

## 12.5: People

### Learning Objectives

1. Understand the complexities of hiring, retaining, and terminating employees.
2. Be aware of the laws that apply to businesses of all sizes and specifically to small businesses of certain sizes.
3. Understand outsourcing: what it is; when it is a good idea; and when it is a bad idea.
4. Describe ways to improve office productivity.

The term *human resources* has been deliberately avoided in this section. This term is more appropriate for large bureaucratic organizations that tend to view their personnel as a problem to be managed. Smaller and midsize enterprise personnel, however, are not mere resources to be managed. They should not be seen as cogs in a machine that are easily replaceable. Rather, they are people to be cultivated because they are the true lifeblood of the organization.

Many small businesses operate with no employees. The sole proprietor handles the whole business individually, perhaps with help from family or friends from time to time. Deciding to hire someone will always be a big leap because there will be an immediate need to worry about payroll, benefits, unemployment, and numerous other details. “Human Resources,” *Small Business Notes*, accessed June 1, 2012, [www.smallbusinessnotes.com/managing-your-business/human-resources](http://www.smallbusinessnotes.com/managing-your-business/human-resources). A small business that looks to grow will face the hiring decision again and again, and additional decisions about compensation, benefits, retention, training, and termination will become necessary. Other issues of concern to a growing small business or a small business that wants to stay pretty much where it is include things such as outsourcing, how to enhance and improve productivity, and legal matters.

### Hiring New People

All businesses want to attract, develop, and retain enough qualified employees to perform the activities necessary to accomplish the organizational objectives of the business. David L. Kurtz, *Contemporary Business, 13th Edition Update* (Hoboken, NJ: John Wiley & Sons, 2011), 288. Although most small businesses will not have a department dedicated to performing these functions, these functions must be performed just the same. The hiring of the first few people may end up being pretty simple, but as the hiring continues, there should be a more formal hiring process in place.

Figure 12.5.1 illustrates the basics of any hiring process, whether for a sole proprietorship or a large multinational corporation.

