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## Managing Human Resources in Small and Entrepreneurial Firms

## LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 18-1** **Explain** why HRM is important to small businesses and how small business HRM is different from that in large businesses.
- 18-2** **Give** four examples of how entrepreneurs can use Internet and government tools to support the HR effort.
- 18-3** **List** five ways entrepreneurs can use their small size to improve their HR processes.
- 18-4** **Discuss** how you would choose and deal with a professional employer organization.
- 18-5** **Describe** how you would create a start-up human resource system for a new small business.

**S**an Francisco-based apparel company Everlane's strategy involves building its brand around ethical manufacturing and transparency in all they do.<sup>1</sup> For example their Web site shows photos of the factories abroad that make their clothes, they give voice to the factories' workers, and they list for every item its costs, so you can better judge the worth of what you're buying. A strategy like that requires a set of recruitment, selection, and compensation practices that fit. We'll see what they did.



## WHERE ARE WE NOW . . .

Small businesses have special human resource management needs. The main purpose of this chapter is to help you apply what you know about human resource management to running a small business. The main topics we'll address include **The Small Business Challenge; Using Internet, Government, and Other Tools to Support the HR Effort; Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality; Using Professional Employer Organizations; and Managing HR Systems, Procedures, and Paperwork.**

**LEARNING OBJECTIVE 18-1**

**Explain** why HRM is important to small businesses and how small business HRM is different from that in large businesses.

## The Small Business Challenge

There's nothing small about *small business*. About half the people working in the United States today work for small firms.<sup>2</sup> Small businesses as a group also account for most of the 650,000 or so new businesses created every year,<sup>3</sup> as well as for most of America's business growth (small firms grow faster than big ones). And small firms create most of the new jobs in the United States.<sup>4</sup>

Statistically speaking, therefore, many (or most) people graduating from college probably do or will work for small businesses—firms with less than 200 or so employees. Anyone interested in human resource management thus needs to understand how managing human resources in small firms differs from that in huge multinationals.

### How Small Business Human Resource Management Is Different

Managing human resources in small firms is different for four main reasons: *size*, *priorities*, *informality*, and the nature of the *entrepreneur*.

**SIZE** For one thing, it's unusual to find a business under 90 or so employees with a dedicated HR professional.<sup>5</sup> *As a rule*, it's not until a company reaches about 100 employees that it can afford an HR specialist. Yet even five- or six-person retail shops recruit, select, train, and pay employees. So, it's usually the owner or his or her assistant that does the HR tasks; the bookkeeper might handle payroll, for instance. As a result, SHRM found several years ago that even firms with under 100 employees often spend the equivalent of two or so people's time each year addressing human resource management issues.<sup>6</sup> Those hours usually come out of the owner's long workday. (However, about 10% of SHRM members work in firms with less than 100 employees, so there are exceptions.)<sup>7</sup>

**PRIORITIES** At the same time, business realities drive many entrepreneurs (the men and women who provide the vision and “spark” that starts a new business) to focus more on non-HR issues. After studying small e-commerce firms in the United Kingdom, one researcher concluded that, as important as human resource management is, it just wasn't a high priority for these firms:

Given their shortage of resources in terms of time, money, people and expertise, a typical SME [*small- and medium-size enterprise*] manager's organizational imperatives are perceived elsewhere, in finance, production and marketing, with HR of diminished relative importance.<sup>8</sup>

**INFORMALITY** One effect of this is that human resource management tends to be more informal in smaller firms. Thus, one study analyzed training practices in about 900 family and nonfamily small companies.<sup>9</sup> Training tended to be informal, with an emphasis on methods like coworker and supervisory on-the-job training.

Such informality isn't just due to a lack of resources, it's a “matter of survival.” Entrepreneurs must react fast to changing competitive conditions. So, there's logic in keeping things like compensation policies flexible. The need for small businesses to adapt quickly often means handling matters like raises, appraisals, and time off “on an informal, reactive basis with a short time horizon.”<sup>10</sup>

**THE ENTREPRENEUR** *Entrepreneurs* are people who create businesses under risky conditions, and starting new businesses is always risky. Entrepreneurs therefore tend to be dedicated and visionary, and somewhat controlling. Researchers believe that small firms' informality partly stems from entrepreneurs' tendency to control things. For example, “Owners tend to want to impose their stamp and personal management style on internal matters, including the primary goal and orientation of the firm, its working conditions and policies, and the style of internal and external communication and how this is communicated to the staff.”<sup>11</sup>

**IMPLICATIONS** This combination of small size, priorities, informality, and entrepreneurial tendencies can easily translate into several problems for a small firm’s human resource management practices.<sup>12</sup>

- First, inadequate human resource practices may put small business owners at *legal risk*. For example, Outback Steakhouse long had no human resource department. That changed after an EEOC suit led Outback to pay a \$19 million sex discrimination settlement. They hired an executive-level HR professional. Similar legal risks abound for violating Family Medical Leave Act regulations, and not paying for overtime hours worked, to name a few.
- Second, not having a dedicated HR person can *slow company decisions* and *overwhelm* its managers. After LRN Corp. eliminated its human resource department, tasks like hiring became convoluted as line managers tried to figure out what skills jobs required, and how to find and select the best people. Soon managers were pushing all these decisions up the ladder to the top manager.
- Third, without human resource information systems, paperwork is *time consuming*, and duplication may create *data entry errors*. Employee data (name, address, marital status, and so on) often appears on multiple human resource forms (medical enrollment forms, W-4 forms, and so on). Any personal data change then requires manually changing all forms. This is inefficient, and causes errors.
- Fourth, if the small business can’t efficiently hire, train, appraise, and compensate employees, how will it compete with companies that can? It could be at a *competitive disadvantage*.



### Diversity Counts: Necessity and the Entrepreneur

More men than women start new businesses, but according to one study, about 100 million women in 59 countries still started new businesses in one year.<sup>13</sup> Interestingly, most of the women who did start businesses were not in the developed world. The most likely countries for women to start businesses were in Latin America and sub-Saharan Africa. This may be because in developed economies, women have more career options. In developing economies such as Ghana, necessity infuses a confidence that drives more women to make it on their own. ■

### Why HRM Is Important to Small Businesses

A small software start-up experienced turmoil when social media postings from one employee accused another of harassment. The moral, says one expert, is that start-ups can’t assume that all they need is an employee handbook; they also need a functioning HR system.<sup>14</sup>

In fact, small firms with effective HR practices do better than those without them. For example, a study in the UK found a direct positive relationship between small companies’ use of formal human resource practices and the companies’ financial performance and labor productivity.<sup>15</sup> An earlier study focused on 168 family-owned high-growth small and medium-size enterprises (SMEs). The successful SMEs placed more emphasis on training and development, performance appraisal, recruitment packages, maintaining morale, and setting competitive compensation levels than did less successful ones.<sup>16</sup>

For many small firms, effective human resource management is also required for getting and keeping big customers. For example, to comply with international ISO-9000 quality standards, many large customers check that their small vendors follow the necessary HR standards.<sup>17</sup>

We devote this chapter to methods small business managers can use to improve their human resource management practices, starting with Internet and government tools.

#### LEARNING OBJECTIVE 18-2

**Give** four examples of how entrepreneurs can use Internet and government tools to support the HR effort.

## Using Internet, Government, and Other Tools to Support the HR Effort

No small business need cede the “HR advantage” to big competitors. Knowledgeable small business managers can level the terrain by using Internet-based HR resources, including free online resources from the U.S. government. For example, the Small



Business Administration (SBA) provides (under Manage Your Business) a *Hire and Manage Employees* page, with a list of HR items to address.<sup>18</sup> Other useful sites include the following.

