Human Resource Management
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Objectives

The general purpose of this module is to introduce current and potential small and medium business owners and managers to the basics of developing a comprehensive human resource management plan and utilizing this plan to enhance the contribution of employees to the overall profitability of the firm.

Participants will...

1. understand the components that should be included in a human resource management plan,

2. identify the critical control points in assessing the needs of the human resource sector of the firm, and

3. learn practical tips and opportunities for discussion that can be used as a sound basis for developing such a plan.

Total Time Required

3 to 4 hours

Each section can be presented in about 30 minutes to 1 hour.
These sections include:

- Planning
- Recruitment and Hiring
- Orientation and Training
- Compensation and Incentives
- Motivation
- Policy

Be sure to allow time for questions and discussion.

Materials Needed

A comfortable workshop setting is desired. Arrange the tables and chairs to enhance discussion and face-to-face interaction. Sometimes a classroom setting is all you have and that will work as well.

- PowerPoint

Audio/Visual Equipment

- LCD projector/Overhead projector
- Easel, flip chart and markers

Directions and Training Tips

1. Be aware your audience will have a varied background when it comes to human resource or labor management. Some will be knowledgeable and experienced while others will be novices. The intent of this module is to provide a solid foundation for thinking about the human resource element of the firm. You will likely have not only current business owners and managers in attendance but also potential entrepreneurs who are filling the role of employees at the time of the workshop. There will be several "teachable moments" that occur if these two groups are allowed to interact.

2. Remind the audience that this module is an interlocking set of materials. While each of the sections can be presented separately, each is related to the other pieces.

3. Utilize the PowerPoint presentation (visuals) and the following tips to illustrate various methods for dealing with employees.

   Employees and/or supervisors often find that there are several major challenges associated with employees (Slide 2). These include:

   - **Recruitment** - Finding potential employees and having the ability to compete in the labor market for them is a difficult chore in itself. It is further complicated by legal issues concerned with interview practices and questioning techniques.

   - **Orientation and training** - Good employees are made, not born. Providing educational opportunities not only to teach the correct skills but to allow them to update those skills in order to better themselves and be more valuable to the organization is essential.

   - **Compensation and benefits** - While developing a compensation and benefits package to attract an employee is relatively easy, maintaining an equitable salary and benefits structure for the entire organization is extremely difficult to accomplish.

   - **Supervising** - The area of employee supervision carries with it an enormous legal and financial burden. Employee harassment, creating a non-productive workplace, unlawful termination, etc., often are pitfalls to be avoided by business owners and managers who have no training or experience in these matters.

- **Motivating -** Motivating employees is a challenge that all employers face. While it may be impossible to keep all employees happy and productive all of the time, it is often difficult to accomplish this for one employee at any instance during the year.

4. The workshop is divided into three segments: (Slide 3)

   - **Principles -** the material contained in the slide presentation that represents the basics of human resource management.

   - **Practical Tips -** Specific practices that can be readily implemented by companies to improve their human resource management operations.

   - **Discussion -** The discussion of the principles and practical tips (including questions about their implementation and problems with their design) is as important to the success of this workshop as is the principles and practical tips provided.

5. Slide 4 showcases a few of the statements and problems expressed by business owners and managers reflecting the wide range of problems they face when dealing employees and human resource-related issues. The main purpose of this workshop is to address these and other issues.

6. Slide 5 shows a few examples of the labor-related regulations and agencies that businesses must deal with. Unfortunately, there are many others. In order to avoid problems with these enacted acts and governmental regulatory authorities, the business owners and managers must be aware of the principles of each.

7. A few of the legal issues surrounding the human resource management area are shown in Slide 6. Some of these issues are covered by more than one of the previously shown acts or government regulatory agencies. For example, unsafe working conditions are addressed by the Fair Labor Standards Act, regulations regarding the employment of minors, Americans with Disabilities Act, the Occupational Safety and Health Administration (OSHA), and the Environmental Protection Agency (EPA).

8. There may be alternatives to the traditional employee hiring processes that can assist in alleviating one or more of the labor challenges faced by small businesses (Slide 7). Some examples are:

   - **Labor Alliances -** Two or more businesses may be able to share the cost of either a single employee or group of employees if a single business is not able to provide full-time employment. This is especially true in the case of employees that have specialized technical skills.

   - **Student Internships -** Internships can help to address a number of the challenges faced by the firm. First of all, it may be more cost beneficial to hire an intern for the summer to accomplish a specific project or task than a full-time worker. Second, these interns are often eager to learn about the "real world" and may provide excellent opportunities for developing orientation and training programs. Third, as the student becomes familiar with the company and its operations, he or she may seek full-time employment with the company after graduation. However, there can be several challenges that arise when utilizing this approach. The intern may be unwilling to adapt to the environment and culture of the workplace. Second, it is unlikely that interns will be able to replace the need for permanent workers since the intern will be available for only three to four months.

- **Non-traditional Segments of the Workforce** - There are several major corporations that have been very successful in employing previously untapped labor force segments. Two of these companies are Wal-Mart and McDonald's, both of whom have been successful in hiring retired persons to fill a variety of service-related roles. These employees typically have a better work ethic than the teenager or low-income worker that would typically fill these roles. There are several reasons that a member of this particular workforce segment might seek a position in their retirement years. These include loneliness, inactivity and financial hardship.

