provide the opposite type of work and lead to the demise of the business.

2. What factor or factors would make you cautious about going to work for a small business? Could these reasons for hesitation be overcome? How?

The question asks for individual opinions. The text points out that small businesses offer employees the opportunity to perform responsible work, freedom in work, recognition for achievement, special incentives, flexible work arrangements, greater prospects for job sharing, and the potential for growth of the business, any of which might overcome an applicant’s hesitation to work for a small firm.

3. In what ways is the workforce becoming more diverse, and how do these changes affect recruitment by small companies?

In the future, firms in the United States will encounter greater racial and gender diversity. That is, the applicant pool will include a much higher proportion of non-Anglo and female individuals. To recruit well, small firms will need to consider more minority applicants (in accord with U.S. law, which prohibits discrimination) and tailor their recruitment approaches to attract these individuals.

4. Based on what you know from this chapter or your own experience as an interviewee, what do you think are the most serious weaknesses in the interviewing process? How could these be remedied?

The question calls for a report on a student’s interviewing experience. Answers might be considered in light of the interviewing principles cited in the chapter on pages 591-592.

5. What are the positive and negative features of background checks? How important are these checks to the selection of high-quality employees?

Background checks are important to businesses to help avoid hiring mistakes. Employers should check with former employers, school authorities, and other references when making hiring decisions. Preventing problems before they occur is important (example in text discusses hiring someone with a criminal
record who burglarizes a customer’s home). The potential for lawsuits must be taken into consideration when making the decision about how much background information is needed and how to obtain that information. The text indicates that requiring applicants to sign a written consent that details how and what is to be checked is important before the check takes place. That allows the applicant to withdraw from consideration if he/she doesn’t want that check to take place.

6. What steps and/or topics would you recommend for inclusion in the orientation program of a printing firm with 65 employees?

Steps should include discussion periods with the owner and the immediate supervisor, a tour of the business, and introductions to employees with whom the newcomer will have contact. Topics should include specific job duties, company personnel policies, payroll practices, benefits, quality standards, service expectations, company history, and so on. A follow-up orientation after a week or so is advisable.

7. What problems are involved in using incentive plans in a small company? How would the nature of the work affect management’s decision concerning the use of such a plan?

Some problems are the conflicts between management and labor over standards, the necessary record keeping, and the negative effects on quality that often result from such systems. Such problems are less serious in small firms because of the close personal relationship between the owner and employees. The nature of the work would have a significant effect on the decision to use incentive wages. For example, if the work requires high-quality workmanship, it might not be advisable to use incentive wages. By the same token, individual incentive wages are not appropriate for work that is not easily measurable.

8. Is the use of an employee stock ownership plan desirable in a small business? What might lessen such a plan’s effectiveness in motivating employees?

If the small firm is highly profitable and its total employee group is fully cohesive, the use of an employee stock ownership plan may be desirable. Employees in small firms can appreciate the connection between their personal efforts and the firm’s success. But if the small firm is battling to stay alive with uncertain profits, an employee stock ownership plan would be undesirable.

One weakness in using an employee stock ownership plan to provide an incentive is that the individual employee’s contribution to company profit often seems insignificant. The company may earn a profit regardless of whether an individual works diligently. Another problem is that profits may be low or losses may be incurred in spite of an employee’s best efforts. Thus, there is no certain and sure connection between hard work and financial reward. Also, in
companies that insist on secrecy, management’s reluctance to divulge financial operating results constitutes a problem.

9. **How does a professional employer organization differ from a temporary help agency? What are the greatest benefits of co-employment?**

Temporary help agencies supply employees who are needed only on a temporary basis. In contrast, co-employment transfers a firm’s full-time employees to the payroll of the leasing company. The benefits of leasing include a transfer of paperwork, such as the writing of payroll checks and preparation of reports to government agencies. Also, leasing companies may be able to provide employee benefits superior to those small companies are able to provide.

10. **Explain the impact of the Civil Rights Act and the Fair Labor Standards Act on human resource management.**

These laws obviously affect selection practices by prohibiting discrimination against protected groups. Even interviewing and testing must be designed to avoid discriminatory behavior, as well as practices related to promotion and compensation. Furthermore, such laws have alerted firms and employees to the problem of gender discrimination, which has become a serious matter in recent years.

