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“People are an organization’s most valuable asset and the key to its success.”

—Dave Bookbinder, author of *The New ROI: Return on Individuals*

Learning Objectives

1. Discuss the importance of hiring the right person for the job.
2. Describe how managers can help create a safe work environment.
3. Demonstrate basic knowledge of labor law.
4. List and describe the six main functions of human resources.

Chapter Outline

Introduction

Recruitment

Poor Integration and Acclimation of New Hires

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Introduction

The six main functions of human resources (HR) are recruitment, workplace safety, employee relations, compensation planning, labor law compliance, and training (Mayhew, n.d.). Perhaps the most important task for a small business owner is to hire good employees. Sounds simple, right? But according to a 2017 CareerBuilder Survey, 74% of employers said they have hired the wrong person for a position within their company (Bolden-Barrett, 2017). In an article for the Society for Human Resource Management, Lisa Frye (2017) reports that it costs upward of \$240,000 to recruit, hire, and provide orientation training for a new employee. In addition to the actual costs incurred, employers often have to deal with stress and the impact on team morale, reduced customer service and customer response, and the time and energy spent on recruitment for reviewing résumés and interviewing applicants.

Bart Turczynski (2020), editor for Zety, lists the top-four items most important to job applicants as competitive compensation packages, an emphasis on work-life balance, advancement opportunities, and a collaborative environment. Two of these, compensation and advancement opportunity, may present a particular challenge for many small businesses. This means that many small businesses will have to focus on providing a collaborative environment and a good work-life balance. A strong company culture and learning opportunities through training programs or tuition assistance can also help close the gap with what larger companies may be able to offer job candidates.

Remember, building a winning business starts with building a winning team. Be sure to put forth your very best efforts in hiring and developing that winning team!

Recruitment

As an entrepreneur, some of the most important decisions you will make will be your hiring decisions. First, build your executive team. If your team members will be partner owners in the enterprise, they will probably be as passionate as you are about making the new enterprise a successful one. If they will not be partner owners, you will have to be even more selective in choosing team members who are not only highly capable but also dedicated and passionate about the new business venture. Later, as your business grows, you will need to hire more people to fill key positions. In fact, every hire is important. Disney knows that even the workers who clean and maintain the park come into contact with guests and are asked all kinds of questions, such as where the Space Mountain ride is located or where they can get Cajun food in the park.

As the entrepreneur chief executive officer (CEO), you also need to impress upon the team the importance of making the very best hiring decisions possible. This can be especially difficult in family businesses because for some family members, the business becomes simply a source of a good-paying job from which they are not likely to be fired. Some years ago, after class, one of my students told me of her family's business, a local chain of Mexican restaurants. She told me about her uncle, who wanted to manage one of the restaurants. Although her father gave him a job at the restaurant, he would not make him the restaurant manager because he lacked the necessary skills. I told the student that her father was a wise man who kindly provided his brother a job but was also aware of his limitations as a manager.

In another example, one of my consulting clients selected several family members for the top positions in the company. That is perfectly fine and would not have been an issue if they were qualified. For example, the vice president of marketing had minimal experience in the field (sales only) and did not have an academic degree in business. The chief financial officer had been a bookkeeper but, again, did not have academic training in business or significant business experience. Although it was nice to provide employment for family members, they were over their heads from the very beginning. Not surprisingly, the venture was unsuccessful. So before hiring friends or family members, be sure that they are qualified for the position before you hire them.

Hiring decisions can determine the success or failure of your new business venture. Tony Hsieh, CEO and founder of Zappos.com, stated that "hiring mistakes cost

Zappos.com \$100 million” (Hsieh, 2019). In *Building the Winning Organization Through High-Impact Hiring*, Bressler (2014) reported that Kismet, a company that provides strategic hiring services, cites a Bureau of Labor Statistics report indicating that 66% of employees in U.S. companies are unengaged (in other words, not working toward company goals and objectives) or disengaged, meaning those employees actively work against company goals and objectives.

How often do companies make bad hiring decisions? Lorenz (2012) reports a CareerBuilder study in which 69% of employers indicated that they were adversely affected by a bad hire in the current year. Companies should not be surprised at this, however. Kleiman (2018) found that 75% of managers and business owners with hiring responsibilities possessed little or no training in hiring employees. In addition, the *Harvard Business Review* (cited in Yager, 2012) reported that as much as 80% of employee turnover can be attributed to bad hiring decisions. Unfortunately, there are weaknesses in hiring that make it difficult to hire the best employees. Résumés can often contain errors or misrepresentations, and most applicants know well enough to use a recognized format. Several studies, including one by Qureshi and Kay (1986), question the validity of résumés. In their study, the researchers found that applicant characteristics, most notably attractiveness, affected résumé evaluation.

In many cases, interviews are conducted poorly as a result of a lack of interviewer training. Also, many poorly qualified applicants might be able to present a good appearance and speak well in the interview. In addition, many persons responsible for hiring employees do not have the necessary skills to effectively carry out an interview and may lack the knowledge of what questions can be asked during an employment interview. Despite being one of the most commonly used hiring methods, Macan (2009) points to these and other issues that suggest interviews are often less than perfect.