- **Outsourcing** - Outsourcing specific functions may enable a business to reduce cost and, by not having to hire employees to perform that function, also may have the added benefit of providing additional or specific expertise that may be valuable for the function. In many cases, the cost of obtaining this expertise is prohibited by the company's financial position. Examples of this include software development, engineering expertise and financial statement preparation. In addition, the company may find that it is desirable to outsource some customer related functions such as delivery services. The business may find that it is much easier and cheaper to contract with a trucking firm to deliver products to its customers rather than maintain its own fleet of trucks.

- **Flextime** - Flextime may be a valuable method of dealing with employee motivation and recruitment concerns if it can be incorporated into the company's operational structure. For example, it may be relatively easy to allow an accounts receivable clerk to work from 6 a.m. to 3 p.m., as long as someone else is there from 3 to 5 p.m. to answer customer-billing questions. However, it is not likely that an onsite sales person could be allowed to work outside store hours.

9. The human resource management area can be broken into several specific areas. These areas will be discussed throughout the reminder of the workshop (Slide 8).

10. The planning aspect of human resource management sets the stage for the implementation of any activities or programs that follow. Therefore, is can be said that the planning phase may be the most important area to address. The successful planning process will address the analysis of current resources, matching those resources and the needs of the organization, and the forecasting the organizations

future needs. The first step in planning for the human resource needs of the firm is to plan for its labor resources and requirements (Slide 9).

11. The labor planning process can be broken down into six basic areas, which are shown in Slide 10. A labor audit is completed to determine the resources available within the company. The various jobs that are necessary (and perhaps unnecessary) to the company's survival are then broken down into specific tasks, and these tasks are recorded and analyzed. A major portion of this analysis will include examining alternative methods of performing the tasks and jobs and determining if there are areas which could be combined or need to be separated in order for the firm to operate more efficiently.

12. The next step involves developing descriptions for the jobs that are necessary for the company's operations. Once these descriptions are completed, the basic task of analyzing the company's current resources has been completed. The company can then examine its overall goals and objectives and forecast any future labor needs that may arise. Finally, recruitment and training needs to meet the current and future needs of the firm can be developed.

13. The labor audit is a comprehensive audit of the current labor position of the firm. This audit should cover all persons working for the firm including the owners, managers, family members and other existing employees. The time that these employees are able to work should be determined (this may assist in determining the feasibility and desire for flex-time). Employment dates and current salaries as well as specific skills and education should be recorded to not only determine if an employee is being justly compensated for his or her benefit to the firm but also to help devise an equitable compensation and benefits structure to the firm (Slide 12).

14. Specific employee skills that should be recorded include qualifications for specific equipment that is utilized by the firm, computer and other technical skills that may be valuable to the firm's future growth, and the employee's communication skills. These communication skills are extremely important in that they provide the company with a list of suitable candidates for one-on-one contact with the firm's customers in the roles of salespersons, job site forepersons or operations superintendents. Also, these skills help to identify likely internal candidates to develop and implement orientation and training strategies (Slide 13).

15. As previously mentioned, the labor audit can be used for the evaluation of current and future resources, the need for training and cross-training strategies, and the development and implementation of alternative job structures (Slide 14).

16. A practical tip to begin the labor audit process is for the firm's owner/manager to complete a self-evaluation. This evaluation should determine the owner's management style, the communications skills possessed, and the style displayed by the individual. Also, any specific technical skills possessed by this person should be documented as this provides evidence that the manager possesses the specific knowledge necessary to make sound decisions for the company and its labor force (Slide 15).

17. Once the various jobs within the company have been identified, each one should be broken down into its specific components. For simplicity's sake, we will refer to these components as chores and the documentation as a chore chart for each job. In a nutshell, the chore chart identifies the standard operating procedures for each chore and the frequency of chore performance that is necessary (such as daily, weekly, each morning, etc.). The chart should also contain the critical components of the chore that should be closely monitored and any references that should be made if the chore could not be completed. Finally, the chart should show the desired outcomes of each chore and the undesirable results that could occur if the procedures for the chore are not followed (Slide 16).

18. Slide 17 is a summary of an example chore chart for a delivery route. As you can see, the specific tasks or chores involved in a delivery route are specifically stated. However, there are some features of a comprehensive chore chart that are not included here such as the frequency of performance of the chores, critical control points for each chore that should be noted and discussed, and the desirable and undesirable outcomes that are the result of performing the chores either in a satisfactory or unsatisfactory manner.

19. It must be stressed that the manner in which each chore is completed could (and probably will) affect the business image. For example, failure to properly inspect the delivery or route truck could result in the truck breaking down unnecessarily. Obviously, this would result in decreased equipment, but it will also result in unnecessary trips, delayed deliveries or missed service appointments. This will adversely affect the business image and result in poor customer relations (Slide 18).

20. One of the immediate impacts of creating comprehensive chore charts is the development of standard operating procedures. These procedures can help provide a higher standard of service but can also prove valuable for orientating new employees, re-designing jobs and writing job descriptions (Slide 19).

21. Many businesses treat the hiring of new employees as a necessary evil. As such, they do not usually develop an active recruitment program. However, this is a mistake. As a business grows, new employees will have to be hired, and old employees will have to be replaced. An active employment recruitment program can facilitate this need. The first step to develop this type of program is to identify and communicate with potential quality applicants that would be suitable for your company. Many businesses simply advertise a job and think that the persons that send in a resume constitute the best pool. Nothing could be farther from the truth. Listen to other persons in your industry and find out who the best qualified people are. Then recruit your own applicants. Don't fall into the trap of thinking that you can work on this for a month and then forget about it. The best recruitment programs are long range in scope and are on-going (Slide 20).

