Johnson Granite & Quarry Case

MGT4153 Current Issues in HR

The purpose of this case is for 2-3 person HR teams to analyze and make recommendations on how to decrease voluntary turnover by changing pay levels to Johnson Granite & Quarry, Inc. (JGQ). In addition to preparing (though maybe not having to actually deliver) a 10-15 minute “briefing,” HR teams must prepare a “technical report” for JGQ’s management committee. The report’s target audience is the management committee, so assume at best spotty knowledge of statistics. However, the report must contain all information and analyses, if only to provide background when any future compensation system changes are considered.

Background

Johnson Granite and Quarry, Inc., or JGQ, is a family owned and operated granite, sand, and gravel quarrying business in a large Midwestern city. At the time of this analysis, JGQ employed 142 unskilled, semi-skilled, and skilled quarry workers and 18 exempt employees. Then and now it supplies residential and commercial construction contractors throughout 20 Midwest states with sand and gravel aggregate for use in concrete driveways, foundations, retaining walls, and fence footings. It also provides custom cut and polished granite counter tops, flooring, and trim to residential and commercial builders nationwide. Midwestern homeowners made up 90% of JGQ sales until around 1970, when demand started to increase from residential and commercial builders. By 1990 residential and commercial builders constituted close to 90% of sales.

The current JGQ pay system reflects the following policies:

1. All incumbents received the same, flat hourly wage in each job – no performance-based or seniority-based pay caused people in the same job to be earning different hourly wages.
2. Walk-ins and print-media ads attracted applicants from outside the company for almost all openings.
3. The average cost to recruit, hire, train, and process employment paperwork was ~ $800 for each nonexempt employee hired.
4. Some turnover was acceptable because the Johnson brothers believed a slightly unstable work force kept out unions.
5. Each employee received a “standard” benefit package that was almost identical in cost and composition across all granite and quarry companies nationwide. Benefit cost averages $1000 per employee, or $142,000 total annual cost for 142 nonexempt employees.

Salaries at JGQ were competitive compared to the labor market when the founder retired from operational responsibilities in 2000, leaving ownership and management responsibility to his three children. Unfortunately, as wages and prices slowly rose over the next eight years, JGQ did not adjust its salaries as fast. In fact, JGQ was currently paying just above the federally mandated minimum wage for entry-level unskilled quarry worker positions. Voluntary turnover increased quickly, though the Johnsons were not concerned because the labor market was loose and they could always find replacements willing to work for the lower wages JGQ paid. After all, as one of the Johnsons said after a monthly management team meetings, “somebody has to be the ‘low wage employer’ in the market, so it might as well be us!” Unfortunately, as the labor market tightened, JGQ’s HR manager found it increasingly difficult to maintain enough workers to meet customer demand – voluntary turnover was too high and JGQ often couldn’t attract enough applicants to fill available openings, leading to delays in filling customer orders and possible loss of business. Further, JGQ’s total cost of replacing someone who voluntarily turns over, including recruiting, interviewing, training, and administrative overhead costs, was conservatively $800. JGQ incurred 126 x $800 = $100,800 in extra HR costs due to voluntary turnover last year.

You and your partner carefully examined past voluntary turnover levels, the cost of that turnover, and JGQ’s ability to find applicants to fill openings caused by voluntary turnover. Even in the worst of times, you found JGQ had been able to attract applicants to fill open positions and meet customer demand when annual voluntary turnover was 45% or less. Your team presented its analyses and preliminary conclusion at the next monthly management meeting. After asking a few questions of clarification, the management team asked you to generate one or more recommendations to change JGQ pay levels that both 1) reduced turnover to the ‘acceptable” target level of ~ 45% and 2) JGQ could afford. With 142 employees, 45% turnover would lead to .45 x 142 ≅ 60 quits and incur 60 x $800 = $48,000 in HR-related turnover costs.

You have assembled information contained in Tables 7 & 8. Table 7 contains descriptive information about the 142 unskilled, semi-skilled, and skilled JGQ exempt employees across 10 unskilled, 10 semi-skilled, and 10 skilled job titles. JGQ’s HR professionals had created and implemented a point-factor job evaluation system in the early 1990’s and taken steps to keep it current as jobs changed over time. A standing job evaluation committee consisted of a compensation specialist from the HR team, 9 exempt employees (3 unskilled, 3 semi-skilled, and 3 skilled), and two first level supervisors who were deemed “subject matter experts” due to their extensive knowledge, experience, and skill in these 30 jobs. The point factor job evaluation system first identified “compensable factors,” or tasks, duties, responsibilities, working conditions, knowledge, skill, or ability requirements deemed worthy of compensation in a job. The job evaluation committee then identified and assigned points to compensable factors within each job. The sum of all points assigned compensable factors in each of the 30 jobs is found Table 7’s second column. The third column contains the current hourly wage each job receives, while columns 4, 5, and 6 contain the number of positions, voluntary quits, and percentage voluntary turnover rate (column 5 ÷ column 4 = column 6).

