Unit 4

Manage and Finance the Small Business

Profile of an Entrepreneur

Soichiro Honda 1906–1991

Soichiro Honda was a well-known businessman in Japan long before he decided to become an international entrepreneur. As he pondered the decision to take his products into the international marketplace, he was advised that America would pose the greatest challenge and thus should be put off. Not one to avoid challenges, Honda decided to meet the biggest one head-on and take his motorcycle to America.

The 1959 advertising slogan "You Meet the Nicest People on a Honda" changed the way Americans felt about motorcycles. Until then, they had associated riding motorcycles with undesirable people, loud noise, and an unsavory way of life. That all changed when the unknown entrepreneur from Japan introduced his Cub motorcycle to American consumers. The Honda Company crafted an advertising campaign that linked the Cub with good clean fun and, after an initial glitch, won over a generation of Americans who likely never would have considered buying a motorcycle.

Soichiro Honda's success began many years earlier. He was born in Japan in 1906 and grew up helping his father repair bicycles in the little town of Komyo. At 16 he went to Tokyo to pursue an apprenticeship at an automobile repair shop, then returned home and opened his own shop.

Honda was a risk-taker by nature. That part of his personality led to a life-long interest in car racing. But, following a terrible crash, his wife convinced him to retire from the sport.

After the excitement of racing, his repair business was not enough to keep him occupied. He launched a piston ring manufacturing enterprise in 1937 and by 1948 had started producing motorcycles. That same year he started the Honda Corporation. A year later his first motorcycle, the Dream, rolled out of the factory. It was an immediate success.

Honda was successful even though he ignored the Japanese business culture of the time. In post–World War II Japan, whom you knew and the school you graduated from were prime elements of business success. Honda's lack of respect for this tradition, called *gakubatsu,* was unusual and one of the traits that defined his entrepreneurship. It has been said that Honda "was a results-oriented pragmatist who suffered no fools gladly."

An article by the American Honda Motor Company provides an unusual glimpse into the true nature of Soichiro Honda. His knowledge of his fellow countrymen made him an effec-

The Power of Dreams

HONDA
The Power of Dreams

tive leader. He required in others talents he himself did not have. "Honda demanded practical results, and he found a way of working that brought those results. He learned to regard failures as necessary steps toward understanding. He instilled in others the drive to learn without fear of failure. Such was the road to success."

Honda believed that having a good idea was not enough. Nor were a strong will and a willingness to put in the hours. If your products were no better or no worse than your competitor's, the customer had no reason to prefer yours. Honda believed success would come from continual reinvestment in technology, which would lead to the discovery of new things that people would want.

By the early 1950s Honda's company had developed into an engine manufacturer, and its products included most motorcycle parts. In 1952 Honda introduced the Cub. It was a hit with the transportation-starved Japanese—small, easily operated, and inexpensive to run. Sales took off, and by 1959 Honda was the leading motorcycle manufacturer in Japan.

Honda was a great believer in market research, much of which he conducted himself. One of his preferred market research techniques was to travel to races around the world and study the competition's motorcycles. Once a standard was set by a competitive product, Honda took this information back to the research shop and did his utmost to improve upon it.

Honda's interest in racing was not limited to gathering competitive intelligence. He also entered Honda motorcycles in competitions. His interest in continual product improvement took the company from a disappointing finish in its first international race in 1954 to a manufacturer's team prize in the Isle of Man race in 1959, its first year in that race.

Honda's racing successes were about performance, not ego. Every time a Honda motorcycle won a race, sales successes followed. By 1959, not only had Honda topped the Japanese motorcycle sales chart, it was selling at an unbelievable rate of 100,000 units a month!

In 1959 Soichiro Honda brought his product to America, because he believed his products were the best in the world. Who could argue, given his phenomenal sales success in Japan? As history would soon show, the American consuming public would argue. America's experience with the new Cub was anything but inspiring. Honda motorcycles began blowing head gaskets and losing clutches. The Cub might have been good enough for Japan, but it was not meeting muster in the U.S.

Bewildered, Honda took the motorcycles back to Japan to regroup. He quickly discovered that the problem, though mechanical, was really tied more closely to culture. Americans were accustomed to greater speeds than the Japanese, and that was causing the failures. Once Honda exposed the problem, it was quickly addressed. By 1963 Honda had become the top-selling brand of motorcycles in the United States.

Soichiro Honda was no stranger to these kinds of problems. He had a saying for difficult times: "To me, success can be achieved only through repeated failure and introspection. In fact, success represents 1 percent of your work and results from the 99 percent that is called failure."

The manufacture of automobiles proved no easier for Honda. In the early 1960s Japan's Ministry of International Trade and Industry (MITI), now called the Ministry of Economy, Trade, and Industry (METI), felt that Japan's automotive industry of 10 manufacturers should be merged into two international majors, Toyota and Nissan. In defiance of MITI's desires, Honda announced his intention to enter automobile production. His exceptional leadership propelled the Honda Motor Company to international acclaim and unparalleled success in the automotive arena.

With its track record of innovation, Honda has become a formidable global force in the motorcycle and automobile industries. Today it is the largest motorcycle manufacturer and one of the top 10 automobile manufacturers in the world.

Chapter 13

Human Resource Management

DIGITAL VISION

Objectives

13-1 Define the three management functions.

13-2 Explain the concept and procedures of staffing.

13-3 Discuss theories of management style.

13-4 Explain the concept of controlling.

13-5 List and describe the primary laws that govern employment.

THE THREE MANAGEMENT FUNCTIONS

The successful entrepreneur knows the importance of having the right personnel. Just as capital, equipment, and inventory are essential resources for success, so are people—the human resources. Without the right personnel, even a well-equipped, well-capitalized business will flounder.

Finding and keeping good employees requires the competent performance of three management functions—staffing, directing, and controlling. In addition, a thorough knowledge of labor laws ensures compliance throughout the entire human resource management process.

STAFFING

At this point in the business planning process, the entrepreneur must determine if employees will be necessary in the new business. Sometimes they are; sometimes they are not. **Staffing** is the process that determines the number of employees needed and defines a process for hiring them.

Labor expense can be a significant line item in the overall budget. Many small businesses fail because the owner overstaffs. Be very careful with staffing—try not to hire more employees than you need. But this is much easier said than done. How exactly can you determine the number of employees you need?

First, staffing begins with calculating how much money is available for personnel. Entrepreneurs use sales projections as guides not only for purchasing initial inventory and equipment but also for determining how to staff the business and how much money to pay employees. Check with industry sources to see what percent of sales revenues is normally allocated for payroll expenses. This figure is often discovered during the industry analysis portion of business planning. Then multiply your own projected revenues by that percentage. The result will be an approximate amount you can use as a guide.

After you have determined how much money is available for personnel, you must decide how many employees you need. The type of business you are planning will determine this number as well as the skills those employees will need. The size of the physical facility and hours of operation are other factors. If your business is retail, how much coverage will you need on the sales floor? If your business will involve selling to other businesses in a defined geographic region, how big is the territory to be covered?