“Candidates will remember how they were treated during the interview process, and this will impact your reputation, your company’s reputation, and your ability to hire top talent in the future.”—Denise Wilkerson, author of *HIRE with FIRE: The Relationship-Driven Interview and Hiring Method*

Poor Integration and Acclimation of New Hires

Employee turnover reduces corporate knowledge, can lead to reduced employee morale, and adversely affects business profitability. In a study of the hospitality industry by Hinkin and Tracey (2000), the costs associated with replacing employees totaled nearly \$8,000 in direct costs, in addition to costs associated with peer and supervisor disruption. Managers need to develop a good employee orientation program and assign employee mentors in order to help ensure employee acclimation and keep employee turnover to a minimum.

Maintaining a Safe Environment

According to the Occupational Safety and Health Act of 1970, employers have an obligation to provide a safe working environment for employees. Keeping your employees safe is the right thing to do and can also help you keep your business running smoothly while keeping costs low. Employee injury costs are both direct and indirect. Direct costs of injuries and illnesses include those claimed under workers’ compensation insurance and/or disability insurance.

Indirect costs include the lost time of the injured employee. For example, construction workers being involved in a nonfatal occupational injury or illness resulted in missing an average of 13 days of work (Grainger, n.d.). There may also be additional lost time for other employees who stop to treat the injured worker. Supervisors and crew leaders also spend time investigating the cause of the accident. There may also be damage to machinery, tools, and other property that will need repair. In some cases, there may be a chemical spill that needs to be cleaned up. While this worker is hospitalized or out sick, you may need to train a new employee to replace the injured employee or pay other workers



Workplace safety keeps workers safe and saves companies lost work-time and insurance premium costs, while improving bottom-line profitability and keeping employee morale high.

Source: fizkes/Shutterstock

overtime for the work to be completed. Finally, there may also be legal fees, along with management time spent working with attorneys and government regulators.

The 2017 Liberty Mutual Insurance Workplace Safety Index, based on 2014 Bureau of Labor Statistics data, reported that workplace injuries and accidents in which employees missed 6 or more days of work cost employers in the United States \$59.9 billion in 2014 (Liberty Mutual, 2017). See the accompanying box for a list of fatal injury rates by industry. Employers typically apply administrative controls, engineering controls, and the use of personal protective equipment to reduce the risk of injury. But effectively reducing accident rates may also require, in some cases, a cultural change within the organization.

FATAL INJURY RATES

- Logging workers**
2021 fatal injury rate: 82 per 100,000 workers
Median annual wage: \$47,900
- Fishers and related fishing workers**
2021 fatal injury rate: 75 per 100,000 workers
Median annual wage: \$58,820
- Roofers**
2021 fatal injury rate: 59 per 100,000 workers
Median annual wage: \$51,190
- Aircraft pilots and flight engineers**
2021 fatal injury rate: 58.9 per 100,000 workers
Median annual wage: \$189,620
- Refuse and recyclable material collectors**
2021 fatal injury rate: 28 per 100,000 workers
Median annual wage: \$37,260
- Driver/sales workers and truck drivers**
2021 fatal injury rate: 29.0 per 100,000 workers
Median annual wage: \$48,240
- Refuse and recyclable material collectors**
2021 fatal injury rate: 24.7 per 100,000 workers
Median annual wage: \$67,950
- Underground mining machine operators**
2021 fatal injury rate: 14 per 100,000 workers
Median annual wage: \$64,800
- Construction trades and extraction workers, first-line supervisors**
2021 fatal injury rate: 21.0 per 100,000 workers
Median annual wage: \$56,510
- Electrical power line installers and repairers**
2018 fatal injury rate: 22 per 100,000 workers
Median annual wage: \$82,770

Source: Bieber, K. (2025, July 12). Ten most dangerous jobs in America. *Forbes*. <https://forbes.com/advisor/legal/workers-comp-most-dangerous-jobs-america/>

Key Labor Laws

Key labor laws that apply to the workplace include the following:

- The **Fair Labor Standards Act** regulates the federal minimum wage, overtime rules, child labor bans, and recordkeeping requirements.
- **Federal equal employment opportunity laws** prohibit discrimination based on race, color, religion, sex, or national origin. These laws also include equal pay for men and women and protect persons with disabilities.
- The **Family and Medical Leave Act (FMLA)** provides leave for an employee or a family member dealing with a medical condition. The law does not require the employee to be paid for this time, but some employers might choose to provide paid leave time.
- The **Occupational Safety and Health Act** guarantees employees a safe work environment.

The **employment-at-will** work doctrine means that in every state except Montana, an employer can fire an employee at any time for any reason, except for an illegal reason. Similarly, an employee can choose to leave the job at any time.

Employer–Employee Relations

Entrepreneurs should not assume their business will have good employer–employee relations. Good employer–employee relations require work, starting during the hiring process. Be sure to share your company vision with applicants and get them to buy into the vision. Employees who buy into the company vision will be part of the team and engaged in working toward the company mission.