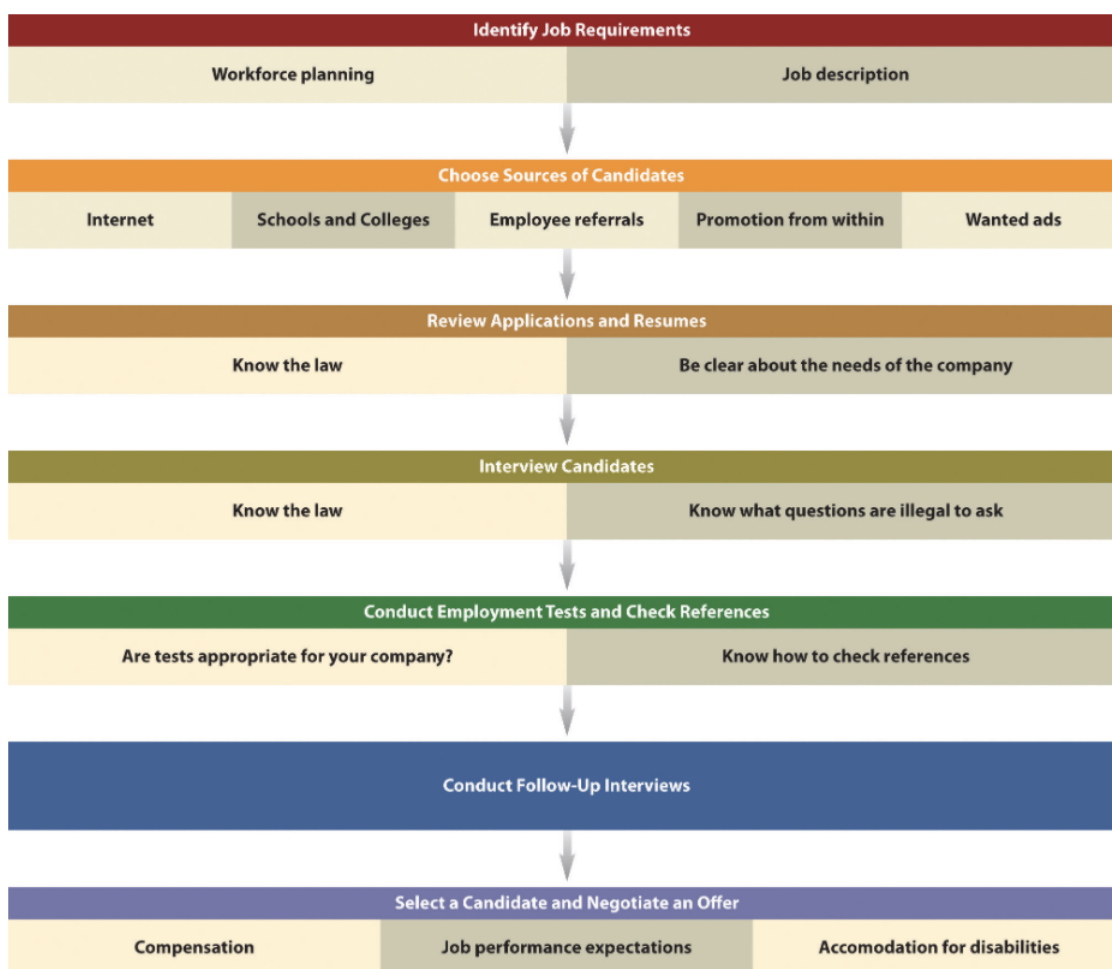


Figure 12.5.1: Steps in the Hiring Process Adapted from David L. Kurtz, *Contemporary Business*, 13th Edition Update (Hoboken, NJ: John Wiley & Sons, 2011), 289.

## Identify Job Requirements

A small business owner should not proceed with hiring anyone until he or she has a clear idea of what the new hire will do and how that new hire will help attain the objectives of the business. **Workforce planning**, the “process of placing the right number of people with the right skills, experiences, and competencies in the right jobs at the right time,” “[Workforce Planning](#),” accessed February 3, 2012, . is a way to do that. The scope of this planning will be very limited when a business is very small, but as a business grows, it will take on much greater importance. Doing things right with the first new hire will establish a strong foundation for hiring in the future. Forecasting needs for new people, both current and future, is part of workforce planning. No forecast is perfect, but it will provide a basis on which to make hiring decisions.

As an employer, every small business should prepare a **job description** before initiating the recruitment process. A good job description describes the major areas of an employee’s job or position: the duties to be performed, who the employee will report to, the working conditions, responsibilities, and the tools and equipment that must be used on the job. William M. Pride, Robert J. Hughes, and Jack R. Kapoor, *Business* (Boston: Houghton Mifflin, 2008), 159. It is important not to create an inflexible job description because it will prevent the small business owner and the employees from trying anything new and learning how to perform their jobs more productively. “[Job Descriptions](#),” *Small Business Notes*, accessed February 3, 2012.

## Choose Sources of Candidates

Because hiring a new employee is an expensive process, it is important to choose sources that have the greatest potential for reaching the people who will most likely be interested in what a small business has to offer. Unfortunately, it is not always possible to know what those sources are, so selecting a mix of sources makes good sense.

- **Internet.** The Internet offers a wealth of places to advertise a job opportunity. [Monster.com](#), [CareerBuilder.com](#), and [LinkedIn.com](#) are among the largest and most well-known sites, but there may be local or regional job sites that might work better, particularly if a business is very small. A business will not have the resources to bring people in from great distances. If a business has a Facebook or a Twitter presence, this is another great place to let people know about job openings. There may also be websites that specialize in particular occupations.
- **Schools and colleges.** Depending on the nature of the job, local schools and colleges are great sources for job candidates, particularly if the job is part time. Full-time opportunities may be perfect for the new high school or college graduate. It would be worth checking out college alumni offices as well because they often offer job services.
- **Employee referrals.** Referrals are always worth consideration, if only on a preliminary basis. The employee making the referral knows the business and the person being referred. Going this route can significantly shorten the search process...if there is a fit.
- **Promotion from within.** Promoting from within is a time-honored practice. The owner sends a positive signal to employees that there is room for advancement and management cares about its employees. It is significantly less costly and quicker than recruiting outside, candidates are easier to assess because more information is available, and it improves morale and organization loyalty. “[When Is It Better to Promote from Within Your Company?](#),” *AllBusiness*, accessed February 3, 2012. On the downside, there may be problems between the person who is promoted and former coworkers, and the organization will not benefit from the fresh ideas of someone hired from the outside.
- **Want ads.** Want ads can be very effective for a small business, especially if a business is looking locally or regionally. The more dynamic the want ad, the more likely it will attract good candidates. Newspapers and local-reach magazines might be a business’s first thoughts but also consider advertising in the newsletters of relevant professional organizations and at the career services offices of local colleges, universities, and technical colleges.