22. A specific strategy that can boost the recruitment process is the creation of job descriptions for the various positions in the company. The job description should clearly define the duties of the position. The description should also demonstrate the importance of the position to the company's overall goals and objectives and

that the employee will become part of a team effort. Every employee wants (and needs) to feel that his or her efforts are important to the company and that they do not have to do their job alone or that they will have support (Slide 21).

Next, make sure that the job description provides opportunities for growth within the company. Few employees want to stay in the same position for their entire working career, so make sure that you make it clear that there is opportunity for growth without having to necessarily deliberate what those opportunities are. Finally, make sure that the job title conveys a positive method. One of the most glaring examples of this is the difference in perception between the terms "garbage collector" and "sanitation engineer."

23. There are many credible sources of applicants. One of the most valuable sources could be referral from your current employees (this will be discussed more fully in the next slide). Other typical sources can include classified ads in the newspaper, radio and television ads, posting your position through Internet job sites such as monster.com, or through employment agencies, both private and public (Slide 22).

Another good source for employee referrals are local and regional educational institutions. Many of these institutions offer internships and other work study programs. The benefits and challenges of these programs were discussed earlier.

Obtaining referrals from current employees can be an excellent way to recruit new employees. This is especially true if the current employee is a good performer. This type of employee is more likely to have a realistic view of the job and the personality and skills of the individual employee. Many companies may offer a bonus to the current employee if the new hire stays for at least six months (Slide 23).

This type of referral practice can have its downside. The referring employee may expect a job offer for his or her friend and may become disgruntled if the job offer is not forthcoming. Furthermore, the company must be careful that this type of recruitment practice doesn't lead to cliques within the workplace or violate any civil right issues.

If you place a classified ad in the newspaper as an employee recruitment tool, make sure that you write the ad in such a way that it emphasizes the positive aspects of the job (don't dwell on the negatives). Be sure to list any desired and preferred qualifications, necessary experience for the position, and an explaination of why the potential employee would like to work for this company. Describe the application process and convey a sense of urgency about the position (make the potential employee feel that the company needs him or her to apply now). Finally, promote the company's public image in the advertisement to make the potential employee feel good about responding to the advertisement while also promoting the company to other persons who might be perusing the classifieds (Slide 24).

As previously mentioned, educational institutions may be a tremendous source of either skilled or semi-skilled applicants. Many of these institutions, whether they be high schools, vo-tech schools, community colleges or four-year colleges and universities, will have some type of an internship or work study program. Area businesses can participate in these programs; however, they may only be offered during a specific time of the year (e.g., summer). These programs offer a firm or relatively risk-free method of evaluating new employees and also offer the interns a good way to evaluate both the firm and the industry. A high percentage of interns have pursued employment at the firm where they interned (Slide 25).

Above all, you want to avoid incurring any liability in the recruitment or hiring phases. Be sure to avoid obtaining information which specifies the applicant's race, sex, color, national origin, religion or disability. Also avoid any stereotypical questions that could stem from the employee's appearance or manner of dress. Try to keep all questions linked to the major job activities (Slide 26).

Slide 27 illustrates additional areas to avoid.

24. When making a hiring selection, you should remember that past performance is usually the best indicator of future performance. Tools that are typically used to check the potential employee's past performance and skill levels are the interview process, a skills test and a reference check (these will be discussed later). In making the selection, you should always remember that most job failures are due to attitude and personality challenges, not inadequate job skills or deficient technical knowledge (Slide 28).

While any derogatory factors that arise from the interview, the job skills test or the reference check must be more fully investigated, be sure to do so without violating any civil rights rules or regulations.

25. During the interview process, follow a set procedure with each employee (Slide 29).

Introduce yourself and give a brief history about the firm. If the prospective employee does not clearly possess a position description of the firm, provide one and give the employee time to scan through it. Make sure that the employee has no initial questions that are left unanswered. Next, describe the position as you see it and then describe your concept of the ideal candidate for the position. Describe a typical day on the job in terms of chores performed, paperwork, client contacts, etc.

Have a structured set of questions that are asked of each employee (Slide 30). Ask the candidates to describe their background, experiences and goals and objectives for the position. Ask questions in an open-ended manner so as to get the candidate talking about himself or herself. Be sure to explore any remarks that the employee may make that are relevant to the position. However, also try to do this in an open-ended manner and don't directly address any of the off-limits civil rights issues discussed earlier. However, if the employee states that he or she can't work on Saturday due to his or her religious preference, you can ask the applicant if he or she would like to expound upon that. DON'T ask them what religion they are!

If possible, involve two people in the interview process. The second interviewer may pick up on strengths or weaknesses that the first interviewer might miss, and the second interviewer could act as a witness in case future complaints are lodged by the applicant.

Ask the applicant to explain how his or her skills would be valuable for the advertised position (Slide 31). Pose one or two problems for the interviewee. Examples include:

- What would you do if an employee you supervise was continually late to work?
- What would you do it you were the manager of a large dairy and one morning, the veterinarian is due in 30 minutes, the refrigeration systems on the milk coolers are out, and the feed truck arrives?