### Government Tools for Complying with Employment Laws

Complying with federal (and state and local) employment law is a thorny issue for entrepreneurs. For example, the entrepreneur needs to know, “Must I pay this person overtime?” and, “Must I report this injury?”

Start by knowing which federal employment laws apply. For example, Title VII of the 1964 Civil Rights Act applies to employers with 15 or more employees, while the Age Discrimination in Employment Act of 1967 applies to those with 20 or more.<sup>19</sup> Small business owners will find the legal answers they need to answer questions like these online at federal agencies’ Web sites.

**DOL ONLINE ELAWS ADVISORS** The U.S. Department of Labor provides “elaws Advisors” (such as its Health Benefits Advisor) for laws covering matters like pay and benefits, and health and safety. Using elaws Advisors is a bit like having an expert for advice, for example “is this employee exempt from overtime pay requirements?”<sup>20</sup> Thus, as in Figure 18-1 click “Begin FirstStep-Employment Law Overview Advisor Now.” The wizard takes you through questions like “What best describes the nature of your business?”

Proceeding through the wizard, the owner arrives at “results.” This says, “Based on the information you provided . . . the following employment laws administered by the Department of Labor (DOL) may apply to your business or organization.”<sup>21</sup> Typically, these laws might include the Consumer Credit Protection Act, Employee

**FIGURE 18-1** *FirstStep* Employment Law Advisor

Source: U.S. Department of Labor, <https://webapps.dol.gov/elaws/firststep/>, accessed August 24, 2018.

The screenshot shows the top of the website with the U.S. Department of Labor logo and a search bar. Below the header, the page title is "eLaws - FirstStep Employment Law Advisor". The main text explains that the tool helps employers determine which federal employment laws apply to their business. It lists three starting points: the Employment Law Overview Advisor, the Recordkeeping, Reporting, and Notices Advisor, and the Poster Advisor. A note states that the tool is a guide on major DOL laws and does not cover all laws administered by DOL. It also provides contact information for state labor offices and other federal agencies like the EEOC, NLRB, and NMB. At the bottom, there is a red button that says "Begin FirstStep - Employment Law Overview Advisor Now".

Polygraph Protection Act, Fair Labor Standards Act, Immigration and Nationality Act, Occupational Safety and Health Act, Uniformed Services Employment and Reemployment Rights Act, and Whistleblower Act.

A linked DOL site ([www.dol.gov/whd/flsa/index.htm](http://www.dol.gov/whd/flsa/index.htm)) provides information on the Fair Labor Standards Act (FLSA).<sup>22</sup> It also contains several specific FLSA “elaws Advisors.” Each provides practical guidance on questions such as when to pay overtime. Figure 18-2 presents, from this Web site, a list of elaws Advisors.<sup>23</sup>

**EEOC ONLINE TOOLS** The U.S. Equal Employment Opportunity Commission administers Title VII of the Civil Rights Act of 1964 (Title VII), the Age Discrimination in Employment Act of 1967 (ADEA), Title I of the Americans with Disabilities Act of 1990 (ADA), and the Equal Pay Act of 1963 (EPA). As the EEOC says, “While the information in this section of our website applies to all employers, it has been specifically designed for small businesses which may not have a human resources department or a specialized EEO staff” ([www.eeoc.gov/employers](http://www.eeoc.gov/employers)). The site provides small business owners with practical advice. For example, “What should I do when someone files a charge against my company?” Its Web site ([www.eeoc.gov/employers](http://www.eeoc.gov/employers)) contains important information regarding matters such as:

- How do I determine if my business is covered by EEOC laws?
- Who may file a charge of discrimination with the EEOC?
- Can a small business resolve a charge without undergoing an investigation or facing a lawsuit?

**OSHA ONLINE TOOLS FOR SMALL BUSINESSES** The DOL’s Occupational Safety and Health Administration site ([www.osha.gov](http://www.osha.gov)) provides specific guidance and checklists for small business managers (see Figure 18-3). OSHA’s site provides, among other things, easy

**FIGURE 18-2** Sample DOL elaws Advisors

Source: U.S. Department of Labor, <http://webapps.dol.gov/elaws/>, accessed September 21, 2017.

The screenshot shows the top portion of the DOL elaws website. At the top is a red header with the United States Department of Labor logo and name, social media icons, and a search bar. Below the header is a dark grey navigation bar with links for ELAWS HOME, ABOUT ELAWS, ADVISORS BY CATEGORY, MOST REQUESTED ADVISORS, and CONNECT WITH ELAWS. The main content area features a large image of a diverse group of professionals in business attire looking at a laptop. To the right of the image is a text box titled "About elaws" which states: "The elaws Advisors help employees and employers learn their rights and responsibilities under Federal employment laws." Below this are two columns of advisor lists. The first column is titled "ELAWS ADVISORS BY CATEGORY" and lists: Pay and Benefits, Safety and Health, Posters and Recordkeeping, Youth Employment, Veterans' Issues, Federal Contractor, Mining Industry, and All Advisors. The second column is titled "MOST REQUESTED ELAWS ADVISORS" and lists: Fair Labor Standards Act (FLSA) Advisor, Family and Medical Leave Act (FMLA) Advisor, FirstStep Poster Advisor, Veterans' Preference Advisor, and Uniformed Services Employment and Reemployment Rights Act (USERRA) Advisor. At the bottom, there is a section titled "ALL ELAWS ADVISORS" which lists: Disability Nondiscrimination Law Advisor, Drug-Free Workplace Advisor, ERISA Fiduciary Advisor, Family and Medical Leave Act (FMLA) Advisor, Medical and Disability Related Leave Advisor, MSHA Online Forms Advisor, MSHA Training Plan Advisor, and MSHA Fire Suppression and Fire Protection Advisor.

**FIGURE 18-3** OSHA Small Business Web Site

Source: U.S. Department of Labor, <https://www.osha.gov/dcsp/smallbusiness/index.html>.

The screenshot shows the OSHA Small Business web page. At the top, there's a red navigation bar with the U.S. Department of Labor logo, social media icons, and a search bar. Below that, a white navigation bar lists categories like 'ABOUT OSHA', 'WORKERS', 'EMPLOYERS', etc. The main heading is 'Small Business' in blue. A large photo shows three workers in safety gear. Below the photo, text describes OSHA's Small Business Assistance. Three red-bordered boxes highlight key programs: 'On-site Consultation', 'SHARP', and 'Quick Start'. The 'Quick Start' box is blue and describes a compliance assistance tool.

access to the *OSHA Small Business Handbook*. This contains practical information, including industry-specific safety and accident checklists.

### Online Employment Planning and Recruiting Tools

Online tools can make small business owners as effective as their large competitors at writing job descriptions and recruiting applicants. For example, as we saw in Chapter 4 (Job Analysis), O\*NET (<http://online.onetcenter.org>) enables business owners to create accurate job descriptions and job specifications quickly.

**ONLINE RECRUITING** Small business owners can also use the online recruiting tools in Chapter 5 (Recruiting). For example, it's easy to scour LinkedIn.com, and to post jobs on Careerbuilder.com, and on professional associations' job boards. Similarly, the best applicant tracking software does more than track job candidates.<sup>24</sup> They also automatically post open jobs to job Web sites. Some, like Bullhorn ([www.bullhorn.com/](http://www.bullhorn.com/)) post jobs to social media sites including LinkedIn, Twitter, and Facebook.



### TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA<sup>25</sup>

Many small businesses use social media to recruit applicants. For example, LinkedIn lets employers post job openings and facilitates business networking. One recruiter reportedly looks for LinkedIn members who have compelling summaries, excellent recommendations, and memberships in industry groups. On Twitter, recruiters see if a potential candidate has an appropriate username and photos. But also check Twitter for things like the person's status updates and retweets, to see (for instance) if he or she shares useful information. Small business recruiters should also focus on the social

media that makes sense for them. For example, if you're looking for a Facebook marketing expert, look on Facebook. Or look for a photographer on Instagram. And on Facebook and LinkedIn, focus recruiting efforts on industry groups that make sense for your company. Check to see how your competitors use social media, and which communities they use.