## Review Applications and Résumés

When looking for the best qualified candidates, be very clear about the objectives of the business and the associated reason(s) for hiring someone new. It is also critical to know the law. Some examples are provided here. This would be a good time to consult with a lawyer to make sure that everything is done properly.

1. **Employee registration requirement.** All US employers must complete and retain Form I-9 for each individual, whether a citizen or a noncitizen, hired for employment in the United States. The employer must verify employment eligibility and identity documents presented by the employee. “[Hiring Issues](#),” *Small Business Notes*, accessed February 3, 2012.
2. **The Civil Rights Act of 1964, the Civil Rights Act of 1991, and the Equal Employment Opportunity Act of 1972.** Attempt to provide equal opportunities for employment with regard to race, religion, age, creed, gender, national origin, or disability. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 299. The closest Equal Employment Opportunity Commission (EEOC) district office should be contacted for specific information.
3. **Immigration Reform and Control Act of 1986.** This law places a major responsibility on employers for stopping illegal immigration.

## Labor Laws Governing Employers

The following is a brief synopsis of some of the federal statutes governing employers that may apply to a small business. In many instances, they are related to the size of the business. “[Labor Laws Governing Employers](#),” *Small Business Notes*, accessed February 3, 2012, . There are definite advantages to staying small.

**The following laws apply no matter the size of the business:**

- Fair Labor Standards Act
- Social Security
- Federal Insurance Contributions Act
- Medicare
- Equal Pay Act
- Immigration Reform and Control Act
- Federal Unemployment Tax Act

**This additional law applies if a business has more than ten employees:**

- Occupational Safety and Health Administration Act

**The following additional laws apply if a business has more than fourteen employees:**

- Title VII Civil Rights Act
- Americans with Disabilities Act (ADA)
- Pregnancy Discrimination Act

**The following additional laws apply if a business has more than nineteen employees:**

- Age Discrimination in Employment Act
- Older Worker Benefit Protection Act
- Consolidated Omnibus Budget Reconciliation Act

**This additional law applies if a business has more than forty-nine employees:**

- Family Medical Leave Act

**The following additional laws apply if a business has more than ninety-nine employees:**

- Worker Adjustment and Retraining Notification Act
- Employee Retirement Income Security Act

## Interview Candidates

Just as knowing the law is important when reviewing applications and résumés, it is also important when interviewing candidates. Several interview questions are illegal to ask—for example, “Do you have dependable child care in place?” and “Do you rent or own your own home?” John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 303. In general, the off-limit topics in most employment interviews include religion, national origin, race, marital status, parental status, age, disability, gender, political affiliation, criminal records, and other personal information such as financial and credit history. “[Interviewing Guidelines](#),” *Small Business Notes*, accessed February 3, 2012. In short, keep the interview focused on the job, its requirements, and the qualifications of the candidate.

## Conduct Employment Tests and Check References

Selection tests have been used to screen applicants for more than one hundred years. “Employment Testing and Selection,” *Chron.com*, accessed February 3, 2012, [smallbusiness.chron.com/employment-testing-selection-4794.html](http://smallbusiness.chron.com/employment-testing-selection-4794.html). An effective testing program can improve accuracy in selecting employees; provide an objective means for comparing candidates; and provide information about training, development, or counseling needs. These advantages must be carefully weighed against the disadvantages: the fallibility of tests, the fact that tests can never measure everything, and many tests discriminate against minorities. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 304–305. Each small business owner must decide whether employment tests make sense for his or her business. However, Daniel Kehrer of Work.com claims that employee testing is essential to reducing employee turnover for small businesses because preemployment screens are four times greater at predicting employee success than interviews. He notes further that high turnover rates are much more expensive for small businesses than large companies. “Employment Testing and Selection,” *Chron.com*, accessed February 3, 2012, [smallbusiness.chron.com/employment-testing-selection-4794.html](http://smallbusiness.chron.com/employment-testing-selection-4794.html). Just be sure that all employment tests can be linked to a business necessity. “Employment Testing and Selection,” *Chron.com*, accessed February 3, 2012, [smallbusiness.chron.com/employment-testing-selection-4794.html](http://smallbusiness.chron.com/employment-testing-selection-4794.html).