After establishing employee skills and numbers, you need to develop a job description for each major category of employees, such as assistant manager, sales staff, bookkeeper, and so on. As you will discover later, a good job description is essential during the recruiting and hiring stages of the new business.

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The next step is to investigate how much other local businesses are paying for similar employees. Check your local newspaper, call the state employment service, review local online salary survey data, and ask knowledgeable people in your industry about prevailing wage rates. This information will help determine how much your employees should be paid. The approximate payroll cost, including employer-paid taxes and benefits, if offered, should then be calculated for each potential employee. Compute this amount for all projected employees to determine total labor costs.

The Organization Chart

As part of the staffing process, it is helpful to carefully analyze the business's needs by means of an organization chart. An organization chart is a picture of a business's distribution of its human resources. A well-developed organization chart, such as that in Figure 13-1, has both planning and management uses. During the planning phase, it identifies the number and types of employees needed. It lists positions in the organization and the primary responsibilities of each. The names of the individuals who hold the positions are added to the chart as they join the business.

FIGURE **13-1**

Organization Chart
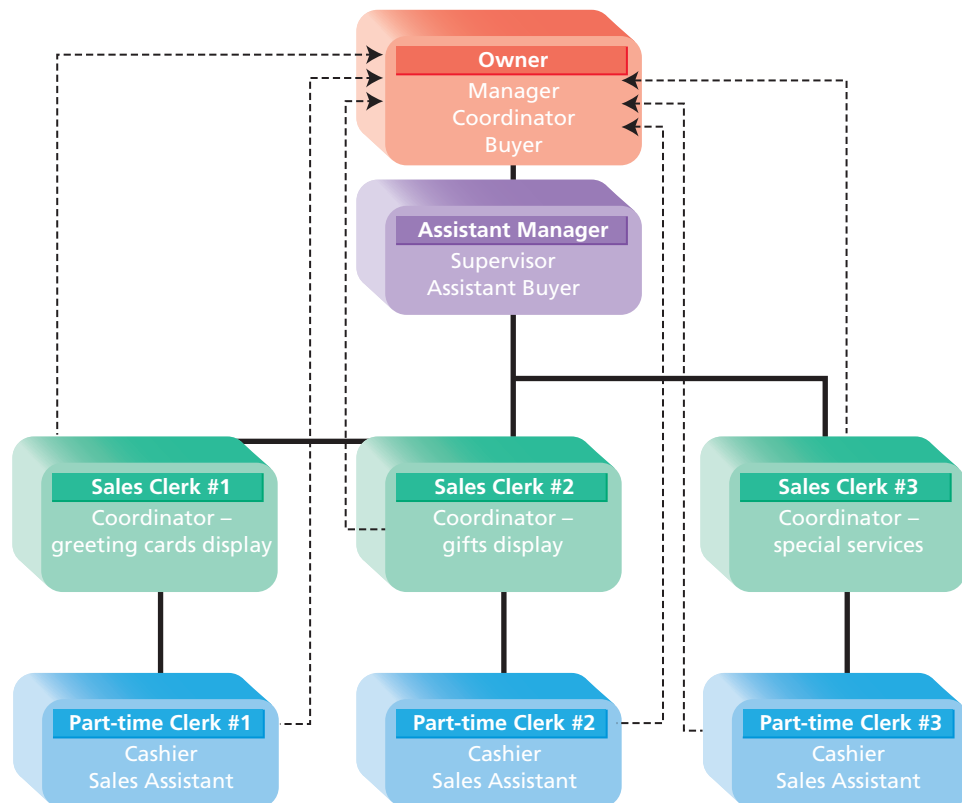
The lines on the chart indicate reporting relationships. It is important to include specific instructions about who oversees whom, or the **chain of command**. Solid lines indicate formal reporting relationships. Broken lines indicate that all employees have direct access to the manager.

Management uses the organization chart to identify the positions that must be filled and the skills needed for each one. It is an important part of the business planning process because it gives owners a clear picture of their

personnel needs. To identify the positions to be filled, the owner must first determine what type of organization the business is.

Small businesses are normally characterized as **line organizations**. A line organization's mission is to actually create and sell products or services. Larger organizations, characterized as **line and staff organizations**, may have staff positions such as personnel manager, safety officer, and accountant to assist the line employees who perform the actual work of creating and selling the products or services. One staff position that is often found in a small business is that of bookkeeper.

The organization chart is also a very important tool for employees. All employees have the right to know what their areas of responsibility are, to whom they must report, and what other positions they may pursue within the organization. If this information is not readily available, employees may not be motivated to do their best work, and morale—as well as productivity—may suffer. No matter how large or small the organization, an organization chart should be designed and made available as a reference tool for both management and employees.

Too many small businesses overlook this tool, believing that because their organizations are small their employees automatically know what is expected of them. It is usually not that clear, however, particularly in a small business in which responsibilities may overlap. Illustrating supervisory relationships in chart form helps to eliminate confusion.

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Recruiting

Finding and recruiting the right employees for a new business are not easy. Entrepreneurs usually have capital limitations that can make those tasks even more difficult. Small business owners—especially new small business owners—cannot always offer the same wages or salaries to prospective employees as large businesses can. Their benefit packages may not be as lucrative. Large businesses often offer incentives such as well-funded profit sharing plans, comprehensive insurance packages, and paid vacations. For these reasons, small business owners are often forced to hire less experienced individuals. Less experienced does not always mean less skilled, however. With effective training, these employees can perform the same functions as well as or even better than employees who join a company with prior training.

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How do small business owners find and recruit quality personnel? There are several ways to "shop" for applicants.

Classified Advertisements   Placing ads in the help wanted sections of local newspapers is usually a good way to attract large numbers of applicants. A descriptive ad should list job requirements, such as education or previous experience, as well as the responsibilities of the open position. Resumes should be requested from applicants in addition to cover letters. It is sometimes helpful to ask that specific information be included in the cover letter, such as salary requirements, date of availability, or other pertinent information. For employers who do not wish to disclose the business's name, many newspapers offer mailbox facilities for use with their classified ads. Resumes can then be screened to determine which applicants are worth interviewing.

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Employment Agencies   Employment agencies keep records of people who are looking for work and their qualifications. Seeking applicants through an employment agency saves some of the time involved in screening applicants, but the cost is much higher than the cost of classified advertising. Employment agencies charge a fee from either applicants or employers, or sometimes both.

College Placement Services   Many colleges keep records and resumes of students and alumni who are looking for work. This placement service is offered at no charge.

In-Store Advertising   Posting a sign in the business's window may attract pedestrians or motorists. With this method, you have two options. After applicants complete the application, you can inform them that they may be called for an interview or you can interview them immediately. The first option allows you to do some initial screening of the applicants. The second option requires interviewing all applicants. The latter course often means dedicating several days to interviewing alone, with the result that not much other work will get done during those days.