Social media recruiting entails risks. For example, conversing with someone whose Facebook profile reveals their ethnic background could expose the employer to a discrimination suit if that applicant isn't hired. And many agree that at the end of the day, social media recruiting can't substitute for in-person interactions. ■

### Small Business Employee Selection Tools

Some tests are so easy to use they're particularly helpful for small firms. One is the *Wonderlic Personnel Test* ([www.wonderlic.com/](http://www.wonderlic.com/)), which measures general mental ability. With questions somewhat similar to the SAT, it takes less than 15 minutes to administer. The tester reads the instructions, and keeps time as the candidate works through the 50 problems. The tester scores the test by totaling the number of correct answers. Comparing the person's score with the minimum scores recommended for various occupations shows whether he or she achieved the minimum score for the job in question.

The *Predictive Index* is another example. It measures work-related personality traits, drives, and behaviors—in particular, dominance, extroversion, patience, and blame avoidance. A template makes scoring simple. The Predictive Index program includes 15 standard benchmark personality patterns. For example, there is the “social interest” pattern, for a person who is generally unselfish, congenial, persuasive, patient, and unassuming. This person would be a good personnel interviewer, for instance.

Many vendors, including Wonderlic and Predictive Index, offer online applicant testing and screening services. Wonderlic's service (which costs about \$9,000 per year for a small firm) first provides job analyses for the employer's jobs. Wonderlic then provides a Web site the small business applicants can log into to take one or several selection tests. It will also help set up a testing procedure.

Some other small business recruiting and selection suggestions would include

- **Don't forgot the obvious.** Sometimes the easiest way to get good candidates is a “Help Wanted” sign on the door.

Use online tests, for instance, to test an applicant's typing speed proficiency at Quickbooks, or even ability to sell over the phone.





- **Keep it local, and in the industry.** Use online job boards that target a particular industry or city to minimize irrelevant applicants.<sup>26</sup> For example, Jobing.com maintains city-specific job sites in over 19 states.<sup>27</sup> Smartrecruiters.com<sup>28</sup> lists dozens of job boards for specific industries or types of jobs, such as Dice.com for technical professionals (go to [www.smartrecruiters.com](http://www.smartrecruiters.com), then Marketplace, then Job Boards).
- **Test online.** Use online tests, for instance, to test an applicant's proficiency at QuickBooks, or even at selling over the phone. Vendors include (as a small sample) IBM's Kenexa, [eskill.com/](http://eskill.com/), [selectivehiring.com](http://selectivehiring.com), and [berkeassessment.com](http://berkeassessment.com).<sup>29</sup>
- **Poll your contacts.** Tap friends and employees for recommendations, and use social networking sites such as LinkedIn. One employer says, "I get people vouching for each applicant, so I don't have to spend hours sorting through résumés."<sup>30</sup>
- **Send a recording.** InterviewStream is one of several vendors that records online video interviews for about \$30 to \$60.<sup>31</sup> It sends the candidate an e-mail invitation with a link. When he or she clicks the link, a video interviewer asks the company's prerecorded questions. Hiring managers can review the videos at their leisure.<sup>32</sup>

The following feature shows how one company recruits employees.

### IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

#### Everlane

Everlane's strategy builds its brand around ethical manufacturing and transparency. For example, ethical manufacturing meant they spent months finding a factory to make their new jeans in Vietnam, choosing it because it recycles 98% of the water used in denim manufacturing. Everlane's Web site lists the material and labor costs of each item they sell.<sup>33</sup>

A strategy like that requires recruitment, selection, and compensation practices that fit, so when Everlane decided to emphasize transparency in its hiring no one was surprised. For example, they recently started recruiting job candidates by having them submit 60- to 90-second Snapchat stories, to show why they're a good candidate for Everlane. The idea is to create the story, tweet Everlane your snap code, and save the story before 24 hours run out, and mail it to Everlane.

A big reason they use social media to recruit is that it's likely to attract people who are already following Everlane. It seems to be working. For example, candidates are sending those Snapchat stories, taking them step-by-step through their presentations. That way, Everlane is getting applications from already engaged prospective employees for whom the company's goals resonate. Similarly, Everlane's career Web site page addresses itself to "rule breakers, questioners, and straight A students who skipped out of class." The site's also forthright in laying out Everlane's basic values, such as "everyone can, and should, make a difference," and "the ethical choice is the right one." The result of such recruiting is that Everlane is building a team that's deeply engaged in the company's values and goals.

#### MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete this discussion question. What other tools and techniques discussed in this chapter would you recommend Everlane use, and why?

#### Small Business Training Tools

Small companies can't compete with the training resources of giants like Google. However, as explained in Chapter 7 (Training), online training can provide employee training that used to be beyond most small employers' reach. Online sources (see Chapter 7) range from private vendors (such as [www.PureSafety.com](http://www.PureSafety.com) and [www.skillsoft.com](http://www.skillsoft.com)) to the small business administration ([www.sba.gov/sitemap](http://www.sba.gov/sitemap)) and the National Association of Manufacturers (NAM). The buyer's guide from the Association for Talent Development ([www.td.org/](http://www.td.org/)) lists many vendors (check under Resources).<sup>34</sup> Online learning platforms like Docebo's ([www.docebo.com/](http://www.docebo.com/)) make it easy for a company's employees to access off-the-shelf and customized online learning courses and programs.<sup>35</sup>

### Employment Appraisal and Compensation Online Tools

Small employers have easy access to computerized and online appraisal and compensation services. For example, Oracle Corporation's ePerformance<sup>36</sup> lets managers formalize the employee's goals and then assess progress toward meeting those goals. The eAppraisal system from Halogen Software<sup>37</sup> is another example. SAP Success Factors ([www.successfactors.com/en\\_us.html](http://www.successfactors.com/en_us.html)) provides particularly effective performance management assistance. It facilitates assigning and monitoring goals, helps management provide feedback to employees, and makes it easy to review goal attainment as part of performance appraisal.<sup>38</sup>

Similarly, lack of easy access to high-priced salary surveys once made it difficult for small businesses to adjust their pay scales. Today, sites like [www.salary.com](http://www.salary.com) and [www.Glassdoor.com](http://www.Glassdoor.com) make it easy to determine local and national pay rates. Benefits administration packages, as from Zenefits ([www.zenefits.com/](http://www.zenefits.com/)), make it easy for employees to register for benefits, and to access their insurance and benefits information.<sup>39</sup>

### Employment Safety and Health Tools

Average injury rates for small businesses are somewhat lower than in big companies.<sup>40</sup> However, most people work for small businesses, so that's still a huge number of total accidents. Small business managers should have a command of the tools and techniques in Chapter 16 (Safety). As also explained there, OSHA provides free services for small employers.<sup>41</sup> These include free on-site safety services for small businesses, and the OSHA Sharp program, a process through which OSHA certifies that small employers have achieved commendable levels of safety awareness.<sup>42</sup>

#### LEARNING OBJECTIVE 18-3

List five ways entrepreneurs can use their small size to improve their HR processes.

## Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality

Because small businesses need to capitalize on their strengths, it makes sense for them to capitalize on their smallness when dealing with employees. For example, smallness can mean more personal *familiarity* with each employee's strengths, needs, and family situation. And it can mean being *flexible* and *informal* in its human resource management policies and practices.<sup>43</sup>

### Simple, Informal Employee Selection Procedures

In addition to online recruitment and selection tools,<sup>44</sup> small business managers shouldn't forget simple, low-tech selection aids. For example, the Work Sampling Test we explained in Chapter 6 involves having the candidate show how he or she would actually do one of the job's tasks—such as a marketing candidate spending 30 minutes outlining an ad for a product. The accompanying HR Tools feature presents a more informal selection interview procedure the small business manager may find useful.



### IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

#### A Streamlined Interviewing Process<sup>45</sup>

The small business owner, pressed for time, may use the following practical, streamlined employment interview process.<sup>46</sup> One way to do so is to focus on four basic required factors: knowledge and experience, motivation, intellectual capacity, and personality. To proceed this way, interviewing expert John Drake suggests asking the following questions:

- ✓ **Knowledge and experience.** What must the candidate know to perform the job? What experience is necessary to perform the job? For example, ask a combination of situational questions plus open-ended questions to probe the candidate's suitability for the job, such as, "How would you organize such a sales effort?" or "How would you design that kind of Web site?"

- ✓ **Motivation.** What should the person like doing to enjoy this job? Is there anything the person should not dislike? Are there any essential goals or aspirations the person should have? For example, probe such areas as the person's likes and dislikes (for each thing done, what he or she liked or disliked about it).
- ✓ **Intellectual capacity.** Are there any specific intellectual aptitudes required (mathematical, mechanical, and so on)? How complex are the problems the person must solve? What must a person be able to demonstrate intellectually? For example, ask questions that judge such things as complexity of tasks the person has performed, and grades in school.
- ✓ **Personality.** What are the critical personality qualities needed for success on the job (ability to withstand boredom, decisiveness, stability, and so on)? How must the job incumbent handle stress, pressure, and criticism? What kind of interpersonal behavior is required in the job? For example, probe by looking for self-defeating behaviors (aggressiveness, compulsive fidgeting, and so on) and by exploring the person's past interpersonal relationships, such as leading the work team on the last job. Is the candidate personable? Shy? Outgoing?

### How to Organize the Interview

- ✓ Have a plan. Devise and use a plan to guide the interview. Drake says that significant areas to touch on include the candidate's:
  - ✓ College experiences
  - ✓ Work experience—summer, part-time
  - ✓ Work experience—full-time (one by one)
  - ✓ Goals and ambitions
  - ✓ Reactions to the job you are interviewing for
  - ✓ Self-assessments (by the candidate of his or her strengths and weaknesses)
  - ✓ Military experiences
  - ✓ Present outside activities<sup>47</sup>
- ✓ Follow your plan. Start with an open-ended question for each topic, such as “Could you tell me about what you did in college?” Then probe for information about the person's knowledge and experience, motivation, intelligence, and personality.

### Match the Candidate to the Job

You should now be able to draw conclusions about the person's knowledge and experience, motivation, intellectual capacity, and personality, and to summarize the candidate's strengths and limits. This should provide a rational basis for matching the candidate to the job—one based on the traits and aptitudes the job actually requires. ■

#### MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete these discussion questions. List two situational questions (what would you do . . . ?) and two behavioral questions (what did you do . . . ?) that you might ask to unearth insights into the candidate's motivation.

### Flexibility in Training

Two things characterize training in small businesses. First, small businesses focus on what the training will do *for their bottom lines*, rather than how employees may benefit.<sup>48</sup> (Similarly, they focus management development on teaching specific firm-related skills, such as how to sell the firm's products).<sup>49</sup>

Second, a study several years ago in Europe found that small firms were also *relatively informal* in how they trained employees.<sup>50</sup> This probably isn't surprising, since (as explained in Chapter 8), training experts estimate that on average about 70% of all training is in fact “informal.”

**ENCOURAGING INFORMAL TRAINING** Given the importance of informal learning, small business managers should take steps to encourage and facilitate it.

Several things contribute to building an environment in which informal learning thrives. Informal learning occurs when employees *have something they need to learn*, are *motivated to learn it*, and are given *the opportunity to learn*.<sup>51</sup> Informal learning tends to take place as a *by-product of employees' other activities*, and so usually occurs during day-to-day conversations, networking, and through teamwork and mentoring.<sup>52</sup> (To paraphrase one expert, workers learn more over coffee than they do taking courses.)<sup>53</sup> The best informal learning also tends to be *goal directed*, as when a manager who needs to recruit an engineer asks LinkedIn group colleagues how to do so; informal learning is thus often *triggered by something at work* that motivates the employee to initiate an informal learning interaction.<sup>54</sup> And, informal learning occurs best where employees know that *top management encourages and supports* such learning.<sup>55</sup>

Given all this, the small business owner can do several things to encourage and facilitate informal learning. These include

- Make it clear that you encourage employees to learn on the job, particularly when they're faced with a work problem.<sup>56</sup>
- Make high-quality content available. For example, while much on the Internet is free, sometimes the job-relevant content for your company requires a subscription; if so, provide such subscriptions.<sup>57</sup>
- Encourage supervisors to provide informal learning through coaching.<sup>58</sup>
- Offer to cover tuition for special classes.<sup>59</sup>
- Identify online training opportunities.<sup>60</sup>
- Encourage and facilitate (for instance, through a dedicated page on the company intranet) the sharing of best practices.<sup>61</sup>
- Send employees to special seminars and meetings for learning and networking.<sup>62</sup>
- Provide plenty of opportunities for informal learning at work, such as chalkboards at worksites and lunch areas.



### Flexibility in Benefits and Rewards

The Family and Work Institute surveyed the benefits practices of about 1,000 small and large companies.<sup>63</sup> Not surprisingly, they found that large firms offer more *extensive* benefits packages than do smaller ones. For example, larger employers offered more wellness programs, and asked their employees to pay a smaller share of health premiums than did small firms, on average.

However, small firms offered more flexibility. For example, employees at small employers (50–99 employees) were more likely than large employers (1,000 or more employees) to (1) take time off during the workday to attend to important family or personal needs without loss of pay; (2) have control over when to take breaks; and (3) periodically change starting and quitting times within some range of hours.<sup>64</sup>

Some small businesses also “discovered how to turn tiny into tight-knit, earning employees’ trust by keeping them in the loop on company news and financials, and their loyalty by providing frequent feedback on performance.”<sup>65</sup> For example, ID Media, with 90 employees, gives all new employees a welcome breakfast on their first day.<sup>66</sup>

Wards Furniture in Long Beach, California, further illustrates this. Many of its 17 employees have been with the firm for 10 to 20 years. Brad Ward, an owner, attributes this partly to his firm’s willingness to adapt to its workers’ needs. For example, workers can share job responsibilities and work part-time from home. As a result, Wards Furniture is a good example of using small size to create valuable work–life benefits such as extra time off, compressed workweeks, schedule flexibility, and recognition for employees.

Here are other examples of what Wards and other small employers can offer:<sup>67</sup>

- **Extra time off.** For example, Friday afternoons off in the summer.
- **Compressed workweeks.** For example, compressed summer workweeks.
- **Bonuses at critical times.** Small business owners are more likely to know what’s happening in their employees’ lives. Use this knowledge to provide special bonuses, for instance, if an employee has a new baby.



At Wards Furniture, workers can share job responsibilities and work part-time from home.