26. There are other Equal Employment Opportunity (EEO) issues that may be relevant to a particular workplace (Slide 32).

    Employees must be informed of any "speak English only" rules, and these rules must be justified to the workplace duties. If the workplace is, for example, an assembly line, and the foreman is bilingual, the employer would have a very difficult time justifying a "speak English only" rule.

    Unless an accent is paramount to job requirements, the employer cannot make hiring decisions based on this accent. For example, the owner of a Georgia bed and breakfast should be able to justify why a receptionist with a southern accent is a necessary person to have in this position, and an applicant with a Midwestern accent could be detrimental to the businesses image and profitability. However, it would be illegal to not hire a production line worker who has no customer contact just because that person has a Midwestern accent.

    A potential employer must accept any Immigration and Naturalization approved document offered by the employee. It is illegal to refuse to accept any documentation of this type. If you have any questions about the validity of the information contained on the document, document those concerns and contact the State Department of Labor or the state office of the Immigration and Naturalization Service.

    All employees must complete the eligibility of work documents including the W-4 form and the I-9 form.

27. It is extremely prudent for an employer to perform a background check on a potential employee. This will usually consist of checking with the applicant's previous employers, checking on their driving record, etc. Be aware that many previous employers will provide information on the positions held by the applicant and the dates that he or she held those positions. One possible way to dig a little deeper into the previous employer's feelings about the applicant's work habits is to ask if the applicant would be eligible for rehire. If the previous employer says "no" with no other explanation offered, you may have found out quite a bit about the applicant's previous work history (Slide 33).

While it will not protect you nor a previous employer from liability, it is a good idea to ask the applicant to sign a reference check release form such as the one shown in Slide 34. At the very least, it shows that the employee understands that you will be asking his or her previous employers' about his or her work habits.

28. Asking the applicant to perform a work sample test can be an extremely valuable tool in determining if the applicant actually possess the skills that are listed on a resume or job application. If this technique is used, the test should focus on a single skill such as operating a cash register with 30 people in line and a mad customer with a return. However, don't over emphasize skills that can be fairly easily taught such as using the company's new phone system (Slide 35).

    Slide 36 has a couple of examples of skills that can make testing fairly easier. Note that the first test simply involves driving a forklift over a fairly simple course, not moving a truckload of toxic chemicals. The second test ascertains the applicants communication skills by asking him or her to write the supervisor or foreman a note explaining that a particular piece of equipment doesn't work, and what it's symptoms are.

29. Once the employee is hired, a quality orientation program can serve to get the new employee "off on the right foot." This type of program is desirable for several reasons. First of all, work habits for a new employee are established early, and this gives management an opportunity to let the new employee know what is expected of him or her. Second, since new workers are involved in a disproportionately high number of accidents and workers' compensation claims, safety rules and procedures can be explained in depth. A quality orientation program is as desirable or essential for temporary or seasonal workers (particularly with regard to safety issues) as it is for regular full-time workers. Unfortunately, many small employers neglect to provide quality orientation education to any employees (Slide 37).

30. The orientation should begin before the new hire's first day of the job. Management should provide the new employee with a description of the typical day, including standardized break and lunch times if these exist. The new employee should complete all work related forms including the I-9 and W-4 forms. A brief history of the firm should be relayed to the employee in such a manner as to demonstrate the firm's growth and success over the time it has been in existence. Finally, management should determine the name that the employee prefers (Slide 38).

31. On the employee's first day, the personnel manager should introduce the new employee to his or her supervisor and co-workers. The personnel manager and the supervisor should then provide a detailed description of the employment contract (if one exists), the job description and the firm's human resource policy manual. A reiteration of the employee's work times, lunch and break policies, overtime policies, time card system, paycheck distribution methods, and procedures for paycheck discrepancies should be provided. Policies for sick leave, vacation, family medical leave and pregnancy leave should also be provided at this time (Slide 39).

The personnel manager should also discuss any tardiness and absenteeism policies that exist (hopefully these are covered in the personnel manual) and discuss the call-in procedurues that exist so that other employees are alerted that they need to cover additional duties. Furthermore, any phone policies (particularly those dealing with personal calls) and personal storage areas should be discussed, and the new employee should be advised as to the consequences of violating those policies. If there are any policies that are unique to a particular job, the personnel manager may want the employee's immediate supervisor to discuss those (Slide 40).

32. The orientation should then move to a discussion of the particular job duties for the new employee. Job duties and standard operating should be covered in detail, and any developed chore charts relevant to the new employee's position should be distributed. A major emphasis of this discussion should be focused on the desired outcomes that should arise from following these procedures (Slide 41).

Another important area to focus on in the job duties orientation is the communication procedures that are in place. These procedures should go beyond the absenteeism and tardiness call-in procedures discussed earlier. Rather, they should focus on any communication that is necessary to successfully complete the job. These include how to communicate that a particular piece of equipment has broken down, how to communicate that a lot of manufactured product does not meet the technical specifications, etc.

Third, training procedures that the employee is eligible to participate in should be covered. A focus of what training procedures should be available as well as the requisites (the length of time the employee has been on the job, the performance review criteria, etc.) that the employee must achieve before he or she is eligible to participate in these training programs.

Finally, this part of the orientation program should focus on the performance expectations and the performance review or evaluation systems that are in place. Development of these systems will be discussed later, but the employee should be made aware of how these systems are used and analyzed.

