

**Managing  
Small Business**

**Chapter 17**  
Human Resource Management

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**Hiring the Right Employees**

- Important HRM Issues for Small Businesses
  - The high cost of finding competent workers
  - Motivating current workers
  - Retention of new employees
  - Defending against charges of discrimination
  - Loss of customer satisfaction
  - Low employee morale
  - Wrongful discharge suits

2 Source: Hatten, Small Business Management, 4th Edition

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**The Job Analysis Process**

- Job Analysis
  - Is the process of gathering information about a job, including a job description and a job specification.
  - Indicates what is done on the job, how it is done, who does it, and to what degree.
  - Is the foundation on which all other human resource activities are based.
  - Is used to ensure equal employment opportunity.

3 Source: Hatten, Small Business Management, 4th Edition

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## Sources of Recruitment (cont'd)

- Internet Job Sites
  - Provide access to millions of potential employees.
  - Charge to list jobs by geographic location, industry, and the package selected.
- Executive Recruiters (Headhunters)
  - Advantages
    - Are useful in finding key personnel.
    - Search confidentially for people currently employed and not usually actively seeking another job.
  - Disadvantage
    - Services can be expensive.

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Source: Hatten, Small Business Management, 4th Edition

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## Sources of Recruitment (cont'd)

- Employee Referrals
  - Advantages
    - Employees know the skills and talents needed to work in the company.
    - Low cost and generates qualified, highly motivated employees as long as current employee morale is high and work force is large and diversified.
  - Disadvantages:
    - Exclusive use of referrals may perpetuate minority underrepresentation or create employee cliques.
    - If the referral is not hired or does not work out, the referring employee may become resentful.

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Source: Hatten, Small Business Management, 4th Edition

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## Sources of Recruitment (cont'd)

- Relatives and Friends
  - Advantage:
    - Generally know beforehand of applicant's abilities, expertise, and personality.
  - Disadvantage:
    - No approach is more laden with long-term repercussions.
- Other Sources
  - Job fairs
  - Trade association meetings
  - Specialized Internet sites
  - "Help wanted" sign
  - Notice on employee bulletin board

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Source: Hatten, Small Business Management, 4th Edition

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## Sources of Recruitment (cont'd)

- Factors in Hiring the Best Employee
  - Keep your focus on hiring the best.
  - Have a written job description.
  - Use a written rating system.
  - “Overqualified” is better than “under-qualified.”
  - Hire a person with a long history of self-employment as a consultant if you need his or her skills.
  - Test specific skills and industry knowledge.
  - Check the candidate’s background and all references.
  - Keep a written record of all terms of employment.

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Source: Hatten, Small Business Management, 4th Edition

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## Selecting Employees (cont'd)

- Purposes of Application Forms and Résumés
  - To provide a record of the applicant’s desire to obtain the position.
  - To provide a profile of the applicant to be used during the interview.
  - To provide a basic personnel record for the applicant who becomes an employee.
  - To serve as a means of measuring the effectiveness of the selection process.

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Source: Hatten, Small Business Management, 4th Edition

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## Selecting Employees (cont'd)

- Conducting Effective Interviews
  - Be prepared.
  - Set the stage for the interview.
  - Use a structured interview format.
  - Use a variety of questioning techniques.
  - Ask only nondiscriminatory, job-related questions.
  - Keep good records, including notes from the interview.

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Source: Hatten, Small Business Management, 4th Edition

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## Selecting Employees (cont'd)

- Reasons for Using Temporary Employees and a Professional Employer Organization (PEO)
  - When vacation or demand exceed capacity.
  - To fill new or highly specialized positions.
  - To ensure a full work force during labor shortages.
  - To use lower cost workers who like the flexibility and challenge of working for multiple employers.
  - Agency takes care of HR activities, federal and state reporting and record-keeping requirements.
  - Training and fringe benefits are paid by the agency.
  - Can lay off temporary workers quickly and with fewer concerns for wrongful discharge claims.

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Source: Hatten, Small Business Management, 4th Edition

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## Placing and Training Employees (cont'd)

- Employee Training
  - A planned effort that involves increasing employee's knowledge and skills to meet a specific job or company objective.
  - It is usually task and short-term oriented.
- Employee Development
  - A planned effort to provide employees with the knowledge, skills, and abilities to accept new and more challenging job assignments within the company.
  - Is more forward looking.

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Source: Hatten, Small Business Management, 4th Edition

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## Placing and Training Employees (cont'd)

- Benefits of Employee Training and Development
  - Helps in gaining a competitive advantage that is not easily duplicated by competitors.
  - Helps keep employees from becoming bored and unfulfilled.
  - Increases retention of qualified personnel.
  - Reduces turnover costs over time.
  - Increases the overall level of employee morale.
  - Assures the firm of a place in tomorrow's competitive environment.