Thomas Barwick/DigitalVision/Getty Images

- **Flexibility.** For example, “If an employee is having a personal problem, help create a work schedule that allows the person to solve problems without feeling like they’re going to be in trouble.”<sup>68</sup>
- **Sensitivity to employees’ strengths and weaknesses.** The small business owner should stay attuned to his or her employees’ strengths, weaknesses, and aspirations. For example, give them an opportunity to train for and move into the jobs they desire.
- **Help them better themselves.** For example, pay employees to take a class to help them develop their job skills.
- **Feed them.** Provide free meals occasionally, perhaps by taking your employees to lunch.
- **Make them feel like owners.** For example, give employees input into major decisions, let them work directly with clients, get them client feedback, share company performance data with them, and let them share in the company’s financial success.
- **Make sure they have what they need to do their jobs.** Having motivated employees is only half the challenge. Also ensure they have the necessary training, procedures, computers, and so on.
- **Constantly recognize a job well done.** Capitalize on your day-to-day interactions with employees to “never miss an opportunity to give your employees the recognition they deserve.”<sup>69</sup>

**SIMPLE RETIREMENT BENEFITS** About the same percentage of small firms (93%) as large ones (98%) offer defined contribution 401(k) plans, but more large firms (35%) offer *defined benefits* plans than do small firms (15%).<sup>70</sup>

An easy way for small businesses to provide retirement benefits is through a SIMPLE IRA plan.<sup>71</sup> With the SIMPLE (for Savings Incentive Match Plan for Employees) IRA, employers must (and employees may) make contributions to traditional employee IRAs. These plans are for employers or small businesses with 100 or fewer employees and no other retirement plan.

SIMPLE IRAs are inexpensive and easy. The owner contacts an eligible financial institution and fills out several IRS forms.<sup>72</sup> Most banks, mutual funds, and insurance companies that issue annuity contracts are generally eligible.<sup>73</sup> The plan has very low administrative costs. Employer contributions are tax deductible.<sup>74</sup> A typical employer contribution might match employee contributions dollar for dollar up to 3% of pay. The financial institution usually handles the IRS paperwork and reporting.

### Fairness and the Family Business

Most small businesses are “family businesses,” since the owner (and often some employees) are family members.

Being a nonfamily employee here isn’t easy. The tendency is to treat family and nonfamily employees differently. If so, as one writer puts it, “It’s a sure bet that their lower morale and simmering resentments are having a negative effect on your operations and sapping your profits.”<sup>75</sup> Differential treatment of nonfamily versus family employees is so widespread that it is an area of small business research. Two experts suggest family business owners follow a four-step program to ensure fairness.<sup>76</sup>

- First, the family *commits* to the idea that all employees, family and nonfamily, should be treated fairly and consistently.<sup>77</sup> Work hard to avoid “any appearance that family members are benefiting unfairly from the sacrifice of others.”<sup>78</sup> Avoid “any behavior that would lead people to the conclusion that they are demanding special treatment in terms of assignments or responsibilities.”<sup>79</sup>
- Second, the family *communicates* their commitment that all employees are entitled to fair practices.<sup>80</sup>
- Third, before they sign on, all employees must know that they can “freely and safely” *discuss and report* perceived unfair decisions.<sup>81</sup> Particularly inform management applicants as to whether they will have potential for promotion. Make the expectations clear, regarding matters such as the authority the person will have and can attain.<sup>82</sup>
- Fourth, have a *committee* that meets monthly to correct any alleged unfair decision voiced by family or nonfamily employees.<sup>83</sup>

#### LEARNING OBJECTIVE 18-4

**Discuss** how you would choose and deal with a professional employer organization.

## Using Professional Employer Organizations

As we explained in Chapter 13 (Benefits), many small business owners—pressed for time and concerned about the legal pitfalls of personnel blunders—opt to outsource all or most of their human resource functions to vendors. These vendors go by the names *professional employer organizations* (PEOs), *human resource outsourcers* (HROs), or sometimes *employee or staff leasing firms*.

### How Do PEOs Work?

PEOs range from specialized payroll companies to ones that handle all an employer’s human resource management needs.

In determining which personnel tasks to outsource, the small business manager has many choices. At a minimum, these firms take over the employer’s payroll tasks. Usually, however, PEOs shoulder most of the employer’s human resources chores. By transferring the client firm’s employees to the PEO’s payroll, PEOs become co-employers of record for the employer’s employees. The PEO can then fold the client’s employees into the PEO’s insurance and benefits program, usually at a lower cost.<sup>84</sup> The PEO usually handles employee-related activities such as recruiting, hiring (with client firms’ supervisors’ approvals), and payroll and taxes. PEO companies like Paychex ([www.paychex.com/](http://www.paychex.com/)) provide payroll, tax, and benefits processing but also handle recruiting and training. Oasis Outsourcing ([www.oasisadvantage.com/](http://www.oasisadvantage.com/)) can handle the full human resource process for very small companies, ranging from recruitment through selection, training, appraisal, and compensation. ADP total source (<https://totalsource.adp.com/ts/logout.do>) handles payroll processing for thousands of employers, but can also manage the entire HR process, even including initial candidate interviews.<sup>85</sup>

Most PEOs focus on smaller employees, often those with under 100 employees (although some handle clients of 5,000 employees or more).<sup>86</sup> They typically charge fees of 2% to 4% of a company's payroll; alternatively, some charge monthly per-employee fees of \$40-\$125, depending on the services they provide.<sup>87</sup>

### Why Use a PEO?

Some small business owners turn to PEOs to avoid the sorts of personnel-related problems we itemized earlier in this chapter. These were: (1) inadequate human resource practices may put small business owners at *legal risk*; (2) not having a dedicated HR person can slow down company decision making and overwhelm its managers; (3) without human resource information systems, paperwork duplication is time consuming and creates *data entry errors*; and (4) if the small business can't efficiently hire, train, appraise, and compensate employees, it may find itself at a *competitive disadvantage*.

**INSURANCE AND BENEFITS** However *insurance and benefits* are often the big PEO attraction. Getting health and other insurance is often a problem for smaller firms. That's where employee leasing comes in. The PEO absorbs the client firm's employees as its own. That often enables the PEO to offer larger benefits packages more cheaply than a small business could get on its own.

**CAVEATS** There are several potential downsides to PEOs. Many employers view their human resource management practices (like training new engineers) as strategic, and aren't inclined to turn them over to outsiders (let alone accept having outsiders be their employees' legal employer). Furthermore, the fact that your (former) employees get their health insurance through the PEO has cons as well as pros.<sup>88</sup> For example, if the PEO goes out of business, its small business clients may scramble to replace their insurance. And if the PEO decides to switch insurance plans, your own employees may not be pleased with the new health providers. There can also be some tax disadvantages, although 2014's Small Business Efficiency Act reduces these. Figure 18-4 summarizes guidelines for finding and working with PEOs.



### FIGURE 18-4 Guidelines for Finding and Working with PEOs

*Source:* Based on Robert Beck and J. Starkman, "How to Find a PEO That Will Get the Job Done," *National Underwriter* 110, no. 39 (October 16, 2006), pp. 39, 45; Lyle DeWitt, "Advantages of Human Resource Outsourcing," *The CPA Journal* 75, no. 6 (June 2005), p. 13; [www.peo.com/dmn](http://www.peo.com/dmn), accessed April 28, 2008; Layne Davlin, "Human Resource Solutions for the Franchisee," *Franchising World* 39, no. 10 (October 2007), p. 27; and see, for example, [www.adp.com/solutions/employer-services/totalsource/what-is-a-peo.aspx](http://www.adp.com/solutions/employer-services/totalsource/what-is-a-peo.aspx), accessed September 24, 2015.