Management should also promote open communication. As in any other kind of relationship, communication should be a two-way exchange. Many managers claim to have an “open-door policy” but don’t really want anyone to take advantage of it. Open communication also means that you also need to listen to complaints and problems, not just the good news. Don’t get defensive or make excuses. Listen, then do something about the problem! Business owners value and depend on the feedback they get from their customers; in fact, they often pay research firms large sums of money to gather customer feedback. We should take employee feedback just as seriously as customer feedback. The accompanying box lists six ways to help build employer–employee relations.

Fair Labor Standards

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SIX WAYS TO HELP BUILD BETTER EMPLOYER–EMPLOYEE RELATIONS

1. Share the vision.
2. Hold employee forums.
3. Promote open communication.
4. Encourage employee cooperation.
5. Seek employee feedback.
6. Inspire and reward.

A winning team has members who can work together well toward common goals. One of the most important things a leader can do is to lead by example. The entrepreneur leader needs to establish the values for the business and develop a culture that encourages open communication and working together as a team.



The outside of the Indeed head office in Dublin, Ireland.

Source: Derick P. Hudson/Shutterstock

Employees also like working for a company that has an inspirational leader. Herb Kelleher of Southwest Airlines was a leader who connected with employees and inspired them to higher levels of performance. In the process, Kelleher earned loyalty from his employees and the admiration of peer CEOs.

HR is so essential to conducting business that smart entrepreneurs have been building businesses around the need to recruit top talent. Located in Austin, Texas, and Stamford, Connecticut, human resources firm Indeed started in 2004 as an employment-related search engine. The Indeed website accumulates available job listings from across thousands of websites, including staffing firms, job boards, associations, and corporate employment pages. Indeed generates revenue through premium job postings to employers. Indeed began providing résumé posting and storage in 2011 and additionally began allowing job seekers to apply for jobs directly on Indeed's website. Today, Indeed is available in 28 languages across 60 different countries. By late 2010, Indeed had surpassed Monster.com to become the job website with the highest traffic in the United States. In 2012, Recruit Company of Japan acquired Indeed for an estimated \$1 billion.

Another HR entrepreneur, Jeff Taylor, pioneered online job searching with his startup company Monster.com. The company started barebones, with only a job database where job seekers could search for employment opportunities with a web browser. When the company first started, the website was filled with job descriptions from a business publication. Monster became the first job-search website available to the public on the internet. In addition, it became the first company in the world to have a public résumé database. Monster was also

HUMAN RESOURCES TRENDS OF THE YEAR, 2025

According to a recent article in *Harvard Business Review*, several important trends in HR will present both challenges and opportunities for companies and hiring managers. The article reports that some of the most important emerging trends include the following:

- 1. There will be new demands for a future-ready workforce.**
As retirements surge and tech disruption continues, organizations will suffer from a loss of expertise. The year 2025 will be the most significant year for retirements in most of the world's economies. This will result in a major drain of expertise across most organizations.
- 2. Organizations will restructure to take advantage of artificial intelligence (AI) and other technological innovations.**
Chief executive officers (CEOs) are focused on growth in 2025, with many citing technology, and AI specifically, as a significant facilitator. The significant technological impact may also call for changes in organizational structure, further fueling anxiety for both managers and employees.
- 3. Companies will adopt “nudgetech” to bridge widening collaboration gaps.**
A 2024 Gartner survey of nearly 18,000 employees revealed that only 29% were satisfied with their collaboration at work—down from 36% in 2021. Further Gartner analysis found that satisfaction with collaboration has a critical impact on performance; employees who are satisfied with collaboration are stronger performers on average. Nudgetech is a personalized AI tool that “nudges” employees to collaborate with other employees.

(continued)

4. **Seeking fairness, employees will embrace bots over bosses.**
Research has found that management by algorithms—such as their use in scheduling, feedback, performance reviews, and promotion/hiring decisions—can be “alienating” and come with social costs in the workplace. Despite this, employee surveys suggest they find algorithms to be more fair than their human counterparts. A June 2024 Gartner survey of more than 3,300 employees revealed that 57% believe humans are more biased than AI when it comes to making compensation decisions. And an October 2024 Gartner survey of nearly 3,500 employees found that 87% of employees think that algorithms could give fairer feedback than their managers right now.
5. **Organizations will wrestle with how to retain high performers in the age of AI.**
Business leaders want employees to use AI to enhance productivity, reduce busywork, and free up their time and energy for more creative and strategic tasks. At the same time, AI tools can serve as a workplace competency filter—a way for mediocre or poor performers to make their most minimal efforts appear highly productive and impactful to their managers and colleagues.
6. **Organizations will shift focus to inclusion and belonging—with unexpected benefits.**
In 2024, diversity, equity, and inclusion (DEI) initiatives faced increasing politicization and scrutiny, creating considerable anxiety for executives, who find themselves in the tricky position of preserving the benefits of DEI while navigating complex and rapidly shifting external dynamics.
In 2025, most organizations will shift their investments toward fostering greater inclusion and belonging for all employees, as opposed to focusing primarily on representation and underrepresented talent. Leveraging inclusion and belonging will be seen as offering a competitive edge.
7. **“AI-first” organizations will destroy productivity in their search for it.**
AI can create serious risks, unpredictable costs, and negative behaviors that harm the organization. Many new AI tools come with higher out-of-pocket costs and create significant indirect costs, such as increased work friction, the need for new role designs and workflows, barriers to adoption, and more. A July 2024 Gartner survey of more than 3,500 employees revealed that one in five reported that the technology their organization has adopted in the past 2 years has made their job harder rather than easier or having no impact.
8. **Loneliness will become a business risk, not just a well-being challenge.**
In 2023, the U.S. Surgeon General called loneliness a public health crisis. Loneliness isn’t just a well-being risk; it’s an acute business risk. When employees are lonely, their engagement levels lag, and their performance suffers. A 2024 Gartner survey of 18,000 employees revealed that only 29% of employees globally feel satisfied with the interactions they have with coworkers, down from 36% in 2021.
9. **Employee activism will drive companies to adopt responsible AI norms.**
Continued adoption of AI and automation in the workplace is inevitable. But in 2025, employee activism will be a driving force for defining what the employee–AI partnership looks like. In a July 2024 Gartner survey of 243 chief information officers (CIOs), only 21% said they focus on mitigating the potential negative impacts of AI on employee work, and only 20% said they focus on mitigating the potential negative impacts of AI on employee well-being.

