

10-1974

Small Business: Personnel acquisitions – Where it all starts

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Recommended Citation

Rausch, Barbara I. (1974) "Small Business: Personnel acquisitions – Where it all starts," *Woman C.P.A.*: Vol. 36 : Iss. 4 , Article 4.

Available at: <https://egrove.olemiss.edu/wcpa/vol36/iss4/4>

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While the labor problems of "big business" with union-negotiated programs — often under the threat of strike or imminent walk-out — hit the headlines, small business has personnel problems that are every bit as serious and perhaps more crucial to the continued success and even continued existence of the enterprise.

Despite the fact that we are going through a period of high unemployment, we are faced with a critical shortage of skilled people. More often than not a call to the local unemployment office turns up everything but what the employer is looking for. Our affluent society has placed ever-increasing emphasis on formal education and preparation for professional careers, and the training of people for the skilled trades has been left largely to the trade unions — which does not help small business a bit. Now, many states have established branches of their state-supported colleges which teach technical and vocational skills. But the gap, though narrowing, will exist for some time to come.

On the bright side of the coin small business is more flexible than big business, and at times it may be possible to narrow or broaden the scope of a job opening to fit applicants if otherwise they appear to be the type that would be a desirable addition to the personnel staff.

What type job

Probably the most important thing to do when looking for a new addition or a replacement in the personnel area is for the

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person in charge of the department who will conduct the interviews to make a truly honest appraisal of the job that needs filling.

Nobody likes to look at a dead-end job, but if under present conditions the job shows very little possibility for upgrading and if it does not look like a stepping stone to better opportunities, the person in charge of conducting the interviews better realize it and select somebody who will be satisfied with the limitations of the position. And there are people like that.

On the other hand, if the opening has all the earmarks of a great opportunity for the right person, management should look for all the talent and ambition money can buy.

Permanency and training requirements are very important considerations. If the job opening is for a position which will probably be phased out in two or three years, the most desirable applicant may be a person that appears suitable for another position beyond the scope of the present vacancy, a position that may only be in the planning stage at this time. Or a person who will reach normal retirement age by the time the job is slated for abandonment can be found.

The time it takes to train a person for a particular job should have a direct relationship to the length of time the new employee stays on the job. It does not always work out that way, but careful planning can at least reduce the cost of personnel turn-over in highly specialized jobs with long training periods. It can be not only costly but also very frustrating if a business finds itself the training ground for its competitors. A routine job that most anybody with adequate education

and experience background can pick up and "fill" satisfactorily certainly does not require the same kind of screening effort.

This soul-searching on the part of the interviewer cannot be overemphasized. The chances of getting exactly the right person for the job opening are rather small. Therefore, before advertisements are placed or employment agencies are contacted, a decision should be made what to do with the overqualified and the underqualified, the experienced and the inexperienced applicant. The subject of overqualification has been discussed from every possible angle. Many companies, especially the larger ones, have a definite policy against hiring overqualified people. That may be rather short-sighted for the small business. Who knows whether this applicant won't open new doors for the business and what opportunities may arise a few years down the road. Only the stagnant business with closed-minded management has no use for the over-qualified. As for the under-qualified, the training facilities of the company will have to be evaluated rather carefully to see whether the applicant can be brought up to the requirements of the job and whether the amount of time and money it will take will be worth it. One danger here might be that, once trained, the employee might seek greener pastures.

There can be no question about the fact that experience costs money — one way or the other. Hiring an experienced person will be more costly right from the start, but it may cost more to let the new employee gather the necessary experience in the employ of the company!

By the same token, experience has to be

exactly what the business needs. For instance, a salesperson who has raked up tremendous volumes (and makes very good money) in selling large quantities of low-price items may be completely worthless in the sale of high-price items, such as cars, real estate or home improvements. The same careful evaluation of experience is indicated for skilled trade jobs. Is a plumber a plumber or is the business in need of a specially trained plumber? Or in the administrative area, is a bookkeeper a bookkeeper or will the company's equipment be more than what he or she can cope with?

The Work Climate

The importance of personality-matching decreases in proportion to the number of people involved. Two people who have to work together and cannot stand each other are a disaster, while a team of ten might be able to afford a personality "misfit". With a small group of employees there is usually only one leader who sets the atmosphere, accepts or rejects newcomers and generally "runs the show". A very strong newcomer, personality-wise, may challenge the existing pecking order, can create turmoil and adversely affect productivity. But, then again, it may be desirable to establish a new order. However, if everything is running smoothly, the interviewer will have to try to match personalities as well as ability.