Referrals   Your friends or employees are often good sources of referrals. If you consider the person who is making the recommendation reliable, a referral may require very little screening. However, many business owners are reluctant to hire people related to, or too closely affiliated with, other employees. There is the possibility of alienating one at the expense of the other, creating conflicts within the organization, or losing two employees if one decides to leave or must be let go.

Internet Recruiting   With so many people using the Internet, it makes good sense to consider using it to recruit employees. Most online employment options allow you to post jobs, then search the resumes that are sent in response to the posting. One of the largest online job services is Monster, which claims that over 1.6 million job seekers visit its site daily. There is a downside to online recruiting, however: it can cost several hundred dollars to post a job and review resumes. Make sure you carefully consider all aspects of this recruiting option.

Regardless of the methods you use, it is to your advantage to attract a large number of applicants. Having more people to choose from allows you to be more selective and hire the most suitable person.

Job Applications

Tailoring an employment application to your specific business is a good idea. With a tailored application you can gather specific information that might not be included on a resume and use that information to decide what to ask during the interview.

One suggestion is that you do not buy and use a "canned" generic job application. Many commercially available hiring guides and software programs offer generic application forms. The problem with these is that they are designed so that a wide range of businesses can use them. They rarely fit the needs of a specific business.

Using the job description you have written as a guide, tailor the application to fit your own entrepreneurial vision. Ask questions relevant to the specific job and its requirements. Avoid asking questions that are not job related.

In addition to asking potential employees to complete a job application, most savvy businesses also ask for a resume. Small businesses should not overlook this requirement. You should be aware, however, of a growing trend in the employment marketplace, that of job applicants lying on their resumes. In 2003 a major news organization reported that over 50 percent of the people on whom it had conducted background checks had provided bogus information in their resumes. That statistic compared with about 40 percent in 2002.

As an entrepreneur, how can you be sure potential employees are being truthful? Probably the easiest and least expensive method is to check their references. You would be surprised by how many employers fail to take this simple precautionary step and how many job applicants are very much aware of that fact. If the job is a sensitive one, you might want to take the inquiry a step further and pay for a criminal background check.

When it comes to college degrees or special training, verify the applicant's claims. Request that an official transcript of all courses and grades be sent by the alma mater directly to you, rather than through the applicant. This is common practice for colleges.

Another note of caution: There has been a proliferation of "diploma mills" in the past few years. For the right price, a person can get a phony degree in almost any subject from one of hundreds of businesses offering this service. Make sure the purported degree is legitimate. If in doubt, call your local college or university and ask for a list of accredited schools. Caution at this stage of the hiring process will save your business countless hours and possibly dollars in the future.

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Interviewing

Once job descriptions are written and candidates have been selected, the interview process can begin. As with any interview, you should plan carefully and write out a list of questions beforehand. A lot of information must be gathered in a relatively short period of time, and it is easy to get caught up in conversation and forget to ask important questions.

Interviews should be held in a quiet, relaxing environment. Focus on the applicant's personal characteristics with regard to teamwork and cooperation. Two important characteristics to look for are a positive attitude and reliability. Skills are obviously desirable, but if they are inadequate, they can generally be taught. A positive attitude cannot be. The discussion should allow you to determine whether the applicant will do well in the team environment of a small business.

In many cases, more than one interview will be needed before the final decision can be made. If the interview indicates that the applicant is right for the position, you should take time to fully explain the job, show the applicant the operation, and list several good reasons for joining the team. The following are some of the ways you can make your small business appealing to a prospective employee.

DIGITAL VISION

- Express the excitement of participating in a new venture. Many people prefer to work in an environment in which they can see the outcome of their work. Employees of small businesses know their contributions are important to the success of the business. They have strong self-actualization needs. For them, working for a small business is worth a possible sacrifice of financial benefits.

- Tell potential employees how much the company needs them. By being direct about this, you can help them visualize the roles they will play in the operation and success of the business.

- Share your values with the applicant. If it is clear the goal is to create an ethical and responsible business, the applicant will feel proud to become part of the organization.

- Create an environment of flexibility and caring, and be sure to describe that environment to potential employees. Small businesses should not need to enforce the kinds of rules necessary in larger businesses. Explain, for example, that you understand that additional time off is sometimes required for family responsibilities. Reinforce the impression that there are many benefits to working in a friendly, informal environment.

- Establish a bonus system whereby employees benefit from the success of the company. Emphasize that if the business does well, the employees will benefit financially. When extra profits are generated, employees should receive bonuses in recognition of their contributions.

New employees should be hired on a probationary basis for a set period of time—four to six weeks is common. Both employer and employee must clearly understand that if either party is dissatisfied at the end of this period, the relationship will be terminated. Specific reasons for termination should

be reviewed. Tardiness, dishonesty, unreliability, and poor attitude disrupt the activities of the team and cannot be accommodated in a small business.

Thorough interviewing is important because training new employees is expensive. An employee in training is not usually able to produce at full speed, and neither is the trainer. Two employees are therefore performing at below-normal levels for a certain period of time, which ultimately results in higher payroll expenses. If the interview and selection process is inadequate, there will be excessive turnover of employees and, therefore, a continual need for training.

Ethics for ENTREPRENEURS

Jared graduated from high school six years ago and moved to a larger city 250 miles away. For several years he worked at a series of low-level retail jobs. Then he became an assistant manager at a locally owned clothing store. He enjoyed the work, felt he had learned a tremendous amount about the retail business, and was ready to take on the added responsibilities of managing a store.

Jared spoke with the owner of the store and learned that opportunities for advancement were slim at best. The owner agreed that Jared was competent enough to manage a store on his own. He understood Jared's desire to advance his career and offered to write letters of recommendation and personally visit any potential employers.

Jared felt very good after the conversation. He was aware of several openings for retail store managers in the area. With his experience, he felt it would just be a matter of time before he would find the right job.

Two months later Jared saw a newspaper ad for the perfect job. A national men's-wear chain was looking for experienced managers to support a major expansion. Individuals with at least two years of management experience and a college degree would be considered. Those hired would be trained for six months in an established store and then placed as store managers in one of the new locations.

Jared thought the job was a great fit except for one thing—he didn't have a college degree. In fact, he had no college credits at all. "What a stupid requirement," he thought. He knew he could do the job. As he stewed over the degree requirement, he began to think, "What if I faked the degree? I'd be moving to a part of the country where no one knows me. I'll never get caught."

During the next week, Jared used the Internet to investigate his options. He discovered a site that for $500 would give him a toll-free telephone number to put on his resume. When called, operators would "verify" the academic qualifications listed on the resume. Jared decided to pay the fee and apply for the job.

Thirteen months later, Jared was managing a successful new store in Florida. He was happy he had faked the college degree. After all, the store's success was proof it wasn't necessary. He wasn't worried. Even if his deception were discovered, what could be done?