33. The last thing an orientation program should cover is all safety issues associated with the employee's job. While this may be fairly obvious in a manufacturing setting, it is just as essential in a retail or service operation. Each of the factors denoted in the list in Slide 42 should be covered in detail with particular emphasis on the procedures for reporting accidents. Proper accident reporting procedures are extremely important for reducing the company's liability and providing a set of documentation to allow the company to change its operational procedures and thereby reduce future accidents.

34. When developing a training plan for company employees, target areas for training that should be identified. While one training target area should include new employees, other areas that should be considered are new equipment or technologies that have been acquired and implemented, new or different regulations that affect the production process, any skill or competency gaps that may be present in

the firm's labor force (including new and old employees), planning for job rotations or cross training programs, and providing educational programs dealing with topics such as delegation for new or potential supervisors or management personnel (Slide 43).

35. There are many training alternatives available to the firm and each have their advantages and disadvantages. The firm's management must determine what mix of these alternatives best fits the particular training needs of the company (Slide 44).

- **On the job training** - This type of training works best for established job patterns and if the new employee's "mentor" is a well skilled employee at the particular task. It does not usually work well for new procedures, equipment or technologies (Slide 45).

- **Formal training sessions at the worksite** - This type of training works particularly well for new procedures, equipment or technologies. However, it may be relatively expensive to implement, especially if an outside trainer must be obtained (Slide 46).

- **Group training** - As mentioned in Slide 47, this type of training is effective when used for cross-training or job rotations or when positive relationships between employees are desired. However, it can be difficult to implement when a multi-shift work force is utilized, and it can, in some cases, actually destroy or impair relationships between employees.

36. There are other training alternatives available to the firm (Slide 48).

Programmed instruction can be extremely effective when dealing with new procedures, technologies, equipment or job duties. It also provides employees with a set of reference materials to refer to when they are in doubt about a particular set of procedures. However, it can be expensive to implement, especially if multiple copies of the curricula must be purchased for several employees or if several different sets of curricula must be developed by management or front-line supervisory personnel.

- **Outside training** - Having employees attend outside training opportunities is effective when particular skills such as math skills or computer skills need to be acquired or refined. Many community colleges offer this training, especially for the larger small or medium-size companies in this service area. However, this type of training can be fairly expensive to implement. Unfortunately, the particular skills to be acquired are sometimes not present in the company's current workforce.

- **Job rotation** - This is an effective means of exposing employees to the needs of jobs other than their own. This method can be particular helpful in relieving boredom associated with a particular mundane job or task. It can have the effect of lowering productivity (at least in the short term) because new employees are learning new jobs on a fairly regular basis. In the long term, however, productivity may increase since each employee has a greater appreciation of the needs of the other jobs.

- **Job enlargement** - This method consists of assigning additional responsibilities to one or more employees to assist in alleviating boredom, to prepare employees for supervisory or management positions, to fill a gap in the firm's operations through existing personnel, or to increase an employee's compensation and/or self esteem. Most employees will feel more fulfilled in their position if they are given these additional responsibilities. However, some employees will feel that they are overworked before the assignment of additional responsibilities and will become further discouraged if additional responsibilities are assigned to them.

- **Mentoring or apprenticeship** - This type of training works particularly well for new or relatively unskilled employees. However, the employee that is to play the role of mentor must be carefully chosen. Not only must this employee be skilled at the job he or she is to teach, but the mentor must also be able to work well with the apprentice. This relationship may be more important than the mentor's skill level for the job. For example, a slightly less skilled mentor who can get along with and teach skills to the apprentice would probably be more desirable than a highly skilled mentor choice who is hard to get along with and has no teaching skills.

37. A practical tip to develop positive relationships between employees and management could be reversing roles between a manager and an employee in a company training meeting. The persons involved should emulate the current relationships between management and employees and the work habits of each as closely as possible. The portrayed scenarios can be either humorous or realistic, but it should be realized that as excellent teachable moment exists (Slide 49).

38. Performance evaluation is usually a nightmare for all concerned. It should be realized by management that the performance appraisal session with the employee should be conducted as positively as possible and not used as just another excuse to chew the employee out. This session should provide feedback to the employee regarding his or her job performance, form a basis for any compensation adjustments or bonuses that may be considered, identify training and development opportunities that the employee and management can participate in, and provide legal support and documentation for compensation and/or termination disputes (Slide 50).

    The performance appraisal should focus on three district areas. These include: (Slide 51)

    - **Productivity** - How efficient is the employee at his or her job? In other words, how much product or service can the employee produce in a particular time period?

    - **Proficiency** - How well does the employee receive contact with customers? What is the employee's rejection rate in a manufacturing situation (how many pieces does the employee produce that meet the manufacturing specifications for a product run)?

- **Personal traits** - How well does the employee get along with co-workers? Is the employee a leader in the workforce?

There are several systems on which a performance appraisal system can be based. Some of these include: (Slide 52)

- Measuring an employee's performance relative to other employees is one method. This particular method can have the effect of not increasing the overall performance of the firm since there are no outside influences that are considered. Furthermore, this method lends itself to the identification of perceived favorites by other employees.

- Measuring an employee's performance against a company or industry standard is another method by which performance can be appraised. However, if performance is measured against a company standard, the current operations methods and environment that the company operates in must be compared to the operations methods and environment that was in place when the standard was established. If performance is measured against an industry standard, the relative position of the company in the industry, these contrasts between the company's operations and the operations of other companies in the industry, and the makeup of the company's workforce relative to the industry's workforce must be analyzed.

