Chapter 3 :: Business Management and Leadership
Section 3.3 ~ Human Resources Management

Jump Start

Brittney has the responsibility for human resources management at the Triad Bakery. The three stores now employ a total of 31 workers, including 9 bakers, 20 salespeople, 1 accountant, and 1 office manager. During the busy seasons, they also employ part-time help from the TandeTemp Agency. Brittney also cooperates with the local technical college's Culinary Arts Department and hires some of its students to work part time as bakers' assistants. Brittney is now in the process of reviewing their employee benefits plan. What types of benefits should be included in that plan?

Manage Human Resources

People are one of the most important economic resources a business has. They are more important than the technology and materials it uses. Employees must be managed well because of their importance to the success of the business. No matter what the size of the business, employees who have contact with the public affect the image and reputation, and ultimately the profits, of the company.

Human resources management involves all aspects of recruiting, hiring, training, compensating, and evaluating employees. It assures that needed employees are available, productive, adequately compensated, and satisfied with their work. If human resources management does its job well, the company will have employees who do their jobs well. This will result in a profitable business. One of the first steps in human resources management is analyzing current staff and the need for additional employees.

Analyze Staff Needs

Hiring decisions must be made carefully. Putting an individual on the payroll and training that person is a costly process for businesses of all sizes. The only reason to hire a new employee is because the person, in performing the job, will contribute to the company's profitability. For that to happen, the employee must be qualified and compensated fairly. Employees may be classified into four categories: full-time, part-time, permanent, and temporary.

The company must decide whether the person hired is to be a permanent or temporary employee. A permanent employee is one to whom the business makes a long-term commitment. The employee is expected to work for the company as long as the business is profitable and the employee's performance is satisfactory. A temporary employee is hired for a specific time or to complete a specific assignment. Temporary employees are usually hired during a business's busy time period or when a special task needs to be done.

Full-time employees generally work 30 hours or more per week. Others are classified as part-time employees and have a shorter work schedule, with fewer hours each day or fewer work days each week. There may be some combinations of the categories. For instance, an employee can be permanent part-time, working only 20 hours per week, or temporary full-time, working 35 hours per week, but only for a limited period of time.

Determine Employee Qualifications

Before hiring someone, an employer must determine the qualifications— including training, knowledge, and skills—needed for the job. These qualifications must be based on an analysis of the tasks involved in the job. Previous experience at similar jobs may also be required.

Analyzing the work performed by employees is an important human resources management function. Large business firms employ specialists in this area called *job analysts.* Job analysts begin by reviewing, on a step-by-step basis, the work being done by current employees. They determine the skills and knowledge needed to perform the required tasks. Based on that analysis, the analyst develops a *job description,* a written statement that details the qualifications needed and the duties performed on a job.

When new jobs are created or new technology changes job requirements, the job analysis is reviewed and revised. A careful study of the new work tasks to be performed and the requirements of employees needed for new positions is a continuing function of human resources management.

Find New Employees

When job descriptions are completed and up to date, prospective employees who meet the needed skill, knowledge, and experience requirements must be located. This process can be time-consuming and costly. Some businesses use employment agencies that screen candidates before they are referred to the business. The costs of this service may be paid by the employee or the business. The following are common sources of job applicants.

- Career placement offices at schools, colleges, and universities
- Referrals by current and former employees
- Public and private employment agencies
- Newspaper classified advertising
- Internet career services
- Job and career fairs
- Company websites
- Radio and television advertising
- Help wanted signs
- Industry publications
- The company's employment office

Most companies ask prospective employees to fill out an employment application. The answers provide personal information on the applicant's education, as well as work experience history. The application may also ask about specific skills related to the jobs and names of people who can serve as references. It is important to fill out employment applications completely and honestly.

Small businesses may hire young people and give them their first work experience. Performing well on your first job is an important factor in developing a good work history. When selecting new employees, a business will usually check with a former employer to find out about work habits, attendance records, length of employment, and the person's ability to work well with others as a member of a team. Selecting the right employee for the right job is the ultimate goal of human resources management.