**COMMENTS ON CHAPTER “YOU MAKE THE CALL” SITUATIONS**

**Situation 1**

1. **With the information available at this point, do you think Gomez should hire Mr. Perfect? How much weight should be given to the fact that he doesn’t, for example, have a driver’s license?**

It is certainly unsettling to have so many “red flags” at that this stage of the hiring process and Gomez has every right to be concerned. Concern should be given to the fact that the applicant doesn’t have a driver’s license. How then, could Mr. Perfect drive to the post office? This doesn’t make any sense and Gomez should have asked Mr. Perfect this question. Gomez should run a DMV on Mr. Perfect to see if his driver’s license has been revoked.

2. **How important are reference checks in the hiring process? Should having only one reference cause any concern? Why or why not? What potential problems can you see in this?**

Reference checks are only minimally important as generally these people will say only positive things about the individual. However, they can establish a standard of behavior if the questions asked are well structured and specific.
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Hiring a person based on one reference check however is unsatisfactory and Mr. Perfect could be disqualified as a candidate for not meeting the 3-reference requirement. Generally, when this much uncertainty is felt at this stage of the hiring process, chances are pretty good that this type of candidate should not be hired. Too many things don’t add up and Gomez seems a bit blinded by the ability to fill the position at a cost lower than what he had planned. Gomez should not make a decision based on these emotional factors.

3. **Mr. Perfect seems to be just the person for the job in so many ways. Does it make sense to think about restructuring the job (for example, limiting access to cash and blank checks as much as possible) to minimize the concerns that have surfaced because of this story? Should a job ever be structured for any single individual?**

No, it does not make sense to restructure the job. Unless restructuring is being made for legal reasons (ADA, etc.) it doesn’t make sense to change the job to fit the limitations of the applicant. This could also upset the existing employees as they may perceive favoritism. Indeed, Mr. Perfect is not Mr. Perfect and Gomez needs to continue his search. Otherwise, he may be stuck with a poorly functioning employee that he will have difficulty terminating. Better to invest the time now to find the right candidate as it’s too costly to hire a bad one.

**Situation 2**

1. **What other options can you think of for Tilton’s company? Can you come up with better alternative than the ones Tilton has considered so far?**

One method for handling this problem is to call the employees together and discuss the options with them. The 10 percent cut that is suggested may be a viable option as long as the company will still be profitable. The basis for this suggestion is the basic determination that Tilton has used the fact that he has never fired an employee to attract and retain workers. Students may come up with an option based on their reading of the chapter.

2. **Do you think there is any possibility that Tilton will be able to avoid laying off at least a few of his workers? If you were one of the company’s best workers, what would you recommend that Tilton do?**

The answer to this will depend on several issues, the first being the economy and how this company responds to the economy. In addition, the solution chosen by Tilton to respond to the situation will make a difference. The culture established within the company would help determine how a company’s workers would respond to the situation. If the company has a culture of involving employees in decision-making and the employees work well together as a “family,” it would be difficult to decide to fire employees. In such a
situation, the 10 percent cut in pay for all workers would be a good solution. If the employees are less family oriented, the best workers might suggest firing the employee(s) that contribute to the profit of the firm the least.

3. What impact will this decision have on the training and development that Tilton has invested in his employees? How important is this factor to the decision he will have to make?

The decision will impact the training and development if that T&D suggests a loyalty to the employees on the part of the owner-manager. This decision will be an important one for the firm because the decision will have an impact on future hiring and how the business operates from this point on.

Situation 3

1. How can Mathis be sure that the PPO is reputable and that his company and employees will receive real value for the money?

For the most part, the value question will rest on two things: (1) the cost of specific services offered relative to the cost of handling these tasks in-house (figuring in a subjective premium for the “hassle factor” to the small business) and (2) the reputation of the PEO and its ability to follow through on those services. One feature of the contract offered that should be carefully considered is its duration. Some PEOs require companies to sign up for a 6 month or 12 month agreement, but others are more flexible and will accept business on a month-to-month basis, which means that you are never committed to the contract for more than the following 30 days. This can be very important. If you are not satisfied with the services of a PEO for any reason or find that the cost of its services simply cost more than they are worth to you, the contract can easily be discontinued.