- Measuring performance for a particular employee based on critical incidents that have occurred during the performance appraisal period is another method which is used by many firms. However, an examination of the critical incidents (such as jobs performed for particular customers) is necessary to ensure that these incidents effectively communicate normal working conditions of the employee.

- Many organizations, such as educational and non-profit institutions, rely on narratives to judge the performance of individual employees. In most cases, these narratives can be written in such a way as to demonstrate anything which the writer seeks to prove.

39. The management by objective performance appraisal method is widely judged to be one of the most effective performance appraisal systems in use today. Its major strengths lie in the fact that the employee and his or her supervisor or manager jointly agree on the progress toward goals that the employee has participated in setting. This method allows the employee to "buy-in" to the program with the expectation that this buy-in will encourage the employee to make a stronger effort to achieve the goals. This method also helps to ensure that management does not set unrealistic goals because they are unaware of the employee's working conditions (Slide 53).

This simple four step or four list approach lends itself to the management by objective appraisal system nicely. The employee and evaluating manager should develop lists and compare and contrasts these lists during the appraisal meeting.

However, it should be remembered that these comparisons should not become confrontational but that the mutual benefit of the company and the employee should be maximized (Slide 54).

40. Another problem area for many firms is compensation. The compensations arena encompasses many factors including wages, current and future raises, production or other incentives, and eligibility to access for benefits (Slide 55).

A company's compensation system should address these five areas: (Slide 56)

- **Legal** - The compensation system should not unfairly discriminate against employees based on race, creed, religion, etc.

- **Adequate** - The employee should be compensated to the extent that a "good" (the definition of "good" changes with each employee) lifestyle given the employee's wants and desires, his or her skill level, and his or her domestic situation is attainable.

- **Motivate** - The compensation system should be structure in such a way that the employee is motivated to seek higher levels of compensation within the company through acceptance of additional job responsibilities, mentoring activities, etc.

- **Equitable** - The compensation should be equitable for all employees in the organization. One particular group of employees should not be shown preferential treatment in the compensation system unless that particular group's work skills merit this consideration.

41. There are several factors (or guidelines) which need to be considered when setting wage levels. First, the going rate with other firms either in the same geographic vicinity or in the same industry at other geographic vicinities need to be considered. Second, any potentially attractive employment alternatives at other companies could be a lure to the higher skilled employees at your company. Third, you must pay a wage that is high enough to deter employees from looking elsewhere. Finally, you must determine the rate that the firm can afford. It will do neither you nor your employees any good to set pay rates which will result in financial difficulties for the company (Slide 57).

42. There are other considerations besides wages when determining the company's compensation plan. The level of salary is relative to the overall cost of living in the geographic area (housing costs are a major part of the cost of living). Also, examine the salary range that has been set for a particular position. Is the salary range large enough to allow the employee to make real changes in his or her lifestyle while in that particular job? Is the salary range structured in such a way that by the time the employee reaches the upper level of the range, he or she is ready to advance within the company? Finally, look at the percentage of the overall compensation package that is given as bonuses or that is performance based. This can be a double-edged sword. Having a relatively large portion of the employee's compensation package based on production incentives may make the employee feel that his or her base salary is extremely low and that he or she has to put

forth a great deal more effort then should be necessary to maintain an adequate lifestyle. On the other hand, if performance incentives are present in the compensation package, and they are a relatively small percentage of overall compensation, then the employee may not feel that it is worth his or her time to increase his or her performance in order to accrue these relatively small benefits (Slide 58).

43. Slide 59 gives the four most prevalent methods for giving raises to employees. Each has advantages and disadvantages, and each will be discussed in turn. It is unlikely that a company will be able to use one method solely. Rather, some mix of these methods will probably be desirable.

- Seniority-based raises have the advantage of rewarding experience and reducing turnover among more experienced employees. However, they tend to reward an employee strictly on longevity and not the true contribution that the employee makes to the firm. They can also have the effect of undervaluing relatively new employees. To alleviate this problem, management may consider giving relatively small but frequent raises to these new employees (Slide 60).

- Merit based raises do begin their life cycle as rewards for performance. However, this type of raise system has two distinct draw backs. First, it is easy for the merit raise system to completely disrupt the entire salary structure and, therefore, the whole compensation package. Second, it is easy for management to transform the merit raise system into a glorified seniority system (Slide 61).

- One of the best methods to provide raises to a firm's employees is through promotions. This requires management to develop a formal system of ranks or higher-level positions such as Machinist I, Machinist II, Machinist III, etc. This system does have the advantage of providing a clear path of advancement through these ranks, and it tends to preserve a well defined salary structure (Slide 62).

- Cost of Living Adjustments (COLAs) are used to enable employees to help maintain their current standard of living in the face of inflation. When developing this type of system, an initial decision should be made as to whether the adjustments will be based on a cost of living index (such as the Consumer Price Index) or on a wage survey from either the government (such as the Survey of Current Business) or an up-to-date industry survey. While this type of salary adjustment scheme may be necessary for a company's salary structure (particularly in times of high inflation), it does have two distinct problems. First, percentage-based COLAs reward workers at the higher end of the wage scale more than workers at the lower end. Second, flat dollar amount COLAs tend to compress the salary range (at least in percentage terms) (Slide 63).