Finally, Table 8 identifies 10 key or benchmark jobs that 1) have large number of employees flowing back and forth between the external labor market and JGQ and 2) occur in a large number of employers with nearly identical task, duties, and responsibility profiles. The “labor market” consists of all firms hiring unskilled, semi-skilled, and skilled labor from the same applicant pool as JGQ for applicants for these 10 key jobs. N = 200 labor market competitors responded to the Table 8‘s wage and salary survey. JGQ also fills vacancies in the other 20 jobs primarily from the external labor market, though the 20 non-key jobs are fairly unique to JGQ. Table 8 reports recent results from both Labor Market and Product Market wage and salary surveys for these 10 jobs. Table 8 reports the 25th, 50th, and 75th percentile wages paid for these jobs by over 200 employers of the 10 key jobs in the region. Product Market wage and salary survey results were obtained from 15 firms that directly compete with JGQ in selling sand, gravel, and granite products to residential and commercial builders.

**Table 8: Wage and Salary Surveys**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Job** | **Labor Market W & S Survey** | | | **Product Market**  **W & S Survey** |
| **25th Percentile** | **50th Percentile** | **75th Percentile** |
| **1** | $7.75 | $7.95 | $8.15 | $7.90 |
| **3** | $8.05 | $8.25 | $8.45 | $7.99 |
| **7** | $8.35 | $8.45 | $8.55 | $8.42 |
| **13** | $8.45 | $8.80 | $9.10 | $8.62 |
| **15** | $9.00 | $9.40 | $9.85 | $9.13 |
| **17** | $9.20 | $9.50 | $9.85 | $9.20 |
| **20** | $9.40 | $9.70 | $10.05 | $9.80 |
| **24** | $9.85 | $10.25 | $10.65 | $9.95 |
| **26** | $10.25 | $10.65 | $11.05 | $10.51 |
| **29** | $10.55 | $11.05 | $11.55 | $10.63 |

Table 7: Job Evaluation, Current Pay, and Voluntary Turnover Rate

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Job1** | **Job Evaluation Points** | **Current Hourly Rate** | **Number of Positions** | **Annual Quits** | **% Voluntary Turnover** |
| 1us | 245 | $7.85 | 10 | 13 | 130.00% |
| 2 us | 250 | $7.85 | 10 | 14 | 140.00% |
| 3 us | 250 | $7.95 | 5 | 7 | 140.00% |
| 4 us | 255 | $8.15 | 5 | 8 | 160.00% |
| 5 us | 255 | $7.95 | 6 | 8 | 133.33% |
| 6 us | 260 | $7.75 | 6 | 11 | 183.33% |
| 7 us | 260 | $8.05 | 6 | 9 | 150.00% |
| 8 us | 260 | $8.15 | 6 | 9 | 150.00% |
| 9 us | 265 | $8.55 | 6 | 8 | 133.33% |
| 10 ss | 265 | $8.90 | 6 | 3 | 50.00% |
| 11 ss | 265 | $9.00 | 5 | 1 | 20.00% |
| 12 ss | 270 | $8.70 | 5 | 7 | 140.00% |
| 13 ss | 270 | $8.70 | 5 | 6 | 120.00% |
| 14 ss | 270 | $9.10 | 5 | 1 | 20.00% |
| 15 ss | 280 | $9.20 | 5 | 2 | 40.00% |
| 16 ss | 285 | $9.20 | 5 | 2 | 40.00% |
| 17 ss | 290 | $9.30 | 5 | 2 | 40.00% |
| 18 ss | 290 | $9.50 | 5 | 2 | 40.00% |
| 19 ss | 300 | $9.40 | 4 | 3 | 75.00% |
| 20 s | 300 | $9.60 | 4 | 0 | 0.00% |
| 21 s | 300 | $9.70 | 3 | 0 | 0.00% |
| 22 s | 305 | $9.60 | 3 | 1 | 33.33% |
| 23 s | 305 | $9.50 | 3 | 1 | 33.33% |
| 24 s | 310 | $10.00 | 3 | 0 | 0.00% |
| 25 s | 310 | $9.70 | 3 | 3 | 100.00% |
| 26 s | 320 | $9.80 | 3 | 4 | 133.33% |
| 27 s | 320 | $10.05 | 3 | 0 | 0.00% |
| 28 s | 330 | $10.25 | 3 | 1 | 33.33% |
| 29 s | 330 | $10.35 | 2 | 0 | 0.00% |
| 30 s | 340 | $10.55 | 2 | 0 | 0.00% |

1. US = unskilled, SS = semi-skilled, & S = skilled.