Think Critically

1. Do you agree with Jared's action? Explain.

2. Do you think Jared broke any laws? What could happen to him?

DIRECTING

Directing is influencing people's behavior through motivation, communication, group dynamics, leadership, and discipline. Once the business is staffed, efficient management and leadership skills are necessary to keep valuable employees. Successful small business owners understand that they lead by example. A small business does not have an "ivory tower" from which the boss looks down on the employees. The boss is right in the middle of things, taking an active part in the running of the business alongside the workers. If the boss is not willing to pick up the trash, employees won't be either.

Motivating

As instructor and organizer, the business owner decides what must be done, which is a planning function, and how it will be done, which is a directing function. Good instructors are patient. They do not expect students to do the impossible, but they do expect students to do their best. Enthusiasm and efficiency in the workplace are dependent on the employer's ability to motivate employees. By allowing plenty of time and creating a proper learning environment, the owner can supply employees with the tools they need for good performance. This requires coordination, attention to detail, and the ability to give directions and assign tasks.

Management Styles

In the 1960s, Douglas MacGregor, a professor of industrial administration at the Massachusetts Institute of Technology, observed two distinct management styles that he termed Theory X and Theory Y. **Theory X managers** are those who direct with little consideration for human relations. They are very task-oriented and are most concerned with making sure that assigned jobs are completed in the most efficient manner. They operate under the assumption that workers prefer to be directed and do not wish to take on responsibility. Theory X managers believe the majority of employees must be forced to work, with the threat of punishment if they do not. They believe security is a primary employee desire and getting paid is the major incentive for their attendance in the workplace.

Theory Y managers are more concerned with human relations. They direct under the assumption that workers like their work and enjoy responsibility. They believe that, given the opportunity, people will use their creativity and intellectual capabilities. Effective managers operate under a Theory Y philosophy. They realize that to build an effective team and accomplish all the work on hand, workers must receive satisfaction from the job itself and not just from the pay they receive.

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This theory reinforced the results of a study conducted by Frederick Herzberg in the late 1950s. According to his study, worker enthusiasm is created by the following job satisfaction factors, ranked in order:

1. sense of achievement
2. recognition for achievement
3. interest in the work itself
4. opportunity for growth
5. opportunity for advancement
6. responsibility
7. peer and group relationships
8. compensation
9. supervisor fairness
10. reasonable company policies and rules
11. status
12 job security
13. supervisor friendliness
14. good working conditions

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The study clearly indicates that employees are more concerned with the nature and potential of the job itself than with security or status. They prefer an environment that encourages a sense of achievement and personal growth. They desire recognition for accomplishments and enjoy working with others who have similar goals.

Herzberg went on to separate job-related factors into two categories—motivators and hygiene factors. **Motivators** are personal job factors affecting the individual worker. They include:

■ the work itself
■ achievement
■ recognition
■ responsibility
■ growth and advancement

Hygiene factors have more to do with the company's management and the workplace environment and include:

■ salary
■ supervision
■ company policies
■ interpersonal relationships
■ working conditions

Workers will perform their assigned duties in a satisfactory manner when the hygiene factors are acceptable, but if management expects peak performance, the workplace must also offer the motivators.

Many small businesses can offer a combination of Theory Y management and Herzberg's motivators more easily than large organizations can. Because of their size, large organizations must generally rely on rigid company policies and structured supervision to control operations. Small business managers can work with all their employees and instill a sense of involvement, achievement, and challenge.

An Alternative Theory   Another theory of management styles that has gained acceptance was developed by William Ouchi in his book, *Theory Z: How American Management Can Meet the Japanese Challenge.* **Theory Z managers** give employees a great deal of freedom and trust. They assume workers feel loyalty to the company and have an interest in team building. Theory Z is more worker oriented than MacGregor's XY theory, which views motivation primarily from the manager's and company's point of view.

Theory Z is a good fit for most small businesses because the entrepreneur must place a great deal of faith in the employees. Whether you choose Theory X, Y, Z, or some combination thereof, remember that your management style will have a large impact on your employees and ultimately on the success of your entrepreneurial venture.

CONTROLLING

Controlling is the process of establishing performance standards based on the firm's objectives, measuring and reporting actual performance, comparing the two, and taking corrective or preventive action as necessary. The controlling function is often the most difficult for human resources managers to master. To excel in this function, business owners must constantly consider employees' roles in the business.

Employee Input

Employees who are in line positions work directly with customers, and often with suppliers as well. A good manager is open to suggestions from employees because they know what customers want and expect.

DIGITAL VISION

Large businesses, of necessity, tend to establish objectives from the top down. Upper management sets sales goals and company policies, often without direct employee input. Making decisions without collecting information from the people most affected—the employees—forces new policies on those employees and ultimately hurts company morale.

For example, when ABC Company, a large organization, sets its sales goals for the upcoming year, it typically does it from the top down. The president of the company reports the results of the past year to the Board of Directors and awaits their response. If the company achieved a 5 percent increase in sales the previous year, the response

might be to try for a 6 percent increase in the coming year. The president, not wanting to disappoint the board, accepts the challenge. She meets with the vice president of sales and sets a goal for a 7 percent increase—she wants to look good to the Board of Directors even if the sales team misses the mark. The vice president meets with the regional sales managers and sets an 8 percent increase as their objective, using the same protective strategy the president did. The regional sales managers relay a 9 percent objective to the district managers, who relay a 10 percent objective to sales personnel.
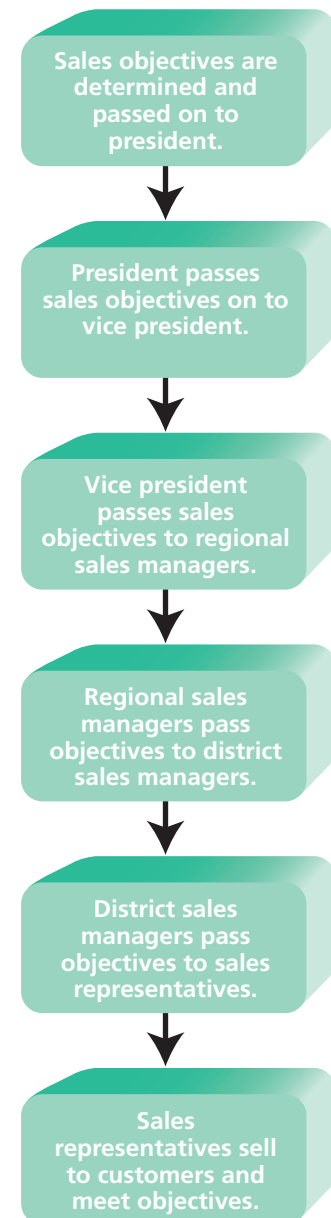
In this case, the original goal has almost doubled by the time it reaches the unfortunate sales representatives. During the coming year, pressure to reach the objective will build, particularly for the sales reps, who are responsible for the most difficult task. This is top-down management; managers neither listen to nor request information from the bottom, as illustrated in Figure 13-2.