A practical tip for developing a raise system for employees could be based on the following steps. First, provide employees with relatively small but frequent seniority-based raises in the early stages of their careers. This has the effect of motivating relatively new employees and discouraging them from looking for other jobs. Second, develop a COLA scheme to make sure that salaries stay in a competitive range, both in the geographic vicinity and in the industry. Finally, carefully develop a performance-based incentive system to reward experienced and skilled employees (Slide 64).

44. An incentive pay system tends to have the effect of increasing performance of employees, providing recognition by management of employees that perform at a high level, and directly communicates the effects of the employees' performance on the bottom line of the company (Slide 65).

However, the incentive based system can: (Slide 66)

- cause envy among employees - particularly when the same worker receives the incentive numerous times;
- prevent promotion of teamwork - employees may feel that they should look out for themselves;
- be viewed as "an alternative to paying a fair wage" - this most often occurs when the incentive based portion is a relatively large component of the overall compensation package; and
- cause lower paid employees to not want to share in the risks and profits associated with this system. - this usually occurs when the incentive based portion is a relatively small portion of the overall compensation package.

45. When designing an incentive based system, consider the following factors: (Slide 67)

- Determine how performance affects profitability - does the particular outputs under consideration for the incentive system truly impact the company's profits?
- Decide how to measure performance - determine the differences between "poor" performance, "satisfactory" performance, and "superior" performance.
- Choose whether to award the incentive on an individual basis or a group basis. Awarding the incentive on an individual basis prevents "free-riders" from achieving an incentive but could discourage teamwork within a particular unit of the company. Awarding incentives on a group, team or unit basis could allow some "free-riding" to take place but will probably promote teamwork within the organization. Another benefit to the group approach is that the performance of each member of the group affects the compensation of the other members of that group. Peer pressure alone may prevent any "free-riding" from occurring.

46. There are several types of incentive programs that have failed. These include: (Slide 68)

- Reward for the top employee of the company - in many cases, the employee that received the award was perceived as being a "favorite" of management, and team work in the company deteriorated.

- Another incentive system that failed concerned a hog farm. Incentives were offered if the hog herd maintained a certain degree of healthiness throughout its growth cycle. The employees gave the herd every type of medicine possible without considering the effect that health costs had on the firm's profitability. While the employees did earn an incentive, the overall profitability of the firm declined.

- Many piece-rate incentive systems ignore the quality of the finished product. The obvious goal of this system is to turn out as many units of production as possible. Without a quality assurance program in place, the rejection rate of finished pieces could sky rocket and the overall profits of the firm could decline.

47. A relatively inexpensive way to reward employees for above average performance is to consider a system of informal incentives. Providing an unexpected gift such as the ones mentioned in Slide 69 can greatly boost an employee's sense of worth to the company. However, as with other incentive programs, providing even a small incentive to the same employee time after time can lead to a perception of favoritism by other employees and deteriorate a sense of teamwork within the company.

48. Incentives that are designed to promote safety can discourage accident reporting by employees and actually increase the company's exposure to risk. Likewise, piece-rate incentives focus on output and can discourage rest-breaks and other important safety procedures (Slide 70).

49. While the intent of profit sharing is to align employee and employer goals to the maximization of the profitability of the company, it can have two distinct disadvantages. First, the profit sharing system could easily be viewed as a random bonus and cannot be connected to their daily lives. Second, there are a variety of management decisions which drastically influence profits in the short term (and perhaps adversely offset them in the long run). Many of these decisions affect the overhead of the company and are factors over which the employees have little or no control. A better approach may be to use return over direct costs as a substitute for the overall profits of the firm (Slide 71).

50. Maintaining motivated employees is a primary concern of every manager who has employees. There are four basic areas that should be remembered when dealing with these employees (Slide 72).

    - Providing the proper training to an employee so that they can satisfactorily perform their job is as important to employee moral as it is to the safety record or output level of the company. Inadequate training leads to frustrated employees who think that their job is not important enough to allocate resources to insure that it is done well.

    - The employees should always know what is expected of them by management. One significant barrier to employee motivation and morale is the employer or manager who plays "Gotcha!" with his or her employees.

- A reward system for outstanding performance can do wonders for an employee's morale. If the employee or group of employees performs exceptionally well in a "crunch" period, provide that employee or group with some recognition of the company's appreciation.

- Finally, the employee will have a higher level of motivation if he or she has some level of control over his or her job. Encourage suggestions about how to make the job easier and their performance more effective.

51. Other methods to encourage motivation and increase morale among employees include: (Slide 73)

    - Knowing what is important to each employee - this is much easier to with a relatively small company - can boost morale. However, even with a larger company there may be groups of concern that are fairly easy to ascertain. These concerns may be alleviated in many cases simply by explaining the forces behind the perceived problem and the solutions that management is analyzing to allow the problem.

    - Systematic recognition (as previously explained) can do a great deal to boost employee morale.

    - Encouraging suggestions from employees and establishing ongoing dialogues between employees and management can boost morale. A suggestion box posted in the employee break room is a simple step to achieving this. However, be aware that the suggestions submitted by employees must not be ignored or the dialog will cease to exist and an "us versus them" attitude will become more entrenched than it was before the attempt was made.

52. There are several relatively simple and inexpensive things that management can do to increase the morale of employees. These include: (Slide 74)

    - **Awards** - make sure the awards are meaningful. Be sure that the presentation of the awards is of a quality nature.