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Source: Hatten, Small Business Management, 4th Edition

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## Compensating Employees (cont'd)

- Benefits
  - Are a part of an employee's compensation in addition to wages and salaries.
    - Health and life insurance, paid vacation time, pension and education plans, and discounts on company products
  - Comprise almost 40% of total payroll costs.
- Benefits Required by Law
  - Time off for voting, jury duty, and military service
  - Workers' compensation
  - Social Security (FICA)
  - State short-term disability insurance programs
  - Family Medical Leave Act

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Source: Hatten, Small Business Management, 4th Edition

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## Compensating Employees (cont'd)

- Benefits Not Required
  - Retirement plans
  - Health plans
  - Dental or vision plans
  - Life insurance plans
  - Paid time off (vacations, holidays, or sick leave)

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Source: Hatten, Small Business Management, 4th Edition

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Table 17.1: Retirement Plan Preview

	Eligibility	Funding Responsibility	Annual Contributions per Participant	Vesting of Contributions	Administrative Responsibilities
Simple IRA	Businesses with 100 or fewer employees that do not currently maintain any other retirement plan	Funded by employee salary-reduction contributions and employer contributions	2% employer match; employee contributions to maximum of \$10,000	Immediate	No employer tax filings
SEP-IRA	Any self-employed individual, business owner, or individual who earns any self-employed income	Employer contributions only	Up to 20% of compensation, to maximum of \$10,000	Immediate	Form 5098 and IRS reporting
401(k)	Any business; employees who have worked at least 1,000 hours and earned at least \$5,000 in the past year	Primarily employee salary-reduction contributions and optional employer contributions	Combined employer and employee contributions to maximum of \$10,000	Determined by employer	Form 5098 and special IRS filing to ensure plan does not discriminate in favor of highly compensated employees
Defined-Benefit Plan—Keogh	Any self-employed individual, business owner, or individual who earns any self-employed income	Generally employer contributions only	Maximum annual retirement benefit of \$175,000 or 100% of 3-year average compensation	May offer vesting schedules	Form 5098

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Source: Hatten, Small Business Management, 4th Edition

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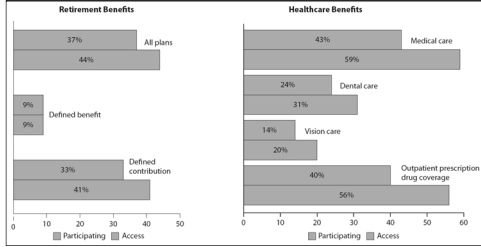
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Figure 17.2: Access and Participation Rates of Workers



Source: Hatten, Small Business Management, 4th Edition

19 SOURCE: U.S. Department of Labor, U.S. Bureau of Labor Statistics, National Compensation Survey, Employee Benefits in Private Industry in the United States, Tables 1 & 2, March 2006; www.bls.gov/news.release/spkbrtm0004.pdf

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When Problems Arise: Employee Discipline and Termination (cont'd)

- Employee Handbook Elements
  - Contract of employment disclaimer
  - Employment policies
  - Benefits
  - Employee conduct
  - Glossary
  - Organization chart

Source: Hatten, Small Business Management, 4th Edition

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When Problems Arise: Employee Discipline and Termination (cont'd)

- Steps in Progressive Discipline
  - Determine the need for discipline.
  - Have clear goals to discuss.
  - Talk in private.
  - Keep your cool.
  - Watch the timing of the meeting.
  - Prepare opening remarks.
  - Get to the point.
  - Allow two-way communication.
  - Establish follow-up plan.
  - End on a positive note.

Source: Hatten, Small Business Management, 4th Edition

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## Employee Termination: Dismissal (cont'd)

- At-Will Doctrine
  - The legal restrictions on an employer's ability to discharge an employee without just cause.
- Restrictions on At-Will Discharges
  - Implied contract
  - Good faith and fair dealing
  - Public policy exception

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Source: Hatten, Small Business Management,  
4th Edition

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## Employee Termination: Dismissal

- Establishing Just Cause
  - Cite the specific rule violation and show employee had prior knowledge of the rule and consequences.
  - Show the rule was a business necessity.
  - Conduct a thorough and objective investigation of the violation and give employees opportunity to present their side of the story.
  - Document that employee had opportunity to improve or modify performance.

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Source: Hatten, Small Business Management,  
4th Edition

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## Employee Termination: Dismissal

- Establishing Just Cause (cont'd)
  - Show evidence or proof of guilt to justify the actions taken.
  - Show employee was treated consistent with past practices.
  - Demonstrate that the disciplinary actions were fair and reasonable in view of the employee's work history.
  - Have disciplinary action reviewed by an independent party.

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Source: Hatten, Small Business Management,  
4th Edition

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