Meeting of the Minds

All this careful preparation for interviewing new applicants will have been wasted if the interviews are not conducted with complete candor. This, of course, is a two-way street, and it pays to be wary of the evasive applicant and probably of the over-confident one, too. From the applicants' point of view (of course depending on the type of opening) they are entitled to know at the outset whether there will be "room at the top", what the job entails, where it may lead, what the company expects and what they can expect of the company. A true meeting of the minds is very important and can prevent the loss of a desirable employee later on. This can be particularly important with the applicant who is considered overqualified for the present job. The interviewer should point this out and candidly discuss whether the applicant can expect advancement and, if so, when and how.

The practice of hiring on probation has a lot to recommend it. If the applicants are confident of their ability and have confidence in the fairness and integrity of the company, they should not object. This practice gives the company the opportu-

nity to let go a new employee who does not work out without formal release procedures and too much explanation. Psychologically, it is a hard thing to tell a person that he or she does not measure up, and a release at the end or during a period of probation is much easier to handle.

Whenever all else fails, "lack of communication" makes a good reason for any failure. But it can be truthfully said that a less than candid employment interview is at the root of most instances where employees are unhappy or employers are dissatisfied with their employees.

The Government's Role in Employment Decisions

Management knows, and interviewers need to remind themselves, that the hourly, weekly or monthly compensation the company agrees to pay is not the true cost of payroll. Generally speaking, it is much higher. There are 5.85% F.I.C.A. contributions, up to 5% state and federal unemployment contributions and either state insurance funded Workmen's Compensation or mandatory commercial insurance which can run as high as 10%. In addition, many companies have fringe benefit programs, such as paying the hospitalization insurance for their employees, and a large number of small business firms have profit-sharing or pension plans. With the Pension Reform Bill now in Congress, participation and vesting requirements will be tightened quite a bit, and where employers used to have three to five years waiting periods, they will now have to decide in one year whether an employee should become a permanent.

But today the true cost of payroll may also be less than the agreed-upon rate of pay. The Work Incentive Program enacted by Congress allows a tax credit of up to 20% of the wages paid an employee certified by the Secretary of Labor as having been placed in employment under a WIN program, provided he or she does not displace another individual from employment. This credit applies to wages paid for the first twelve months of employment which do not need to be consecutive so long as they are paid within twenty-four months from the date of first employment. This makes it possible to have seasonal employees under the WIN program.

The total cost of payroll should also be considered in making the decision whether to hire part-time and/or seasonal employees or to use one of the many services who provide employees for any length of time from a few hours to a steady

vacation stand-by. Of course, these agencies bear all payroll tax costs and usually do not ask any questions if the user of their services indicates either positive or negative preferences regarding any of their employees.

Conclusion

No question about it . . . personnel management is one of the most important aspects of small business. In many instances payroll is a large part of total operating costs, and it takes a great deal of good judgment to handle this vital phase. And it all starts with the time and effort that go into personnel acquisitions.

Pooling of Interests vs. Purchase Effects on EPS

(Continued from page 11)

While it is not the purpose of this study to delve into the uses of accounting data by readers of financial statements, it can be said that a reader relying solely on reported data may in fact be relying on illusory earnings created by application of selected accounting rules.

Footnotes

¹Samuel P. Gunther, "Lingering Pooling Problems," *The CPA Journal* (June 1973) pp. 459-464.

²e.g., Henry R. Jaenicke, "Managements' Choice to Purchase of Pool," *The Accounting Review*, XXXVII (October 1962) pp. 758-65; and Samuel R. Sapienza, "Business Combinations—a Case Study," *The Accounting Review*, XXXVIII (January 1963) pp. 91-101.

³U.S. Bureau of Economics, Federal Trade Commission, *Large Mergers in Manufacturing and Mining 1948 - 1970*. Statistical Report No. 7 (March 1971), Publication number R 6-15-9.

⁴All information derived from published *Annual Reports, Compustat Tapes, Moody's Industrial Manual, and Listing Application to New York Stock Exchange*.

⁵In one instance the data necessary for analysis is unavailable. The companies involved refuse to provide annual reports and the library sources fail to provide the necessary data.

⁶EPS_t are earnings per share as reported by the acquiring company in the year (time period) of the merger.

⁷Richard W. McEnally, *The "Information Effect" and Price-Earnings Ratios*, (unpublished Working Paper 69-8, The University of Texas at Austin, 1968) p. 13.

⁸Ronald M. Copeland and Joseph F. Wajdak, "Income Manipulation and the Purchase-Pooling Choice," say that "the results strongly support the hypothesis that firms record mergers by the method that maximized reported income." In *Journal of Accounting Research*, Vol. 7 (Autumn 1969), p. 195.