As mentioned in the chapter, the reputation and dependability of the PEO is very important—the entrepreneur’s business could easily stand or fall on the quality of services it provides, and the company will share legal obligations as a result. (Imagine what employees living paycheck-to-paycheck would do if the PEO fails to process the payroll two or three times in a row of if they find that they are unable to use their health insurance program when an emergency arises!) To ensure that the PEO the entrepreneur is considering is actually worth contracting with, the entrepreneur should be sure to visit the website of the National Organization of Professional Employer Organization (www.napeo.org) and look specifically at the guidelines posted there (go to http://www.napeo.org/peoindustry/guidelines.cfm). Emphasized within these guidelines is the need to visit with current clients of the PEO to find out how well they are performing. PEO services can be a huge help to a small company, allowing it to focus on the activities that will really generate business and not to be distracted by the tasks that would be covered by the PEO, but this is also a serious commitment that can be disastrous if that work
is fumbled at any point along the way. Therefore, the decision should not be rushed.

2. **How might contracting with the PPO affect employee relationships at Ready Delivery? Is there any chance that his employees’ loyalty will be transferred to their new “employer”?**

From the employees’ point of view, the switch to using a PEO will be nearly indiscernible (assuming the entrepreneur has selected a quality company that does not “drop the ball” on the services they contract to provide). The PEO often can help the small company provide better benefits or services to its employees (e.g., health insurance coverage with lower deductibles), so they will notice things such as that, but it would be no different than if the company had just found a better plan by switching insurance providers, which happens all the time.

3. **What step should Mathis take before entering into an agreement?**

First, determine whether the company can afford the services of a PEO. These services typically are not expensive, but any cost at all is too high for many startups or new companies that are launched or run on a very tight shoestring. Second, be sure that those who currently handle payroll and other administrative tasks are interested in handing off those duties. If not, taking away those activities could inspire great pushback, so taking that step would require more “selling” of the concept to affected employees. Finally, be sure to follow NAPEO’s guidelines for selecting a PEO, as mentioned above.

**SUGGESTED SOLUTION TO CASE 20: SALARY ENVY**

1. **Employee X felt cheated in previous jobs, but was his or her attitude justified? After all, the hiring companies made offers that he or she willingly accepted and considered fair (at least at first). Is there anything unethical about the compensation practices followed by these employers?**

An interesting aspect of the situation is that Employee X apparently didn’t try to negotiate with the first employer to raise the salary for that job. This employee should have looked at what was required for the position and what his/her skills were in relation to the requirements. Employee X needed to determine why his/her company paid a lower salary for this position. Employers in this situation followed acceptable compensation practices. They were not unethical since they provided the agreed upon compensation as long as the salary was not regulated by the Fair Labor Standards Act (FLSA) and/or other federal and state laws.

2. **What should be the goal of a compensation program? What are the likely outcomes of offering inadequate pay to employees?**
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The goal of a compensation program is to attract, motivate, and retain quality employees for the firm. Unfortunately this is difficult for many small businesses. The likely outcomes of offering inadequate pay to employees is to lose employees to other companies willing to pay higher salaries unless the business offers other incentives to employees such as stock incentives and employee benefits.

3. Critique the compensation practices of the first employer mentioned. The salary offered was obviously limited. Did the company offer any offsetting benefits? If so, did these justify the limited pay?

The compensation practices of the first employer apparently included a rather low salary compared to other similar businesses. These compensation practices lead to low morale and employee turnover. Benefits that were provided to the employee were the work environment with its laid-back atmosphere, and the work Employee X was doing.

4. Critique the compensation practices of the second employer mentioned. The salary offered was much higher, but Employee X was still very dissatisfied. What was the problem? Should the company fix the problem? If so, how?

In the second employment situation, Employee X was dissatisfied because the recruiter promised raises, stock options, and a good salary bump with the position. As it turned out, the salary was only slightly higher than the previous position and Employee X heard rumors that newer hires were getting paid much more than established employees. The problem in this position was the recruiter who promised more than what was provided as well hiring employees at higher salaries. In addition the employer had Employee X train and supervise an employee that was judged not to be as capable with a $20,000 higher salary. The company could fix the problem and should do so if they want to retain present employees such as Employee X by doing a salary review and raising salaries of employees who deserve such increases based on their contribution to the business (this assumes that the business could afford to raise some salaries.

5. Critique the compensation practices of the last employer mentioned. The salary offered varies from employee to employee, and Employee X seems to accept this. But, as a general practice, do you think it is ever wise to offer different levels of salary to different employees who have similar jobs in the firm?

As a general practice, salaries for the same and/or similar jobs in the firm should be the same. However, in this case the employee seemed to feel that the others actually deserved the additional compensation. If salary differences are based on the work done by the employee, special skills or other abilities that the employee brings to the position that expand his/her ability to do the job at a higher level, other employees may accept that salary difference.