    - **Short staff conferences** - weekly or semi-weekly staff conferences to inform the staff about what factors affect the company and the staff.

    - **Suggestion system** - as previously discussed, a suggestion system can be the start of a meaningful dialogue between management and employees. Again, the management must address these concerns for the dialogue to continue.

    - **Rotate dull chores** - this can help alleviate boredom for the employees that historically have had the primary responsibility of doing these chores. Job rotation can also be conducive to building teamwork among employees by exposing other employees to the requirements of different jobs.

- **Add amenities** - adding amenities such as a CD player or stereo system in the work area, a shower in the employee break room, or other amenities can alleviate boredom for mundane jobs and increase the feelings of self-worth that the employees feel for the company.

- **Enriching jobs and delegation of authority** - this increases the employee's sense of self-worth and importance to the organization.

53. While some employee turnover is inevitable in an organization, a relatively high rate of turnover poses several problems for the organization. A high rate of turnover can disrupt production activities and increase recruitment and training costs. It is important to remember that there are multiple causes of turnover (Slide 75).

54. Slide 76 illustrates reasons for employees leaving a position gathered from a 1983 survey.

55. There are several tools that can be used to help reduce employee turnover (Slide 77).

    - **Exit interviews** - exit interviews should always be conducted with departing employees. All efforts should be made to avoid confrontation in the exit interview. This interview is not where blame should be placed; rather it should be an honest attempt by management to ascertain why employees are leaving the firm.

    - **Worker satisfaction surveys** - periodic surveys could be distributed to workers as a means to prevent turnover from occurring. However, there are two points of caution to be considered if this method is chosen. First, employee responses must be kept completely anonymous so that the survey cannot be used as a basis for retaliation against a disgruntled employee. Second, management must seriously consider the suggestions or complaints submitted by employees, or the employees will not continue with the dialogue.

    - **Grievance procedures** - one method to reduce turnover may be to set up formal grievance procedures with a committee made up of members from the labor force and management. However, this committee must be given the power to settle any grievances, or employees will view the committee as a sham.

    - **Relief workers** - providing temporary workers to relieve workers from mundane jobs can alleviate boredom and actually promote safety in the workplace.

    - **Recruitment and compensation** - previously discussed.

56. Discipline is another area that is troublesome for many companies. Most managers tend to avoid discipline as long as possible, then they overreact (typically over a relatively minor event). Employees can (and typically do) become defensive, withdrawn and less decisive in the workforce. This type of behavior can defeat all efforts to install leadership qualities in employees and increase their sense of self

worth. Always be aware that an effective disciplinary program is consistent (everyone is treated the same), fair (punishments or reprimands are scaled to the offense), constructive (encourages positive behavior on the part of the employees), and places responsibility to correct the behavior on the employee (Slide 78).

57. There are several reasons that disciplinary actions should be taken. This is a list of some of the more severe infractions for which action should be taken. These types of infractions should be described in the employee policy manual, and consequences of these actions should be explicitly described. Other types of behavior for which disciplinary action should be considered include abuse of personal phone call privileges, habitual absence or tardiness, etc. (Slide 79).

58. A progressive disciplinary scheme will probably work best for most companies, especially for some of the less severe infractions. Some suggested steps for developing a progressive disciplinary system include: (Slide 80)

- **Developing fair rules and consequences** - this action will require a substantial effort by management to develop. Be aware that the rules that the company develops must be consistently applied to all employees, or the system will either break down or expose the company to unfair work place charges.

- **Communicate policies** - these policies should be communicated clearly to all employees. Each employee should receive a written copy of the rules, and any questions regarding the rules should be clearly answered. Any suggestions regarding these rules should be carefully considered, and the rules and infractions should be reviewed periodically.

If a behavioral rule is broken, then the company might consider the following steps:

- **1st offense** - the standard or rule is communicated to the employee.

- **2nd offense** - a verbal warning is issued to the employee, and the consequences of subsequent infractions should also be communicated.

- **3rd offense** - a written warning is issued to the employee with the explanation that another infraction will result in either suspension or termination.

- **4th offense** - suspension or termination. Remember that when this system is devised and implemented, it must be applied consistently to all employees.

If a disciplinary interview is necessary, a confrontational situation should be avoided. Proven steps that could be followed when conducting this meeting include: (Slide 81)

- Briefly describe the behavior that was unacceptable.

- Let the employee explain first why the action was taken. There are extenuating circumstances in any organization. If the circumstances are extenuating, the interview might end at this point.

- If the circumstances are not extenuating, ask the employee to suggest a correction.

- Clearly communicate the actions that must be undertaken to correct the situation.

- Communicate the consequences of continual unacceptable behavior. Be sure to adhere to the progressive disciplinary system that has previously been developed and implemented.

In other words, use the BEER approach (Slide 82).

60. Slide 83 is a sample of a written disciplinary notice. This notice could be used as documentation for suspension or termination.

61. While policy manuals are effective tools in human resource management, many companies, particularly small organizations, do not feel a tremendous need to develop this tool. Some of the human resource management goals that can be accomplished through a policy include those listed on Slide 84.

    When developing a policy manual, use the guidelines listed on the Slide 85.

    Slides 86-88 contain important policies that should be included in the policy manual.

62. The most important component of human resource management is communication between employees and management. Strict attention and adherence to the planning, policy development and documentation of unacceptable behavior will help both compliance and operation. The hardest part in developing a quality human resource management plan is getting started (Slide 89).