FIGURE 13-2

Top-Down Management
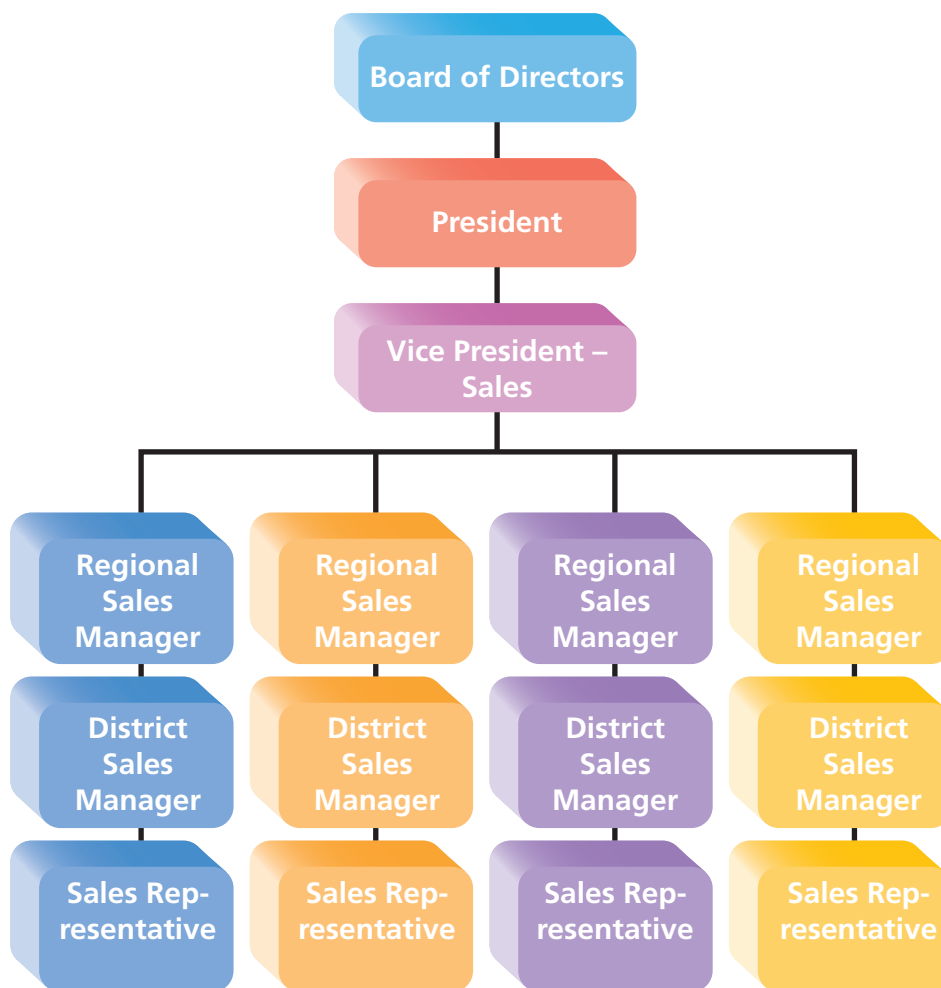
The small business owner, on the other hand, works more closely with employees and should always get direct input from them before making important decisions. For example, a retail store owner who is considering adding a new product line should ask sales personnel for suggestions, since they work with the customers daily. A business owner who wants to make an accurate sales forecast should ask sales personnel what they think is happening in the market. Most small business owners find that they are most successful when they are willing to listen.

Performance Evaluations

Employees need to know how their employers feel about their performance.
Large businesses usually have an elaborate system for appraising employees'
work. This system often requires rating performance in selected areas such as
dependability, punctuality, attitude toward job and coworkers, and success in
achieving predetermined objectives. The ratings are used to let the employees
know how their supervisors perceive their performance. They also serve as
useful management control tools because they provide a means of determin-
ing whether the objectives for a particular job are being met. They should be
used in every business, large or small.

Performance evaluations are conducted at regular intervals, usually every
6 or 12 months. They are most productive when conducted away from the
business, where employer and employee have an uninterrupted period of
time to share their thoughts about the direction of the business. Focusing on
positives rather than negatives helps the employee feel more at ease. Produc-
tivity can be reviewed and new objectives set in a nonthreatening way that is
helpful to everyone involved.

Employee evaluations provide an excellent opportunity for praise and,
when necessary, suggestions for improvement. As an employer you need to
devise an employee evaluation form. Figure 13-3 is an example of an effec-
tive evaluation form for a small business employee.

FIGURE **13-3**

Sample Evaluation Form

JAN'S SHOE EMPORIUM
Employee Evaluation

Employee name _____ Date _____

1. Employee's evaluation of his/her work accomplishments

   _____

   Employer's comments _____

   _____

2. Employee's evaluation of the company's overall performance, including
   areas that could be improved _____

   _____

3. Employee's specific comments regarding

   employee morale _____

   customer relations _____

   policies/procedures _____

4. Manager's evaluation of employee's contribution toward company
   goals _____

   _____

   Employee's response, including points of agreement/disagreement

   _____

   _____

5. Goals agreed upon for future development of company _____

   _____

Evaluation forms will likely differ considerably from those of a large business. The best system does not use rankings or ratings—it uses comments. There should be a list of the areas to be discussed, prepared ahead of time, with space to record comments made during the discussion. Clearly stated work objectives make it easy to determine what has or has not been achieved. Employer and employee should ultimately agree on the points discussed and the objectives that have been set for future performance.

LABOR LAWS

Entrepreneurs who plan to hire other people must learn the regulations that protect them and their employees from unfair labor practices. Small businesses can be susceptible to personnel trouble because often the person doing the hiring is not a trained personnel specialist. That is why familiarity with these laws is so important. Without this knowledge, employers may infringe upon applicants' or employees' rights without knowing it. There are many labor laws and new ones are constantly being added, so it is in your best interest to keep up with legislative activities affecting employment.

The Equal Employment Opportunity Commission (EEOC), a government agency established by Congress in 1972, regulates the labor laws described below and others. The commission receives charges of discrimination, investigates them, and, if they appear to be true, attempts to remedy the problem through reconciliation. If reconciliation is not achieved, the commission may bring suit in federal court. The commission handles 75,000 to 80,000 charges annually.

Fair Labor Standards Act of 1938

The FLSA established a minimum wage and required overtime pay for employees working more than 40 hours per week. The act provides minimum standards for both wages and overtime entitlement and spells out administrative procedures by which covered work time must be compensated. Included in the act are provisions related to child labor and equal pay. In addition, it exempts specified employees or groups of employees from the application of certain of its provisions. The main objective of the act is to eliminate labor conditions detrimental to the maintenance of the minimum standards of living necessary for workers' health, efficiency, and well-being.

