

BY BRYAN WORN

# ARE HUMAN RESOURCES *a resource?*

Human resources - yes, they are a resource, and understanding their human side will help overcome one of the biggest obstacles to growing a business.

In *The E-Myth Revisited*, Michael E. Gerber advises business owners to spend more time working on the business rather than in it.

This presupposes that while the business owner works on the business, somebody else - or several people - will be working in it.



**F**ew long-term sustainable businesses can be successful without a proper understanding of how to manage the people in it. Gerber refers to this as “your people strategy”.

In other words, humans are a resource. Understanding the human side gives business owners the leverage to take their business to the next level.

## Growth needs the right people to support it

Once a business resolves important issues such as finance and premises, success is still not guaranteed. Even global entrepreneurs Steve Jobs and Elon Musk had to leave their businesses for a period because they could not manage the people part.

The term “start-up” has become a buzzword. Some do experience that magic hockey-stick curve in sales, where they achieve rapid growth after they establish their product or service. But to successfully cope with this growth, the business owner needs to have the right people in place to manage the business or decide what the next innovation will be.

Many small business owners bring their business to a certain level, then struggle to achieve further growth. This is because they don't have the right people in the right positions and have failed to lead and manage those people. To build a business

that is scalable and saleable, the ability to leverage people is crucial. For small business owners, it is critical.

Unlike their corporate counterparts (i.e. executives and managers), business owners do not have the option of deciding “it's all too hard” and getting another job. They are anchored to the business. People issues can be their greatest roadblocks to success. Many have had little previous exposure to recruiting, delegating and training staff. The smaller the business, the more complicated it can be, as often there is a lot of job sharing and multitasking amongst staff. In addition, if the employees are family members or friends, there is more “walking on eggshells” and a reluctance to confront people issues.

Many so-called “people problems” are used as an excuse for a lack of business success or failure. In 2017, Thomas Wedell-Wedellsborg wrote about a survey he conducted of 106 C-suite executives. He found that 85% agreed or strongly agreed that their organisations were bad at problem diagnosis, and 87% strongly agreed this flaw carried significant costs. Too often, small business owners create a revolving door of people because they have not addressed the real reason for staff under-performance, conflict and employee turnover.

In fact, leadership expert Brian Tracy says a manager or executive must learn how to “de-hire” or they will be “de-hired” themselves. Knowing

when to terminate someone is a skill every manager, executive or business owner must learn. A business owner will not be “de-hired” but will pay a far higher price than an employed manager for not managing people effectively.

## Identifying and fixing the problem

Hope is not a strategy. In *Good to Great*, author Jim Collins explains the Stockdale Paradox and how accepting and dealing with harsh realities is fundamental to survival. The Stockdale Paradox is named after Admiral Jim Stockdale, who was a prisoner of war in Vietnam from 1965 to 1973. Despite being tortured more than 20 times, Stockdale survived his captivity and never lost faith he would get out - although he had no idea when that would be. The paradox is that it was the most optimistic of prisoners who didn't survive. Stockdale noted that they failed to accept the reality of their situation, expecting to be released at a certain time then dying “of a broken heart” when they weren't. Similarly, business owners fall victim to the Stockdale Paradox by simply hoping things will change and being continually disappointed when they don't.

Most people problems are, in fact, owner problems. This is why business mentors work so hard at getting business owners to accept their shortcomings when it comes to dealing with people. One of the most



effective ways of doing this is to get the business owner to undertake some form of personality or psychometric testing, such as DiSC® or the Myers-Briggs Type Indicator. Business owners who undertake a behavioural profile assessment can then understand why they may be keen to fire too quickly or alternatively, take too long.

Some notable business turnarounds - for example, at Apple, Ford Motor Company, Continental Airlines and Starbucks - occurred because of a change in CEO. In the case of Apple, Steve Jobs was kicked out of the company in 1985 because he couldn't handle people issues properly. By the time he returned, Apple had enough infrastructure in place, so he didn't have to deal with those issues anymore. He was then able to concentrate on what he was good at - innovation and product development.

However, it is an inescapable fact that, from time to time, small business owners must deal with under-performing and badly-behaving employees. Small business owners who invest time and money in learning how to hire, manage and delegate, free themselves up to focus on how they can continue to grow the business.

If a business owner is unsure of how to fix their people problems, they should ask themselves: "If I hired a manager, what would they do?" This gives them a reality check. By putting themselves in the mindset of a new manager, the business owner can view their team's skills, competencies, personalities and motivators more objectively.