#### Employers should choose and manage the PEO relationship carefully. Guidelines for doing so include:

- *Conduct a needs analysis.* Know ahead of time exactly what human resource concerns your company wants to address.
- *Review the services* of all PEO firms you're considering. Determine which can meet all your requirements.
- *Determine if the PEO is accredited.* There is no rating system. However, the Employer Services Assurance Corporation of Little Rock, Arkansas (<https://www.esac.org/>), imposes higher financial, auditing, and operating standards on its members. Also check the National Association of Professional Employer Organizations ([www.NAPEO.org](http://www.NAPEO.org)), and [www.PEO.com](http://www.PEO.com).
- Check the provider's bank, credit, insurance, and professional references.
- Understand how the *employee benefits will be funded*. Is it fully insured or partially self-funded? Who is the carrier? Confirm that employers will receive first-day coverage.
- See if under the contract the PEO assumes the *compliance liabilities in the applicable states*.
- *Review the service agreement carefully.* Are the respective parties' responsibilities and liabilities clear?
- Investigate how long the *PEO has been in business*.
- *Check out the prospective PEO's staff.* Do they seem to have the expertise to deliver on its promises?
- Ask, *how will the firm deliver its services?* In person? By phone? Via the Web?
- Ask about upfront fees and how these are determined.
- *Periodically get proof that payroll taxes and insurance premiums are being paid properly* and that any legal issues are handled correctly.

### MyLab Management Apply It!

How does a small company actually carry out its human resource management tasks? If your professor has assigned this activity, go to the Assignments section of [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the video exercise.

### What Is the Alternative?

If it does not want to use a PEO, what should the small business do? Most owners simply handle it all themselves. Some retain HR-savvy consultants who provide, on an hourly basis, the knowledgeable assistance in job analysis, recruiting, selection, and other matters that the small business owner needs. The advent of new HR software that provides services including applicant tracking, automatic recruitment ad placement, online selection testing, and performance management, plus employee data management is another smart option.<sup>89</sup> The following section looks closer at such software systems.

#### LEARNING OBJECTIVE 18-5

**Describe** how you would create a start-up human resource system for a new small business.

## Managing HR Systems, Procedures, and Paperwork

### Introduction

Consider the paperwork required to run a five-person retail shop. Just to start with, recruiting and hiring an employee might require a help wanted advertising listing, an employment application, an interviewing checklist, various verifications—of education and immigration status, for instance—and a telephone reference checklist. You then might need an employment agreement, confidentiality and noncompetition agreements, and an employer indemnity agreement. To process the new employee you might need a background verification, a new employee checklist, and forms for withholding tax and to obtain new employee data. And to keep track of the employee once on board, you'd need—just to start—a personnel data sheet, daily and weekly time records, an hourly employee's weekly time sheet, and an expense report. Then come all the performance appraisal forms, a disciplinary notice, an employee orientation record, separation notice, and employment reference response.

In fact, this list barely scratches the surface of the policies, procedures, and paperwork you'll need to run the human resource management part of your business. Perhaps with just one or two employees you could track everything in your head, or just write a separate memo for each HR action, placing it in a folder for each worker. But with more employees, you'll need a human resource system comprised of standardized forms. Then as the company grows, you'll computerize various parts of the HR system—payroll, or appraising, for instance.

### Basic Components of Manual HR Systems

Very small employers (say, with 10 employees or less) may start with a manual human resource management system. In practice, this generally means obtaining and organizing a set of standardized personnel forms covering each aspect of the HR process—recruitment, selection, training, appraisal, compensation, safety—as well as some means for organizing all this information for each of your employees.

The number of forms you would conceivably need even for a small firm is quite large, as the illustrative list in Table 18-1 shows.<sup>90</sup> One simple way to obtain a manual system's basic forms is from Web sites (such as [www.hr.com/en/free\\_forms/](http://www.hr.com/en/free_forms/)) or books or CDs that provide compilations of HR forms.<sup>91</sup> The forms can then be adapted from these sources for your particular situation. Office supply stores also sell packages of personnel forms. For example, Office Depot sells packages of personnel forms such as: Application, Employment Interview, Reference Check, Employee Record, Performance Evaluation, Warning Notice, Exit Interview, and Vacation Request, plus a Lawsuit-Prevention Guide.<sup>92</sup> Also available is a package of Employee Record Folders. Use the folders to maintain a file on each individual employee; on the outside of the pocket is printed a form for recording name, start date, company benefits, and so on.



**TABLE 18-1** Some Important Employment Forms

New Employee Forms	Current Employee Forms	Employee Separation Forms
Application	Employee Status Change Request	Retirement Checklist
New Employee Checklist	Employee Record	Termination Checklist
Employment Interview	Performance Evaluation	COBRA Acknowledgment
Reference Check	Warning Notice	Unemployment Claim
Telephone Reference Report	Vacation Request	Employee Exit Interview
Employee Manual Acknowledgment	Probation Notice	
Employment Agreement	Job Description	
Employment Application Disclaimer	Probationary Evaluation	
Employee Secrecy Agreement	Direct Deposit Acknowledgment	
	Absence Report	
	Disciplinary Notice	
	Grievance Form	
	Expense Report	
	401(k) Choices Acknowledgment	
	Injury Report	

**OTHER SOURCES** Numerous direct-mail catalog companies also sell HR materials. For example, HRdirect ([www.hrdirect.com](http://www.hrdirect.com)) offers packages of personnel forms.<sup>93</sup> These include, for instance, Short- and Long-Form Employee Applications, Applicant Interviews, Employee Performance Reviews, Job Descriptions, Exit Interviews, and Absentee Calendars and Reports. There are also various legal-compliance forms, including standardized Harassment Policy and FMLA Notice forms, as well as posters (for instance, covering legally required postings for matters such as the Americans with Disabilities Act and Occupational Safety and Health Act) available.

### Automating Individual HR Tasks

As the small business grows, it becomes impractical to rely on manual HR systems. It is at this point that most small to medium-sized firms begin computerizing individual human resource management tasks.



**HR in Action at the Hotel Paris** Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, these systems were not integrated. To see how she handled this, see the case on page 611 of this chapter.

**PACKAGED SYSTEMS**<sup>94</sup> Web sites such as [www.capterra.com/](http://www.capterra.com/) itemize HR software available from vendors such as Zenefits, Halogen TalentSpace, Fairsail HRIS, and Cezanne HR.<sup>95</sup> These vendors provide software solutions for virtually all personnel tasks, ranging from benefits management to compensation, compliance, employee relations, outsourcing, payroll, and time and attendance systems.

HRdirect sells software packages for monitoring attendance, employee record keeping, writing employee policy handbooks, and conducting computerized employee appraisals. The sites [www.hrdirect.com](http://www.hrdirect.com), [www.effortlesshr.com](http://www.effortlesshr.com), and others offer software and online solutions for writing employee policy manuals, maintaining employee records (including name, address, marital status, number of dependents, emergency contact and phone numbers, hire date, and job history), writing performance reviews, creating job descriptions, tracking attendance and hours worked for each employee, employee scheduling, writing organizational charts, managing payroll, conducting employee surveys, scheduling and tracking employee training activities, and managing OSHA compliance, often cloud-based.<sup>96</sup>



### Human Resource Information Systems (HRIS)

As the company grows, a more comprehensive and integrated system becomes advisable. We can define a Human Resource Information System (HRIS) as human resource software that unifies HR management processes such as applicant tracking, hiring, training, performance management, benefits administration, and payroll into one automated system.<sup>97</sup> *PC Magazine* recently listed several top HR software packages; they include Gusto (<https://gusto.com/>) BambooHR ([www.bamboohr.com/](http://www.bamboohr.com/)), Namely ([www.namely.com/](http://www.namely.com/)), Sage Business Cloud People ([www.sagepeople.com/](http://www.sagepeople.com/)), Kronos Workforce ([www.kronos.com/](http://www.kronos.com/)), and SAP Success Factors ([www.successfactors.com/](http://www.successfactors.com/)).<sup>98</sup>

As an example, Bamboo HR handles personnel tasks including *applicant tracking* (including automatically sending *recruitment* ads to job boards), *employee time off tracking*, *HR reporting* (in terms of detailed reports on employment levels, and so on), online employee *self on boarding*, and *performance management* in terms of tracking goals and helping managers appraise subordinates based on those goals.<sup>99</sup> As with Bamboo HR, there are several benefits to be gained by installing an HRIS. The first is improved transaction processing.