The law originally contained a large number of special industry exemptions, many of which were designed to protect traditional pay practices in small rural businesses. Most of these exemptions have been repealed. Currently, the most important issues relate to so-called "white-collar" exemptions applicable to professional, administrative, and executive employees.

The most contentious issues in recent years were related to technical employees, such as computer programmers, who have a great deal of specialized knowledge but no formal academic credentials. Such employees often exercise no direct management or even administrative authority, and so are arguably ineligible for any of the FLSA white-collar exemptions. By legislative amendment, some employees of this sort are now exempt from the overtime provisions of the FLSA, but many issues remain unsettled.

Civil Rights Act of 1964   This is "an Act to enforce the constitutional right to vote, to confer jurisdiction upon the district courts of the United States to provide injunctive relief against discrimination in public accommodations, to authorize the Attorney General to institute suits to protect constitutional rights in public facilities and public education, to extend the Commission on Civil Rights, to prevent discrimination in federally assisted programs, to establish a Commission on Equal Employment Opportunity, and for other purposes." Title VII of the act prohibits employment discrimination based on race, color, religion, sex, and national origin.
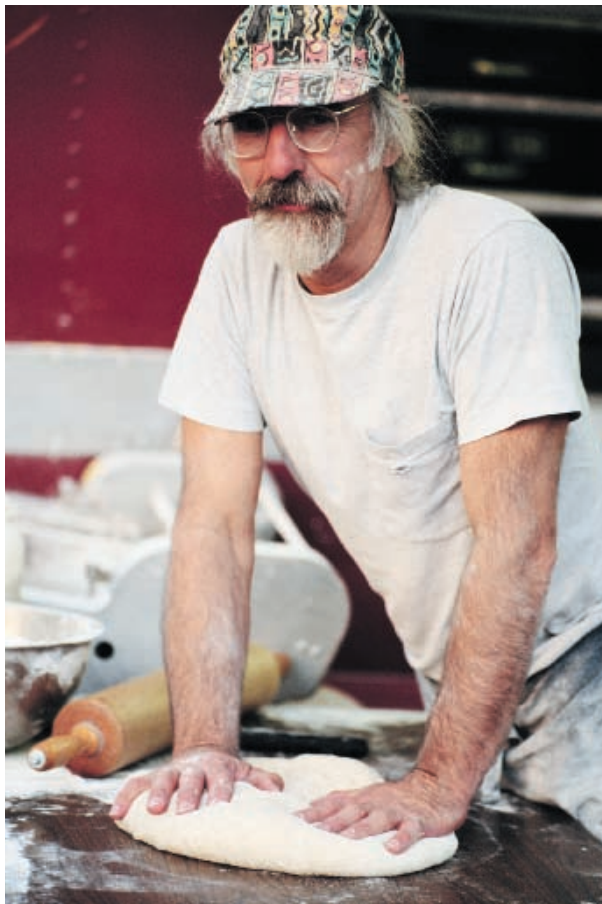
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Age Discrimination in Employment Act of 1967   The overall purpose of this act is to promote employment of older persons based on their ability rather than age, to prohibit arbitrary age discrimination in employment, and to help employers and workers find ways of meeting problems arising from the impact of age on employment. It specifically prohibits personnel practices that discriminate against people aged 40 and older. An amendment in 1986 extends protections to employees over age 70.

Occupational Safety and Health Act (OSHA) of 1970   The "OSHA Act" was based on the fact that Congress found that personal injuries and illnesses arising out of work situations impose a substantial burden upon, and are a hindrance to, interstate commerce in terms of lost production, wage loss, medical expenses, and disability compensation payments.

The OSHA Act is administered nationally by the Occupational Safety and Health Administration, also called OSHA, which is a division of the U.S. Department of Labor. In general, the act is designed to assure that employers provide "worker protection." It promotes a healthy and safe working environment by regulating exposure to hazardous substances and setting requirements for safety equipment.

Immigration Reform and Control Act of 1986   This act requires that employers check the identification of employees hired after 1986 to ensure that they are legal citizens of the United States.

The Global ENTREPRENEUR

Recruiting and hiring competent employees is a daunting task for many entrepreneurs. What happens if you recruit a promising employee who is not a U.S. citizen? What does the law require you to do?

The Immigration Reform and Control Act was written primarily to control the unlawful employment of aliens (non–U.S. citizens). Employers are responsible for verifying the employment eligibility and identity of all employees hired to work in the U.S. after November 6, 1986. They must complete Employment Eligibility Verification forms (Form I-9) for all employees, including U.S. citizens.

The employer must list the documentation he or she inspected that shows the employee is legal and must attest that the documents "appear to be genuine and relate to the employee named. . . and that to the best of my knowledge the employee is eligible to work in the United States." The employee must fill out a section attesting to his or her legal status in the U.S. The form is kept on file by the employer and reviewed by government officials only if there is an inquiry into that employee or employer.

Frequently asked questions about employment eligibility include these:

1. *Do citizens and nationals of the U.S. need to prove to their employers that they are eligible to work?* Yes. While U.S. citizens and nationals are automatically eligible for employment, they too must present proof of employment eligibility and identity and complete an Employment Eligibility Verification form (Form I-9).

2. *Do I need to complete a Form I-9 for everyone who applies for a job with my company?* No. You need to complete Form I-9 only for people you actually hire.

3. *Can I fire an employee who fails to produce the required document(s) within three business days?* Yes.

4. *What is my responsibility concerning the authenticity of document(s) presented to me?* You must examine the document(s) and, if they reasonably appear to be genuine and to relate to the person presenting them, you must accept them.

5. *May I accept a photocopy of a document presented by an employee?* No. Employees must present original documents. The only exception is a certified copy of a birth certificate.

6. *What happens if I properly complete a Form I-9 and the government discovers that my employee is not actually authorized to work?* You cannot be charged with a verification violation, but you cannot knowingly continue to employ this individual.

Think Critically

1. Do you think the above law is fair to small business? Please explain.

2. Secure a Form I-9 and bring it to class. Discuss its requirements.

Americans with Disabilities Act   The ADA prohibits employment discrimination based on workers' disabilities. The General Rule of the Act is that "no covered entity shall discriminate against a qualified individual with a disability because of the disability of such individual in regard to job application procedures, the hiring, advancement, or discharge of employees, employee compensation, job training, and other terms, conditions, and privileges of employment." Additionally, it prohibits discrimination in employment (Title I), in the provision of state and local government programs, services, and benefits (Title II), and by private businesses and other entities that operate places of "public accommodation" (Title III).

General prohibitions under the law include:

- Discrimination on the basis of a wide range of physical and mental disabilities
- Making inquiries of job applicants regarding past or current medical conditions
- Requiring job applicants to take a medical exam prior to the job offer
- Maintaining work sites with extensive material barriers to the passage of employees with physical disabilities

To be considered legally disabled, an employee must have a physical or mental impairment that substantially limits a major life activity and have a record of that impairment. A worker may have physical impairments, such as a cosmetic disfigurement or a missing limb, or mental and psychological disorders. People who are not themselves disabled but who encounter discrimination on the basis of their association or relationship with a person who has a disability, such as parents of children with disabilities, are also covered.