Source: Rose, E., Aykens, P., Lowmaster, K., & Shepp, J. (2025, January 22). 9 trends that will shape work in 2025 and beyond. *Harvard Business Review*. <https://hbr.org/2025/01/9-trends-that-will-shape-work-in-2025-and-beyond>

the first company to provide job-search agents and job alerts. By 2014, Monster's revenue exceeded \$880 million, and the company employed more than 4,000 people worldwide.

The accompanying box provides insight on current HR trends.

Although COVID-19 currently does not pose a threat to business organizations, companies and managers should be aware that there may be future pandemics involving new viral strains. What companies learned and put into practice should be reviewed and updated in order for them to be better prepared for the next pandemic.

Today, as we confront the challenges of hiring and retaining employees during the COVID-19 pandemic, hiring managers need to adjust their HR practices and procedures. According to Clay Kellogg, CEO of Terminal in San Francisco, "It's important to screen for skill sets that will make them successful at remote work." Although it may seem obvious, "Hiring managers should ask questions about a candidate's resourcefulness, autonomy, self-motivation, proactive collaboration, and written and verbal communication" (Grensing-Pophal, 2020).

Hiring managers should also be able to address four key issues. First, managers must be sensitive to employee concerns over physical contact, starting with the employment interview. Prospective employees might also have concerns regarding business travel and contact with customers, fellow employees, and company suppliers. Second, as new hires may be onboarding at least in part remotely, it becomes even more important to develop an effective new employee orientation program that will retain the top talent the company will need. Pace orientation training to allow for time in between sessions to absorb the information being presented to the employee. Third, sharing the company culture and integrating new hires into the company remotely may present additional challenges. Developing social interaction opportunities such as morning greetings, online fitness classes, book clubs and remote happy hours are some ideas companies have developed. Finally, companies need to respect employee privacy regarding COVID testing and related health issues. Be sure to maintain privacy as you would for all employee medical information.

The New Hiring Landscape

The Service Corps of Retired Executives (SCORE) finds that 42% of small businesses list hiring new employees as their biggest challenge (Better Business Bureau, 2019). A National Federation of Independent Business (2020) study reports that 44% of small businesses found few or no qualified applicants for job openings.

The cost for an average hire is approximately \$4,000. But according to Monster (2016), 62% of small business owners have made a wrong hire. You might be losing revenue while the position is unfilled and might even have additional costs, such as those related to other workers covering the unfilled position. And in addition to the \$4,000 average cost to hire, it may take several months for the new employee to perform at the same level as the average employee. Some jobs might have even higher learning curves. So, making good hiring decisions is very important!

The hiring process is very different today than it was a generation ago. According to LinkedIn (Ignatova, 2017), 48% of businesses report that their best-quality hires result from employee referrals, followed by third-party websites and online job boards (46%), then social professional networks (40%).

According to the Bureau of Labor Statistics, **millennials** (born between 1981 and 1996, ages 24–39 in 2020) will make up 75% of the global workforce by 2030 (Economy, 2019). Once you have hired your workforce, the challenge becomes keeping your employees. Of people aged 18–34, 42% are considering a new job, compared with 20% of people over 35 (Gladstone, 2017). This generation of employees offers both challenges and opportunities for managers. For example, as shown in the accompanying box on millennials in the workplace, 59% of millennials say opportunities to learn and grow are extremely important to them when applying for a job.

A Society for Human Resource Management (Reed, 2009) study found that the top-five most important aspects of employee job satisfaction were as follows:

- Opportunities to use skills and abilities
- Job security

13 IMPORTANT FACTS ABOUT MILLENNIALS IN THE WORKPLACE

1. Millennial turnover costs the U.S. economy \$30.5 billion annually.
2. Of millennials, 29% are engaged at work, 16% are actively disengaged, and 55% are not engaged.
3. Of millennials, 26% say recognition motivates them to do their best work.
4. Of millennials, 42% expect to change jobs at least every 1–3 years.
5. Engaged millennials are 64% less likely to say they will switch jobs if the job market improves in the next 12 months.
6. Of millennials, 59% say opportunities to learn and grow are extremely important to them when applying for a job.
7. Of millennials, 87% say professional development or career growth opportunities are very important.
8. Of millennials, 19% say flexibility is their most important workplace benefit.
9. Of millennials, 59% say flexibility will improve productivity, and 49% say it'll improve their happiness.
10. Of millennials, 49% support the use of social tools for workplace collaboration.
11. Of millennials, 33% want collaborative workspaces.
12. Of millennials, 75% would prefer to work from home or other locations where they feel they could be most productive. However, only 43% are currently allowed to do this.
13. Of millennials, 78% see workplace quality as important when choosing an employer.