#### Improved Transaction Processing

The day-to-day minutiae of maintaining and updating employee records take an enormous amount of time. Small businesses therefore first adopt HR software packages to manage their personal records. And, by interacting with the company's employee database, these packages also produce employment data-related trend graphs and reports on personnel metrics such as turnover and compensation costs. *PC Magazine* recently rated BambooHR as an “Editor’s choice” for these tasks.<sup>100</sup>

#### Online Self-Processing

HR information systems also facilitate employee self-processing. For example, with systems like that from Zenefits ([www.zenefits.com/](http://www.zenefits.com/)), “[n]ew hires can self-enroll in medical, dental and vision benefits during onboarding, and employees can easily sign up during open enrollment.”<sup>101</sup> Zenefits’ system also facilitates employees signing up for Flexible Spending Accounts: It “makes enrolling a snap, issues all plan participants a debit card, and allows employees to track and manage their funds through our online dashboard.”<sup>102</sup>

#### Improved Reporting Capability

By integrating numerous individual HR tasks (training records, appraisals, employee personal data, and so on), the HRIS improves HR’s reporting capabilities. For example, reports might be available (company-wide and by department) for health-care cost per employee, pay and benefits as a percent of operating expense, cost per hire, report on training, volunteer turnover rates, turnover costs, time to fill jobs, and return on human capital invested (in terms of training and education fees, for instance).

#### HR System Integration

Because the HRIS’s software components (record keeping, payroll, appraisal, and so forth) are integrated, they enable the employer to reengineer its HR function. For example, Oracle’s PeopleSoft’s HRIS<sup>103</sup> electronically routes salary increases, transfers, and other e-forms through the organization to the proper managers for approval. As one person signs off, it’s routed to the next. If someone forgets to process a document, a smart agent issues reminders. The HRIS thus automates what might otherwise be a time-consuming manual process.

#### HRIS Vendors

Many firms today offer HRIS packages. Capterra.com, mentioned earlier, lists many vendors. The Web site for the International Association for Human Resource Information Management ([www.ihrim.org](http://www.ihrim.org)) lists vendors such as Automatic Data Processing, Inc., Business Information Technology, Inc., Human Resource Microsystems, Lawson Software, Oracle Corporation, SAP America, Inc., and many other HRIS vendors. *PC Magazine* provides annual HR Software “Editor’s Choice” lists.<sup>104</sup>

There are several practical considerations in choosing a software vendor.<sup>105</sup> For example, does the software provide *software-as-a-service* (SAaS) capability, or must it be kept and managed on the company's in-house servers? Does the package provide an intuitive user interface? Can you integrate it with your existing HR systems? And (particularly if it's stored in the cloud), security—mainly protecting personal data—is essential.



## TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

### HR on the Cloud

Most suppliers of human resource management systems, such as ADP, Kronos, Oracle, and SAP, offer cloud-based systems. Particularly for small business owners, the advantages of cloud systems are that the vendors can easily update them with the latest features—saving the small business owner much time and expense—and that the owner and employees can access the information anywhere they are.<sup>106</sup>

*BambooHR* illustrates an HR system especially designed for small and medium-sized businesses ([www.bamboohr.com](http://www.bamboohr.com)). This system enables authorized managers and employees to securely and remotely access company information on matters like time off and personal information, and to produce reports and/or follow trends on the system's customizable dashboards. It was also designed to be integrated with compatible applications, so it can be integrated with the small business's existing payroll systems, applicant tracking systems, benefits enrollment systems, and performance review systems.<sup>107</sup>

As another example, many employers outsource benefits administration to cloud-based services offered by firms like Zenefits. A new employee uses his or her laptop or smartphone to access the Zenefits Web site. He or she can then input personal information and sign documents via a touchscreen, and register for specific benefits.<sup>108</sup> ■

## Chapter Review

### Chapter Section Summaries

- 18-1.** Many people reading this book will work for or own their own small businesses, so it's important to understand the **small business challenge**. Without effective human resource management, small business owners run the risk that they'll be at a competitive disadvantage or that without the necessary HR expertise they may commit mistakes that lead to litigation.
- 18-2.** Being small, small businesses can particularly capitalize on freely available **Internet and government tools to support their HR efforts**. For example, you can use Department of Labor elaws Advisors to answer overtime questions, the EEOC's Web sites for answers on questions like "How can we resolve the charge?" and the Department of Labor's OSHA Web site to review, for instance, your small business handbook. To better compete, small business owners can also use online recruiting tools like those we discussed in Chapter 5 and training programs available online from companies such as PureSafety.
- 18-3.** Small businesses need to capitalize on their strengths, and in this case, it means capitalizing on **familiarity, flexibility, and informality**. For example, be flexible about extra time off, compressed workweeks, and job enrichment. They can also use relatively informal but still effective employee selection procedures such as a work-sampling test. Informal training methods include online training opportunities, encouraging the sharing of best practices among associates, and sending employees to seminars. Because small businesses are often family businesses, it's important to treat nonfamily members fairly.
- 18-4.** After reviewing all the challenges of managing human resources, many small business owners turn to **using professional employer organizations**. Also called *human resource outsourcers* or *employee* or *staff leasing firms*, these firms generally transfer the client firm's employees to the PEO's own payroll and thus become the employer of record for the employer's employees.

**18-5.** Small business managers need to understand how their **HR systems, procedures, and paperwork** will evolve. At first, there may be a simple manual human resource management system, for instance, with employee records compiled on forms from office supply companies and maintained in manual files. The

employer then may purchase one or more packaged systems for automating individual HR tasks, for instance, such as applicant tracking and performance appraisal. As companies grow, they will look to integrate the separate systems with a human resource information system.

## Discussion Questions

- 18-1.** How and why is HR in small businesses different than that in large firms?
- 18-2.** Explain why HRM is important to small businesses.
- 18-3.** Explain and give at least five examples of ways entrepreneurs can use small size—familiarity,

flexibility, and informality—to improve their HR processes.

- 18-4.** Describe with examples how you would create a start-up, paper-based human resource system for a new small business.

## Individual and Group Activities

- 18-5.** Form teams of five or six persons, each with at least one person who owns or has worked for a small business. Based on their experiences, make a list of the “inadequate-HR risks” the business endured, in terms of competitive disadvantage, lack of specialized HR expertise, workplace litigation, compensation laws compliance, and paperwork/data-entry errors.
- 18-6.** You own a small business, and you are confused about which of your employees is eligible for overtime pay. The employees in question include your secretary, two accounting clerks, one engineer, and two inside salespeople. Individually or in groups of four or five students, use the DOL’s Overtime Security Advisor and DOL’s Calculator to determine who gets overtime pay.
- 18-7.** You have about 32 employees working in your factory. Working individually or in teams of four or five students, find and create a list of five online sources you could use to provide training to them, at no cost to you or to them.

- 18-8.** Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



## Experiential Exercise

### Building an HRIS

Written and copyrighted by Gary Dessler, PhD.

**Purpose:** The purpose of this exercise is to give you practice in creating a human resource management system (HRIS).

**Required Understanding:** You should be fully acquainted with the material in this chapter.

**How to Set Up the Exercise/Instructions:** Divide the class into teams of several students. Each team will need access to the Internet.

Assume that the owners of a small business come to you with the following problem. They have a company

with less than 40 employees. They have been taking care of all HR paperwork informally, mostly on slips of paper and with memos. They want you to supply them with a human resource management information system—how computerized it is will be up to you, but they can only afford a budget of \$5,000 upfront (not counting your consulting), and then about \$500 per year for maintenance. You know from your HR training that there are various sources of paper-based and online systems. Write a two-page proposal telling them exactly what your team would suggest, based on its accumulated existing knowledge, and from online research.