Disability does not automatically mean eligibility under the requirements of the ADA. A person is not disabled under the law if his or her impairment is corrected and does not substantially limit a major life activity.

The intent of the ADA is to protect job applicants and employees who are legally disabled yet still qualified for a specific job. An employee is qualified if he or she can carry out the necessary functions of the job with some type of reasonable accommodation.

Employees and applicants who are presently involved in the use of illegal drugs are not covered by the ADA. The employer may act on the basis of the drug use. Tests for illegal drugs are not subject to the ADA's limitations on medical examinations. Employers may require illegal drug users and alcoholics to meet the same performance standards as other employees.

DIGITAL VISION

Guidelines for Job Interview Questions

The laws regarding employment may seem hopelessly complex. How can you reduce all the information down to a usable format? How can you make sure you don't run afoul of the law? The following information about questions that can be legally asked during a job interview should prove helpful.

- **Name** Employers are not allowed to ask questions about a name that would reveal national origin. Employers may ask if the applicant has ever been employed under a different name.

- **Gender** Exercise extreme caution when structuring questions in this area. A voluntary request may be made of the applicant if the answer is not used to discriminate. Except in the rarest of circumstances, such as hiring a bathroom attendant, gender is not a bona fide occupational qualification. Do not request information from females if it is not also requested of males. Just because a job has always been labeled "men's work" does not make it legal to exclude female applicants.

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- **Education** You are legally entitled to inquire about an applicant's academic preparation, degrees and dates conferred, and names of schools attended.

- **Job Attendance** You may inquire about attendance at prior jobs, but the question must be limited to days off or number of days late for any reason. Do not inquire about days off due to illness.

- **Home Address** You may ask for the applicant's address and length of stay at the current address, but you may not inquire about other people staying at the address or whether the applicant owns or rents the residence.

- **Age** If by law an employee, such as a bartender, must be a particular age, you may require proof of age after the applicant is hired. Be careful with job advertisements that imply age-based limitations that are not legally required.

- **Marital Status** You may not ask about marital status. Never ask a female applicant if she has children, and never inquire as to childcare arrangements. If you have a concern in this area, simply ask if the applicant can meet the attendance policy and anticipated work schedule.

■ **National Origin**   You may inquire about languages the applicant reads, speaks, or writes fluently if another language is required for the job. Inquiries into the applicant's lineage, ancestry, national origin, birthplace, or native language are not allowed.

■ **Place of Birth**   You may not ask for the birthplace of an applicant or of an applicant's parents or spouse. A birth certificate may not be required prior to employment. A better way to determine U.S. citizenship, if it is a job requirement, is to ask if the applicant can, after employment, submit a birth certificate or other evidence of U.S. citizenship.

■ **Race**   Employers may not inquire about the applicant's race. After employment, race may be requested for affirmative action purposes. Only in very rare situations is race a bona fide occupational qualification.

■ **Convictions/Court Records**   You may inquire about conviction for a crime only if the conviction is relevant to employment.

■ **Dependents**   You may not inquire about dependents. This area is violated regularly, especially in relation to female applicants.

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■ **Obvious Disability**   Do not ask how the person became disabled or the long-term diagnosis. If you believe the disability may interfere with the performance of essential functions of the job, you may ask the applicant to explain or demonstrate how she or he can perform those essential functions with or without a reasonable accommodation.

■ **Unknown Disability**   You cannot ask if the applicant has any disabilities. You can, however, give the applicant a comprehensive job description listing all essential functions and ask if all functions can be performed with or without reasonable accommodation.

■ **Medical History**   Any questions about the applicant's medical history are usually illegal unless they are job related. If the job requires a medical examination, you must inform applicants that any job offer is contingent upon acceptable results from the exam. You may ask about current use of illegal drugs or alcohol. You should explain the company's standards and ask if the applicant can meet them. You should also state the company's polices concerning on-the-job alcohol and drug consumption.

DIGITAL VISION

- **Military Service** You may not ask about type of discharge. You may ask about education and experiences in the service as they relate to a specific job.
- **Photograph** You may not require a photograph with the application or suggest that a photograph is optional. A photograph may be required for identification after the applicant is hired.
- **Physical Characteristics** Measurements such as height and weight may be requested if necessary after the applicant is hired. If asked, you must be prepared to prove that they are bona fide occupational qualifications.
- **References** You may ask if another person referred the applicant. You may also ask about individuals who are willing to provide personal and/or professional references for the applicant.
- **Emergency Contact** It is legal for an employer to require the name of a person or persons to be contacted in case of an emergency, but illegal to specifically require the name of a relative for that purpose.
- **Relatives** You may not inquire about any relative of an adult applicant. Job applicants who are underage may be asked for names and addresses of parents or guardians. It is legal to ask for the names of relatives already employed by the company as long as the information is not determined to be detrimental to the employment of minority groups underrepresented in the workforce.
- **Religion** You are prohibited from asking questions that identify religious denominations or customs. Except in cases of hardship to the company, you are required to make reasonable accommodation for employees' religious practices.
- **Misinformation** Applicants should be given notice that any misinformation or omission of pertinent facts during the application process may be cause for dismissal at any time such deception is discovered.

Chapter Review

Ship in a BOTTLE

The original concept had been quite simple: a part-time Internet business that Fred and Jeanie could manage in the evenings and on weekends, with occasional sales trips to visit retail stores. But, with growth, the picture had changed and demands on their time had increased. Fred and Jeanie were having trouble fitting the order taking, shipping, and inventory control into their tight schedules, which included full-time jobs. They reviewed their options: either slow down the rate of growth, which neither wanted to do, or find some help.

Fred wrote job descriptions for two part-time associates: one to work the telephone and help with packing, the other to assist in maintaining business records. For the first position it was important to find someone who could converse sincerely with customers over the telephone and be meticulous when preparing shipments or posting and filing information. The person filling the other position would need a good working knowledge of computer applications. Although the pay would be minimal, Fred hoped he could attract the right people by describing the flexible hours, the benefits of being on the ground floor of a growing business, and the rewards of working with Jeanie and him. His goal was to create a team atmosphere.

After reviewing the job descriptions, Fred decided the job would be a perfect opportunity for a college student or a young mother looking for flexible hours. He posted the job openings with the community college placement office and ran a classified ad in the local newspaper.

Within a matter of days Fred and Jeanie received five inquiries from the college placement office. They called the applicants and asked them to fill out application forms and provide resumes. Interviews were scheduled with three of them. After spending two hours with each applicant, they chose a delightful young man, Lee Harris, for the position of working the telephone and preparing shipments. Lee was enthusiastic and an aspiring entrepreneur—a perfect fit. After a thorough indoctrination and on-the-job training, Lee joined the team.