Source: VISIX. (n.d.). *13 important facts about millennials in the workplace*. <https://www.visix.com/resources/infographics/13-important-facts-about-millennials-in-the-workplace/>

- Compensation/pay
- Communication between employees and senior management
- Relationship with immediate supervisors

Although compensation/pay ranks third, the importance of compensation should not be understated. Aflac, an insurance company, reports that 72% of small business employees say an improvement in their benefits offerings would make them even happier (Reed, 2009).



Source: kurhan/Shutterstock

“Hiring people with fresh ideas is the key to a company’s future success.”

—Eraldo Banovac, author, energy expert, and university professor.

Training and Development

Research shows that 40% of employees who don't receive the necessary job training to become effective will leave their positions within the first year. According to the Association for Talent Development (ATD), companies that offer comprehensive training programs have 218% higher income per employee than companies without formalized training. But it doesn't stop there. These companies also enjoy a 24% higher profit margin than those that spend less on training. Apparently, continuing to invest in employee training and development pays off in many ways (Natchez, 2018).

Research finds that 35.5% of training hours were delivered by a stand-and-deliver instructor in a classroom setting—down from 42% in the previous year. This means that increasingly more training is being performed through technology, ranging from webinars to online software.

Training Magazine reports that organizations spend between \$1,075 and \$1,886 for training on each employee annually (Freifeld, 2018). **Training** involves teaching new

training Involves teaching new skills to help employees improve their job performance and work more efficiently.



Human resources is much more than simply hiring people.

Source: docstockmedia/Shutterstock

skills to help employees improve their job performance and work more efficiently. According to the U.S. Bureau of Labor statistics, companies with less than 100 employees provided only 12 minutes of manager training every 6 months; even more surprising, organizations with 100–500 employees provided only 6 minutes of training in a 6-month time frame (Freifeld, 2018).

Development works to improve the existing skills of employees. Some typical ways companies provide employee development include the following:

- Hosting a workshop on interpersonal communication
- Hiring a consultant to address weaknesses in workflow and interdepartmental communication
- Offering one-on-one mentorship for rising stars and future company leaders

Mentoring, in business, refers to the practice of assigning a junior member of staff to an influential senior sponsor or supporter who assists the mentee in their career. Younger employees seeking to advance in the company and in their careers can often benefit from working with a mentor. In addition to the employee and the mentor, organizations can benefit from a well-defined employee mentorship program.

Employee Training and Development

Employee training improves employee productivity and performance. Employee training gives your employees the skill set needed to do their job well and represent your business favorably. The skills they acquire will enable them to produce better-quality work with a fast turnaround. Training also gives your new employees a clear understanding of their organizational roles and responsibilities. They understand their goals and objectives and are equipped with what they need to effectively achieve them. Perhaps most important is that employees recognize and value that management is investing in employees, just as they do with other important company assets.

According to a 2015 Gallup survey, only 32% of employees are actively engaged at work. Engaged employees have an increased level of productivity, help facilitate two-way communication, and share their opinions (Gallup, 2015). Engaged employees are more emotionally invested and care about their job roles. Engaged employees are also more willing to commit time and energy in support of the company.

Employees who are engaged at work are significantly less likely to quit their jobs. Research from the Corporate Leadership Council (2004) reports that employees with the highest levels of engagement are 87% less likely to leave their place of employment.

Training helps employees feel more valuable. Providing training demonstrates that you're committed to providing employees with the necessary resources to help them perform their jobs well. In return, employees will be more likely to enjoy work and remain longer in your organization. Training also helps them further their careers. An important benefit is that you will have increased opportunities to promote from within rather than having to recruit externally and incur additional costs for your business.

Consistency within an organization can be difficult to attain but is important. Training helps to reduce disparity in performance between your teams. Training provides employees with baseline knowledge of their personal and team goals, placing every employee on the same page. In addition, all employees receiving the same training are aware of their role on the team and share responsibility.

Possibly the most important result of training employees is the effect on the growth of your business. Having better-trained employees means team members will be more productive and serve your customers better. This results in increased customer retention, and happier customers stay around longer and purchase more goods and services. The accompanying box summarizes the benefits of employee training and development.

BENEFITS OF EMPLOYEE TRAINING AND DEVELOPMENT

- Training increases engagement.
- Training improves employee performance.
- Training improves employee retention and growth.
- Consistency in training promotes shared responsibility.
- Training helps track employee skills.
- Training helps address internal weaknesses.
- Training results in more satisfied customers.