The next step is to identify what shortcomings there are in any of those areas and provide the resources to fill them. Sometimes this

is not practical (e.g. the person may be totally unsuitable for the role). A decision must then be made whether the person can be redeployed or exited from the business.

## When the problem is not fixable

Behavioural economics teaches us about "sunk costs". Also known as past or retrospective costs, these costs usually relate to our reluctance to write off the time, money and emotional energy we have already spent on a situation. This reluctance is one of the most common causes of procrastination with business owners and managers who have invested large amounts of time and emotional energy - not to mention wages - on someone who is clearly not performing.

Consider this example. An employee is paid a salary of \$60,000 a year and





has been with the business for 10 months. For several months, there has been a gradual deterioration in their performance, which has now reached a critical stage. The business owner has tried everything to redeem the situation, but nothing changes. Because they've spent so much (\$50,000) on wages, in addition to the time they've put in, they keep the employee and simply hope the situation will improve.

The remedy? Recognise the sunk cost and write off the \$50,000. It may seem difficult to do, but it is easy when the business owner asks the question, "Would I spend \$5,000 a month on a new employee if I didn't think they would work out?"

Investors can suffer from the same problem of sunken cost. They will often hold on to a badly performing investment, telling themselves they will sell when it reaches what they

paid for it. Meanwhile, they miss out on other, more fruitful, investment opportunities.

Both scenarios fail to recognise the opportunity costs foregone by not moving on. In the case of the business owner, the impact of their inaction on staff morale, the profitability of the business and business value must also be considered.

So, how can a business owner know when to stop wasting time on an underperforming employee and move on? They need to ask the following questions:

1. *What will happen if I terminate the employee?*
2. *What won't happen if I terminate the employee?*
3. *What will happen if I don't terminate the employee?*

4. *What won't happen if I don't terminate the employee?*

## Choosing and managing staff

The saying, "hire in haste, repent at leisure", is often used in terms of recruiting staff. Similarly, "marry in haste, repent at leisure", refers to couples who rush into marriage only to find it is not always a bed of roses.

Choosing a life partner should not be based on a whim. It requires careful consideration. So too, does choosing staff - especially the first time a business owner hires a staff member. Of course, this advice is easier to follow in a business that has many employees. It is much more difficult for a micro or small business.

If a small business only has one employee and they leave, the owner must either replace them quickly

or do all the work themselves.

Therefore, small businesses need to be crystal clear about who to employ and what to outsource. Prevention is better than cure, which is why a small business's first hire can set the pattern for what happens afterwards.

Early-stage businesses should plan their first hire with great care. Creating a proper position description, formulating KPIs (key performance indicators) and KRIs (key results indicators), and determining the chemistry required to work effectively with business owners are essential.

It is generally not a wise option for a business owner to hire a clone of themselves. They must take a helicopter view of the business and the functions to be performed by the successful candidate. Otherwise, they may end up with the wrong person in the wrong role.

To scale up a business and continue to grow, business owners must follow some basic steps:

- Create a function chart (similar to an organisation chart) that sets out the various functions of the business and their importance.
- Write effective position descriptions of what people do, not what business owners think they do.
- Use a specialist recruiter or have a defined hiring process for new employees.
- Induct new employees into the business. Time spent in the beginning will prevent frustration

later.

- Learn how to effectively delegate.
- Have a process to manage the managers. Remember, delegation cannot be abdication.

## When it comes to hiring staff, business owners need to:

1. *Decide which functions they want to assign to the new employee.*
2. *Prepare the position description with KPIs (and KRIs if appropriate).*
3. *Map the functions on a behavioural map (if psychometric testing is used).*
4. *Establish the values they want to see in the employee.*

The business owner should also consider some form of simple test before selecting candidates for interview. For example:

- For a business owner who wants to hire a store person, the job advertisement states that applications must be submitted in the candidates' own handwriting. This is because operational errors are often the result of legibility and literacy issues.
- Another business insists on a short video of the candidates explaining why they would be a good fit for a role in customer service. This is because the business wants a certain energy in its staff.
- For a business that has walk-in applicants, the advertisement states candidates must bring their own pen.

No pens are provided for completing the application forms when the candidates arrive.

The point in conducting "tests" like these is to eliminate applicants who cannot or will not follow simple instructions. They prevent businesses from hiring in haste and repenting later.

Poor hiring decisions and a failure to deal quickly with ineffective staff are two of the principal reasons why many micro and small businesses fail to grow.



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