The second position was more difficult to fill. The applicants from the college placement office lacked the background and experience that Fred and Jeanie were hoping to find. One well-qualified candidate answered the newspaper ad but was not interested because of the low pay and limited hours. Just when it seemed that a less qualified candidate would have to be hired, Jeanie was approached at her job by a trusted colleague whose wife, Susie, was looking for a position that would allow her sufficient time at home with their newborn daughter. Pay was not as important as personal considerations. Susie, a former office manager, was more than qualified. In addition to being a pleasant person, she knew computer applications and had three years' experience in office organization.

The initial team was on board. Fred wondered what the organization might look like in a year or five years down the road. Would he and Jeanie be full-time managers of a team of telephone and computer operators, shipping personnel, and office assistants? He envisioned an exciting workplace with everyone working toward the same goals. He knew that creating that kind of environment would entail offering profit

continued

sharing or bonus plans that would allow employees to benefit from the organization's success. He had already designed a program whereby Lee and Susie would receive bonuses if the business grew and they stayed with the job. The possibilities were endless.

Think Critically

1. Write a classified help wanted ad for the part-time office assistant for Ship in a Bottle.

2. Design an incentive program for Ship in a Bottle employees.

Summary

Entrepreneurs must realize the importance of bringing together a team of employees who are well schooled in creating and/or selling the product or service. Developing a good team involves three management functions: staffing, directing, and controlling.

Staffing begins with writing job descriptions and creating an organization chart that clearly defines all positions, responsibilities, and reporting relationships. Finding and recruiting the right employees for various organizational roles is a difficult task. Sources include classified ads, employment agencies, college placement services, in-store advertising, referrals, and Internet recruiting.

Tailored employment applications allow business owners to gather specific information that might not be included on a resume. This information can be useful in deciding what to ask during the job interview. A written list of questions is essential for effective interviewing.

Once the team is in place, the owner must be a skillful director or manager. Directing is influencing people's behavior through motivation, communication, group dynamics, leadership, and discipline. Business owners usually fall into one of three management styles known as Theory X, Theory Y, and Theory Z.

Controlling is a management function that evaluates and corrects personnel performance. To excel in this function, owners must constantly consider employees' roles in the business. Proper employee evaluation procedures and the ability to listen are essential. Employers can motivate employees by letting them know they are integral parts of the business and allowing them to assume challenging responsibilities.

Entrepreneurs must be familiar with the laws that govern employment and protect both them and their employees from unfair labor practices. The Fair Labor Standards Act of 1938 established a minimum wage and required overtime pay for employees working more than 40 hours per week. The Civil Rights Act of 1964 prohibited discrimination based on sex, race, color, religion, or national origin. The Age Discrimination in Employment Act of 1967 prohibited personnel practices that discriminate against people aged 40 and older. The Occupational Safety and Health Act (OSHA) of 1970 deals with personal injuries and illnesses arising out of work situations. The Immigration Reform and Control Act of 1986 requires employers to check the identification of employees to ensure they are U.S. citizens. The Americans with Disabilities Act (ADA) prohibits employment discrimination on the basis of workers' disabilities.

The laws concerning employment are complex. It is helpful to be familiar with the kinds of questions that may not be asked on a job application or during a job interview.

Chapter Review

A Case in POINT
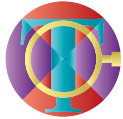
"I think you'll find this store an enjoyable place to work, Susan. What we can't provide in wages we more than make up for with a comfortable environment. I try to be as flexible as possible. Let me introduce you to Sharon and Jim. They'll be showing you the ropes."

Susan was happy to have found a nice store to work in that was not far from her home. Roger, the owner, seemed friendly and sincere.

Sharon and Jim were cordial but somewhat reserved. They taught her the cash register procedures and the inventory control system. After two weeks Susan felt comfortable with her assignments, but she still felt like an outsider with Sharon and Jim. She learned that although they liked their work, they were fearful of Roger's moods. Some days he was easygoing; other days he was temperamental and impulsive.

Susan's first encounter with Roger's mood swings occurred when she was at the cash register writing a ticket for a customer refund. "Who told you to write the ticket that way?" Roger demanded.

"Jim did," Susan answered.

"Well, it's all wrong. Doesn't he know anything? I'll go talk to him. Meanwhile, please pick up that paper on the floor. This place looks like a pigsty." Roger took the refund ticket, went to Jim, and reprimanded him in front of a customer.

After this incident, Jim and Sharon were more open with Susan. They complained about their boss's erratic behavior, and Jim vented his frustrations. "I won't be treated like this. The next time he's in one of his moods, I'm staying out of his way. I'll say I'm sick and leave early."

It wasn't long before Roger lost his temper again and fired Jim. His replacement lasted less than two weeks. Sharon and Susan started looking for new jobs because they never knew when their turn might come. Susan didn't want to leave, but working for such an unpredictable person was causing her great anxiety—both on the job and off.

Think Critically

1. Which management style is Roger exhibiting during his bad moods?
2. What effect is Roger's inconsistency having on the business's productivity and payroll?
3. What can Susan do about her situation?

Vocabulary Builder

Write a brief definition of each word or phrase.

1. chain of command
2. controlling
3. directing
4. hygiene factor
5. line and staff organization
6. line organization
7. motivator
8. staffing
9. Theory X manager
10. Theory Y manager
11. Theory Z manager

Review the Concepts

12. What are the three management functions?

13. How do entrepreneurs determine how much money to allocate to payroll expenses for new businesses?

14. What is the purpose of an organization chart?

15. How do line organizations and line and staff organizations differ?

16. What do the connecting lines on an organization chart represent?

17. What effect might capital limitations have on the recruiting process?

18. What are five methods of finding potential employees?

19. In what ways can a small business owner interest potential employees?

20. Why are inadequate interviewing and employee selection methods expensive for small business owners?

21. How do Theory X, Theory Y, and Theory Z managers differ?

22. What are the two kinds of job satisfaction factors and what are their effects?

23. What are the characteristics of an effective performance evaluation?

24. With which labor laws should small business owners be familiar?

Critical Thinking

25. What can happen in a business that does not have an organization chart?

26. Name some advantages and disadvantages of working for a small business.

27. Have you ever worked for a Theory X manager? A Theory Y manager? Relate your experiences to the class.

28. What aspects of a job do you consider motivators? Hygiene factors? Does your list differ from Herzberg's?

29. Do you think minimum wage laws can raise the cost of living? Why or why not? Could they affect job availability for certain groups, such as teenagers?

Project

Build Your Business Plan

In your business plan notebook, develop a human resources plan for your hypothetical business. Address the following six tasks. Determine how many employees you will hire. Create an organization chart. Write a job description for each position, including areas of responsibility. Decide how much you will pay your employees. Decide how you will find and recruit your employees. Describe your intended management style.