Source: Picincu, A. (2018, October 25). *The advantages of good employee relations*. Bizfluent. <https://bizfluent.com/info-8156091-advantages-good-employee-relations.html>

New business owners may choose to hire employees or hire independent contractors. Keep in mind that although there are certain advantages to hiring independent contractors, it may be more difficult because many applicants seek permanent employment with benefits.

There are labor laws that employers are subject to, including requirements for minimum wage, workplace safety, employee protection from discrimination, and many other regulations. Be sure to understand all federal, state, and local laws that you and your business must follow—ignorance of the law is not an excuse. Detailed information is available through the U.S. Department of Labor website at <https://www.dol.gov/general/aboutdol/majorlaws>. In addition, some of the U.S. Department of Labor regulations require notification to employees and/or prominent posting of the regulations in the workplace. The Department of Labor provides electronic and printed copies of required posters at no charge to employers.

The U.S. Small Business Administration (n.d.) offers the following information on employee benefits:

Required Employee Benefits

- **Social Security taxes:** Employers are required to pay Social Security taxes at the same rate as their employees. The current tax rate for Social Security is 6.2% for the employer and 6.2% for the employee, or 12.4% total. The current rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total.

- **Workers' compensation:** Workers' compensation is required, either through a commercial carrier, self-insurance, or the state Workers' Compensation Program. Texas is one of only two states where workers' compensation is not required. However, many businesses purchase worker insurance through private insurance carriers.
- **Disability insurance:** Disability pay is required in California, Hawaii, New Jersey, New York, Rhode Island, and Puerto Rico. Many employers will also offer disability insurance, either company paid or employee paid.
- **Leave benefits:** Generally, leave benefits are optional outside those stipulated in the FMLA. The FMLA allows employees with serious medical conditions to take leaves of absence for a maximum of 12 weeks per year, and the 12 weeks can either be taken all at once or in increments of 1 day or even 1 hour. The FMLA allows qualified employees of qualified employers to take up to 12 weeks of unpaid time off from work during a specified 12-month time period. Some employers may choose to provide paid leave to their employees.
- **Unemployment insurance:** Requirements for unemployment insurance vary by state, and you may need to register with your state workforce agency.

Optional Employee Benefits

- Small businesses can offer additional optional benefits to attract and retain employees. Keep in mind that even optional benefits must comply with any applicable laws.
- Businesses offering group health insurance plans must observe federal law, as stated in the Department of Labor guidelines.
- Employees can increase health insurance coverage as per the Affordable Care Act, and some employees may also qualify for benefits under the **Consolidated Omnibus Budget Reconciliation Act (COBRA)**. Businesses are required to offer the option of COBRA benefits to employees when their employment terminates.
- Retirement plans are another highly desired employee benefit. Employers should consider offering an employer-sponsored retirement plan, such as a 401(k) or pension plan.

Consolidated Omnibus Budget Reconciliation Act (COBRA) Businesses are required to offer the option of COBRA benefits to employees when their employment terminates.

Employee Incentive Programs

Developing an employee incentive program can help boost employee morale and generate more interest in employment openings. Incentives range from stock options to flex time, wellness programs, corporate memberships, employee tuition, and educational benefits.

Many small businesses use benefits administration software that can make accounting easier. Providing detailed information on all benefits in an employee handbook provides your employees with a handy reference.



Smart manager entrepreneurs determine what benefits will attract, motivate, and retain good employees.

Source: Rawpixel.com/Shutterstock

Federal and State Labor Laws

By adhering to all state and federal labor laws, you are protecting workers' rights and ensuring that your business operations conform to industry regulations. The business owner and management must become familiar with applicable laws for hiring veterans, household employees, foreign workers, children, persons with disabilities, and other groups. The small business must also be in compliance when terminating an employee, downsizing the business, or laying off workers. Employers and managers should carefully review the Department of Labor's resources on federal and state laws.

Tax Obligations

The federal taxes you are required to pay and how you pay them are based on the structure of your business. Some taxes are required to be paid throughout the year, so be sure to know what your business tax obligations are prior to the end of your business tax year.

Business taxes include the following:

- Income tax
- Self-employment tax
- Estimated tax
- Employer tax
- Excise tax

Each of these business taxes has rules and qualifications, as well as Internal Revenue Service (IRS) forms you must file. Be sure to check with the IRS to see which of these business taxes apply to your business. Employers are required to withhold taxes from employee paychecks and include income, Social Security, Medicare, self-employment, and unemployment taxes.

ENTREPRENEUR PROFILE

Magic Johnson

Age: 66 (born August 14, 1959)

Estimated Net Worth: \$640 million (thenetworkportal.com)

Company: Magic Johnson Enterprises

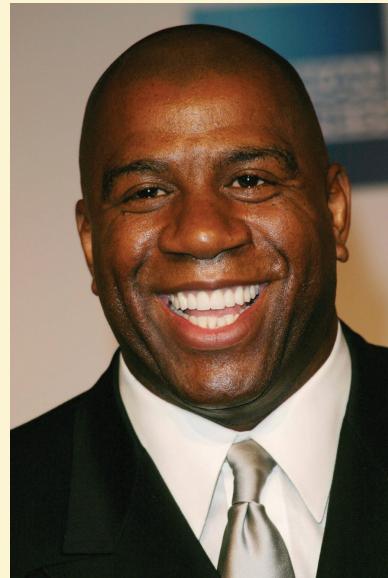
Industry: Entertainment

"When you are a successful business person, you are only as good as your team. No one can do every deal alone."