## Application Case

### Netflix Breaks the Rules<sup>109</sup>

Written and copyrighted by Gary Dessler, PhD.

Why did Netflix survive as a start-up when the dot-com bubble burst in the late 1990s? Probably because, from the day he started Netflix, founder Reed Hastings believed in breaking the rules. His direct-to-consumer mail and video streaming business model certainly helped Netflix to survive. But the firm's unorthodox human resource management practices helped the company to attract and keep the high producers who design the products that are the firm's lifeblood. Hastings knew that top Silicon Valley workers could choose where they worked, and high pay is pretty much standard throughout the Valley's industries. How to set oneself apart? Hastings and his start-up colleagues believed that a culture that balanced a flexible work environment with few constraints and high responsibility was the answer. They called the policy "Freedom and Responsibility."

Just how unorthodox are the Netflix HR practices? Consider this: As a Netflix professional you get unlimited vacations. One engineer takes 5-week vacations to Europe, because he likes (as he says) to take his time off in big chunks. (An HR officer must approve time off in excess of 30 days annually.) As a Netflix employee, your pay isn't tied to performance appraisals, or even to a compensation plan. Frequent market salary surveys and pay hikes keep everyone's pay aligned with Silicon Valley competitors'. Each employee decides whether to take his or her pay in cash or in Netflix stock. Options vest immediately. Netflix doesn't recruit much at college job fairs, instead hiring mostly highly experienced professionals. There's no training, professional development, or career planning at Netflix (except for legally required training, such as diversity training). You're in charge of your own career.

But with freedom like that comes responsibilities. The company expects its salaried employees to work hard—to "do the jobs of three

or four people," as one report put it. And Netflix doesn't have the "frat party" free-wheeling atmosphere that many dot-coms do. It's an adult environment. Netflix does not coddle underperformers. Yearly 360-degree performance reviews provide "direct and honest feedback." Those that aren't cutting it are quickly let go, but (whenever possible) amicably. Rather than the sorts of litigiousness that often characterize dismissals in other firms (having to prove the person was incompetent, for instance), Netflix writes a check. The company believes that a handsome severance payment helps maintain the person's dignity, makes it easier for supervisors to make tough calls with underperformers, and, of course, minimizes blowback from those it dismisses. It's more like a "no-fault divorce," as one observer put it.

### Questions

In many respects, the Netflix HR strategy seems like a dream come true for small businesses. You don't need a pay plan; instead, you just update each person's pay every few months based on market surveys. You offer no training and development. And you don't track vacation time, more or less. If someone's not doing well, you just pay him or her to leave, with no hassles. Netflix seems to have hit upon its own version of "Netflix High-Performance Work Practices." Given that, answer the following questions (please be specific).

- 18-9. What (if anything) is it about Netflix that makes its HR practices work for it?
- 18-10. Would you suggest using similar practices in other businesses, such as, say, a new restaurant? Why?
- 18-11. List the criteria you would use for deciding whether another company is right for Netflix-type HR practices.
- 18-12. What argument would you make in response to the following: "Netflix just lucked out; they'd have done even better with conventional HR practices."

## Continuing Case

### Carter Cleaning Company

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#### Cleaning in Challenging Times

As the economic downturn worsened a few years ago, revenues at the Carter stores fell steeply. Many of their customers were simply out of work and didn't need (or couldn't afford) dry cleaning. The Carters actually found themselves giving away some free cleaning services. They started a new program wherein existing customers could get one suit or dress cleaned free each month if they needed it for a job interview.

In the midst of this downturn, the Carters knew they had to get their employment costs under control. The problem was that, realistically, there wasn't much room for cutting staffing in a store. Of course, if a store got very slow, they could double up by having a cleaner/spotter spend some time pressing, or having the manager displace the counter person. But if sales only fell 15% to 20% per store, there really

wasn't much room for reducing employee head count because each store never employed many people in the first place.

The question, therefore, naturally arose as to whether the Carters could cut their employment expenses without dismissing too many people. Jennifer Carter has several questions for you.

### Questions

- 18-13. Assume that we don't want to terminate any of our employees. What work-scheduling-related changes could we make that would reduce our payrolls by, say, 20% per week but still keep all our employees on board?
- 18-14. We are currently handling most of our personnel-related activities, such as sign-ons, benefits administration, and appraisals, manually. What specific suggestions would you have for us in terms of using software systems to automate our HR processes?
- 18-15. Suggest at least five free Internet-based sources we could turn to for helping us to lower our total employment costs.

## Translating Strategy into HR Policies and Practices Case\*<sup>§</sup>

\*The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.

### Improving Performance at the Hotel Paris

#### The New HRIS

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

Challenging economic times in the past few years brought the drawbacks of the Hotel Paris's relatively small size into sharp relief. Large chains like Marriott had vast online reservations capabilities with huge centralized systems that easily and economically handled reservations requests from throughout the world. By comparison, the Hotel Paris still handled reservations much as hotels did 15 years ago, either with separate Web sites for each of their hotel locations, e-mail, or an 800 number.

Their human resource management information systems were similarly primitive. Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, the HR systems were not integrated. Therefore, if an employee changed his or her name, for instance, through marriage, people in Lisa's office had to execute all those name changes manually on all the various employee rosters and benefits plans.

This lack of integration was bad enough in boom times, but was worse as the economy soured. The CFO pointed out to her that the amount of money they were spending on human resource management administration was about 30% higher than it was at larger chains such as Marriott. He understood that large size brings economies of

scale. But he believed there had to be something they could do to reduce the cost of administering human resource management.

Lisa's solution was to get the CFO's approval to have several software consulting firms including IBM, Accenture, and Oracle provide proposals for how to integrate the hotel's HR information systems. After getting the CFO's and CEO's approval, they contracted with one vendor and installed the system.

#### Questions

- 18-16.** Using any benchmark data that you can find, including information from this book, what are some benchmark metrics that Lisa could be using to assess the efficiency of her human resource management operations? To what extent does the Hotel Paris's quality service orientation enter into how Lisa's metrics should compare?
- 18-17.** Throughout this book, we've discussed various specific examples of how human resource management departments have been reducing the cost of delivering their services. Keeping in mind the Hotel Paris's quality service orientation, please list and explain with examples how Lisa Cruz could use at least five of these.
- 18-18.** Focusing only on human resource information systems for a moment, what sorts of systems would you suggest Lisa consider recommending for the Hotel Paris? Why?
- 18-19.** Explain with detailed examples how Lisa can use free online and governmental sources to accomplish at least part of what you propose in your previous answers.
- 18-20.** Give three examples of fee-based online tools you suggest Lisa use.
- 18-21.** Based on what you read in this chapter of Dessler, *Human Resource Management*, do you suggest Lisa use a PEO? Why?

<sup>§</sup> Written and copyrighted by Gary Dessler, PhD.

## MyLab Management

Go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 18-22.** Explain and give at least four examples of how entrepreneurs can use Internet and government tools to support the HR effort.
- 18-23.** This chapter explained that to compete with larger employers, the small business owner should capitalize on familiarity, flexibility, and informality. What does this mean, and how as a small business owner would you do that?
- 18-24.** MyLab Management only—comprehensive writing assignment for this chapter.

### MyLab Management Try It!

How would you apply the concepts and skills you learned in this chapter? If your professor has assigned this activity, go to the Assignments section of [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the simulation.

## PERSONAL INVENTORY ASSESSMENTS



Running one's own business requires a knack for knowing how to delegate. Go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the Personal Inventory Assessment related to this chapter.

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