Compensation, Benefits and Evaluation

Why do people work? The main reason, of course, is to earn an income so they can support themselves, a parent, and/or a family. Other reasons may include the desire to make a contribution to the economy, to use the knowledge and skills they have developed, and to identify with a profession or business. Compensating people fairly and adequately for the work they perform is one of the important human resources management tasks. **Compensation** is the amount of money paid to an employee for work performed. Compensation is made up of two parts— salary and wages and benefits.

Salary and Wages

Salary and wages are direct payments to employees for work completed. A *salary* is a fixed amount of money paid to an employee regardless of the number of hours worked. A salary is usually stated on an annual basis; for example, $35,000 a year. *Wages* are payments for labor made on an hourly, daily, or per-unit basis; for example, $8 per hour.

Benefits

Benefits include compensation in forms other than a direct payment to the employee. Examples of benefits are insurance, vacations, retirement plans, onsite childcare, and health and fitness programs. Benefits, sometimes called *fringe benefits,* are a costly addition to the expense of employee compensation. For all businesses, this cost is equal to an additional 20 to 40 percent of an employee's wages or salary. For an employee who earns $8 per hour, that employee's cost to the business is between $9.60 (20%) and $11.20 (40%) per hour. If a company has a total payroll of $300,000, fringe benefits would add $60,000 to $120,000 to their operating cost. For the employee, an advantage of some benefits is that the extra amount of compensation is not added to the wage or salary and the employee does not have to pay taxes on that amount.

Some benefits are negotiated by unions or employee groups. Other benefits are required by state and federal law. For example, most businesses must pay hourly employees extra for overtime hours worked. Businesses are also required by law to withhold social security and Medicare taxes from employees' wages and make a matching payment of these taxes on their employee's behalf. Federal and state laws also require that most businesses pay money into a fund that compensates workers when they are injured or unemployed.

Vacations Time off for vacations is a popular benefit for employees. Paid vacations are an expensive benefit because employees are paid wages when they are not working. However, time off for vacations may result in satisfied employees who become more productive when they return to work. Usually, an employee must work for a business for a certain period of time, perhaps six months or a year, before being able to take a paid vacation. The number of days of paid vacation generally increases as the employee's number of years on the job increases.

Insurance Some employees may be offered insurance plans, including health, life, dental, and disability insurance. Because of the rapidly rising costs of health insurance, employees may be required to pay part of their coverage.

Other Benefits Other benefits include retirement plans, sick leave, personal days, and flexible work schedules. Costs of benefit programs are high and continue to increase, and as a result, some businesses offer *cafeteria plans.* This means a certain amount of money is allocated to each employee for his or her benefits. The employee selects the preferred benefits. If the costs of the benefits selected are less than the money allocated, the employee can receive the difference in extra pay. If costs are higher, the employee pays the difference.

Evaluation

Managers evaluate the work of employees on a regular basis. Developing evaluation procedures and forms is the responsibility of the human resources department. Managers are trained to be objective in completing evaluations and in holding evaluation conferences with employees. The results of evaluations are kept in the employee's personnel file. Evaluations work hand in hand with compensation. Pay raises are often the result of evaluations. The amount of the raise may be directly tied to the evaluation "score."

Evaluation Process Performance evaluations focus on the specific job duties of each employee. There is a review of the important work traits expected of all employees. Included are factors such as communication, interpersonal relationships, quality and quantity of work, and ethical behavior.

Evaluation decisions are based on observations of the employee's performance and on an evaluation of the quality of work produced. Managers use an evaluation form to identify each employee's strengths and areas that need improvement.

Evaluation Conference After the manager completes the evaluation form, a formal meeting is held with the employee. The purpose of this conference is to discuss the results of the evaluation and to plan for any needed improvement. This conference can be uncomfortable for both the manager and the employee, but its purpose is to benefit both the employee and the company and should be meaningful and positive. The end result should be a reasonable agreement on the employee's performance, goals, and plans for the future. It should also identify the support that the manager and the company will give the employee to help him or her improve performance.

Think Critically

1. Should a business hire someone just because they person wants or needs a job? Why or why not?
2. Why is a job description important to both employees and managers?
3. Would you prefer to have a higher wage without fringe benefits or a lower wage with fringe benefits? Explain your answer.
4. What should be the end result of the evaluation conference, and why is that important to the employee?