Today, Magic Johnson is known as an entrepreneur, philanthropist, broadcaster, and motivational speaker. But to many, Magic Johnson is best known as a basketball legend. Magic was the marquee player for the Los Angeles Lakers for many seasons and went on to help the United States win a gold medal at the 1992 Barcelona Olympic Games. As a player, he scored 17,707 points (19.5 points per game [PPG]) and gathered 6,559 rebounds (7.2 rebounds per game [RBG]) and 10,141 assists (11.2 assists per game [APG]). Johnson also went on to be a coach for and president of the Lakers. He was inducted to the Basketball Hall of Fame as a player.

Magic Johnson manages Magic Johnson Enterprises, a conglomerate with an estimated net worth of \$700 million. Subsidiaries of the company include Magic Johnson Theaters, Magic Johnson Productions, a national chain of movie theaters, and a film studio named Magic Johnson Entertainment.

In 2009, *Ebony* magazine named Magic Johnson one of America's most influential black business



Magic Johnson gained fame as a great basketball player and now uses that magic in a range of entertainment businesses.

Source: Joe Seer/Shutterstock

owners. Johnson has many business interests and is a member of an investor group that purchased the Los Angeles Dodgers in 2012 and the Los Angeles Sparks in 2014.

Source: Wikipedia. (2025, March 24). Magic Johnson. https://en.wikipedia.org/wiki/Magic_Johnson

Summary of Learning Objectives

1. Discuss the importance of hiring the right person for the job.

Hiring decisions can determine the success or failure of your new business venture. Tony Hsieh, CEO and founder of Zappos.com, stated that “hiring mistakes cost Zappos.com \$100 million” (Hsieh, 2019). In *Building the Winning Organization Through High-Impact Hiring*, Bressler (2014) reported that Kismet, a company that provides strategic hiring services, cites a Bureau of Labor Statistics report indicating that 66% of employees in U.S. companies are unengaged (in other words, not working toward company goals and objectives) or disengaged, meaning those employees actively work against company goals and objectives.

How often do companies make bad hiring decisions? Lorenz (2012) reports a CareerBuilder study in which 69% of employers indicated that they were adversely affected by a bad hire in the current year. Unfortunately, there are weaknesses in hiring that make it difficult to hire the best employees. Résumés can often contain errors or misrepresentations, and most applicants know well enough to use a recognized format. Several studies, including one by Qureshi and Kay (1986), question the validity of résumés. In their study, the researchers found that applicant characteristics, most notably attractiveness, affected résumé evaluation.

2. Describe how managers can help create a safe work environment.

The 2017 Liberty Mutual Insurance Workplace Safety Index, based on 2014 Bureau of Labor Statistics data, reported that workplace injuries and accidents in which employees missed 6 or more days of work cost employers in the United States \$59.9 billion in 2014 (Liberty Mutual, 2017). Employers typically apply administrative controls, engineering controls, and the use of personal protective equipment to reduce the risk of injury. In addition, proper safety equipment and training are essential to protect employees and others in the work environment. But effectively reducing accident rates may also require, in some cases, a cultural change within the organization.

3. Demonstrate basic knowledge of labor law.

Key labor laws that apply to the workplace include the following:

- The Fair Labor Standards Act regulates the federal minimum wage, overtime rules, child labor bans, and recordkeeping requirements.
- Federal equal employment opportunity laws prohibit discrimination based on race, color,

religion, sex, or national origin. These laws also include equal pay for men and women and protect persons with disabilities.

- The Family and Medical Leave Act provides leave for an employee or a family member dealing with a medical condition. The law does not require the employee to be paid for this time, but some employers might choose to provide paid leave time.
- The Occupational Safety and Health Act guarantees employees a safe work environment.

The employment-at-will work doctrine means that in every state except Montana, an employer can fire an employee at any time for any reason, except for an illegal reason. Similarly, an employee can choose to leave the job at any time.

4. List and describe the six main functions of human resources.

The six main functions of the human resource department are recruitment, maintaining a safe work environment, employer–employee relations, benefits and compensation, labor law compliance, and training and development.

Recruitment means ensuring that the hiring process is legal and ethical, as well as hiring the right person for the job. Maintaining a safe work environment includes training employees to be able to perform their work assignment safely, including proper wear and use of safety equipment. Employer–employee relations require open and honest communication between workers and management. Benefits and compensation include developing compensation programs that are competitive and will attract and retain highly qualified workers. Compensation policies must then be communicated so that employees understand what benefits they are entitled to. Labor law compliance protects workers and protects the employer from legal action. Training and development are critical to maintaining a highly skilled workforce.

Remember, employees are your most important asset; your employees can mean success or failure for your business.

Taleo Research (n.d.) found that companies earn 26% more revenue per employee when their employees are highly engaged. Companies with engaged workers experience up to 43% higher productivity. In addition, organizations with highly engaged employees report earning 13% higher returns to shareholders. In another study, Yener et al. (2002) found that the top 25% of businesses with regard to employee engagement produced up to an additional 4 percentage points in profitability.

Conversely, disengaged employees cost organizations an incredible \$300 billion in lost productivity every year (Picincu, 2018). Certainly, it pays to make sure your staff members feel appreciated and empowered. It is also important for them to know that their opinions are valued. Managers should also provide personalized feedback to employees and express interest in their work, as well as the technology they need to do their jobs better and faster.

In this chapter, we covered the basics of HR management, including some of the important laws business owners must become familiar with.

“I am convinced that nothing we do is more important than hiring and developing people. At the end of the day, you bet on people, not on strategies.”

—Lawrence Bossidy, American author and retired businessman who served as CEO of AlliedSignal (later Honeywell)

Key Terms

Consolidated Omnibus Budget Reconciliation Act (COBRA), p. 80
development, p. 78
employment-at-will, p. 73
Fair Labor Standards Act, p. 73
Family and Medical Leave Act (FMLA), p. 73

federal equal employment opportunity laws, p. 73
mentoring, p. 78
millennials, p. 76
Occupational Safety and Health Act, p. 73
training, p. 77

AI Exercise

Prompt:

Prepare a 150-word essay on how artificial intelligence (AI) can help you develop a human resource plan for your small business.

How to use AI for this assignment:

Please submit the output generated by the AI prompt and add a paragraph that summarizes the output. This assignment is for extra credit and will be worth 5 points.

Getting started with AI:

Generative AIs, such as ChatGPT, are tools that can understand prompts and generate text responses that mimic human writing. Some can even generate images! Generative AI can be used to answer questions, further develop or review your own work, or create new content based on your prompts. This tool can accomplish impressive tasks and may become standard in various jobs in the coming years, so this is to help you consider how you can use this tool ethically and safely.

Here are some steps to help you get started with ChatGPT (for free):

1. Go to OpenAI's page to sign up for an account.
2. Follow the prompts given for the registration process and sign in to your account.
3. Go into the ChatGPT area and begin sending message prompts.

- Review the OpenAI Guide about “GPT Best Practices” for more information on how best to use this tool.

Note that there are other AI chat tools you can use, and there are also paid versions that may offer some extra features. Currently, ChatGPT4 is the paid version of the ChatGPT tool, and ChatGPT3 is the free version. Keep that in mind to avoid accidentally buying something you do not need.

What to consider when using generative AI:

1. Be clear in the prompts you provide. It may be necessary to provide additional context for your prompts in order to get a better response.
2. Ensure your information is protected! Do not share confidential information or personal details with the system. If you are trying to consider how you might accomplish certain tasks that require personal data, put in sample information (John Doe, 1/1/1901, 555-555-555, etc.).
3. Sometimes you may get an inaccurate, undesirable, or even offensive response from the generative AI you use. Keep in mind that you will want to fact-check information provided to you by AI tools and that it has no “intention” behind it to be malicious in its replies. The responses are based on a language model provided by various internet sources. AI does have the ability to confidently give a wrong answer, so be cautious in how you use its information.

Case Study: The Branding Iron Steakhouse

Paul and Susan Caldwell had both spent the last 20 years working in restaurants. Paul worked his way up in management at one of the country's largest steak-house chains. Susan had also worked in restaurant management for several national restaurant chains. Both had started working as restaurant servers while still in college and understood the restaurant business from the ground up.

They decided it was time to run their own business and do things their own way, so they cashed out their retirement funds to start their steakhouse. Paul and Susan decided on a steak house instead of another type of restaurant because steak houses are popular in West Texas, and there are no other steak houses for at least 20 miles in each direction.

Located at the exit to the Interstate Highway 20, the Branding Iron menu also includes catfish, shrimp, chicken, and pork chops in addition to soups, salads, and a variety of appetizers. The building was formerly an Outback Steakhouse and required very little buildout work before opening. The building is in excellent shape both inside and outside, including a well-kept parking lot and landscaping. The restaurant is visible from the interstate, with good access from each direction. Paul and Susan applied for a license to sell beer, wine, and other alcoholic beverages.

While Paul focused on putting the final touches on the restaurant interior and inside and outside signage, Susan ordered the kitchen equipment and inventory. Both decided they should work together on hiring and training the restaurant staff. They placed a "Help Wanted" ad in

the local newspaper and a sign out front of the restaurant and scheduled interviews for 2 weeks before the grand opening.

The local economy is very strong, so the competition for workers is also very strong. Paul feels that they will have to pay above the minimum wage (currently \$7.25) in order to be able to attract and retain workers, but Susan thinks that although higher pay might attract workers, it will take benefits and a favorable work environment to keep them happy. Paul also believes that they can train servers and managers in 1 day on a weekend prior to opening, whereas Susan wants to provide at least 16 hours of training for servers and more for shift managers.

Questions for Discussion

1. What laws do the Caldwells need to consider in opening their steak-house restaurant?
2. What licenses and permits are they likely to need for the steak house?
3. Keeping in mind that most of the servers will be aged 16–25, what do you think will attract and keep their workers?
4. Do you agree with Susan or Paul regarding the number of training hours? What would be the advantages and disadvantages of each option?
5. Are there any other HR issues that Paul and Susan need to be concerned with?

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