Checking references is a much more difficult proposition. It is a good idea to check references after the interview to objectively evaluate the candidate’s qualifications, experience, and other information presented during the interview. Not checking references can result in poor hiring choices. “[How to Request References](#),” University of Texas at Austin Human Resource Services, accessed February 3, 2012.

Unfortunately, many former employers are reluctant to reveal anything other than an employee’s date of hire and departure and job title. “[Hiring Issues](#),” *Small Business Notes*, accessed February 3, 2012. but others may be willing to discuss an employee’s job performance, work ethic, attendance, attitude, and other things that may be important to the prospective employer. Alison Doyle, “[Reference Check Questions](#),” *About.com*, accessed February 3, 2012.

As important as it is to check references, it is a process that is fraught with legal risk, so check with an attorney before moving forward.

## Select a Candidate and Negotiate an Offer

After any desired follow-up interviews are conducted, it is time to select a candidate and negotiate an offer. There are three main issues to consider: compensation, job performance and expectations, and accommodations for disabilities.

**Compensation** includes wages, salaries, and benefits. Although wages and salaries are often used interchangeably, they are different. **Wages** are payments based on an hourly pay rate or the amount of output. Production employees, maintenance workers, retail salespeople (sometimes), and part-time workers are examples of employees who are paid wages. David L. Kurtz, *Contemporary Business, 13th Edition Update* (Hoboken, NJ: John Wiley & Sons, 2011), 294–95. **Salaries** are typically calculated weekly, biweekly, or monthly. They are usually paid to office personnel, executives, and professional employees. David L. Kurtz, *Contemporary Business, 13th Edition Update* (Hoboken, NJ: John Wiley & Sons, 2011), 295. Every small business should do its best to offer competitive wages and salaries, but a small business will generally not be able to offer wages and salaries that are comparable to those offered by large corporations and government. **Employee benefits**, such as health and disability insurance, sick leave, vacation time, child and elder care, and retirement plans, are paid entirely or in part by the company; they represent a large component of each employee's compensation. David L. Kurtz, *Contemporary Business, 13th Edition Update* (Hoboken, NJ: John Wiley & Sons, 2011), 296. Most employees have come to expect a good benefits program, even in a small business, so “the absence of a program or an inadequate program can seriously hinder a company's ability to attract and keep good personnel.” “[Employee Benefits](#),” *Small Business Notes*, accessed February 3, 2012, . Not surprisingly, small businesses are also not in a position to offer the same level of benefits that can be offered by large corporations and the government. However, small businesses can still offer a good benefits program if it includes some or all the following elements: health insurance, disability insurance, life insurance, a retirement plan, flexible compensation, leave, and perks. “[Employee Benefits](#),” *Small Business Notes*, accessed February 3, 2012. In addition, small businesses can offer benefits that only a small business can offer—for example, the flexibility to dress casually, half days on Friday, and bringing one's pet to work. Other ideas include gym memberships or lunch programs. These things have proven to increase employee loyalty, and they will fit the budget of even the smallest business. “[Improve Your Employee Retention Rate](#),” *Small Business Notes*, accessed February 3, 2012.

## Set Performance Expectations

It is in the best interests of a business for prospective new employees to know and understand their performance expectations. This means that a business must determine what these expectations are. New employees should understand the goals of the organization and, as applicable, the department in which they will be working. It should also be made clear how the employee's work can positively impact the achievement of these goals. “[Setting Clearer Performance Expectations](#),” *SmallBusinessLand.com*, accessed February 3, 2012, [www.smallbusinessland.com/article/setting-clearer-performance-expectations.html](http://www.smallbusinessland.com/article/setting-clearer-performance-expectations.html).

## Make Accommodations for Disabilities

If a business is hiring someone with a disability and has fifteen or more employees, it is required by the ADA (enacted in 1990) to make reasonable workplace accommodations for employees with disabilities. Though not required, businesses with fewer than fifteen employees should consider accommodations as well.

Reasonable accommodations are adjustments or modifications which range from making the physical work environment accessible to restructuring a job, providing assistive equipment, providing certain types of personal assistants (e.g., a reader for a person who is blind, an interpreter for a person who is deaf), transferring an employee to a different job or location, or providing flexible scheduling.

Reasonable accommodations are tools provided by employers to enable employees with disabilities to do their jobs. For example, employees are provided with desks, chairs, phones, and computers. An employee who is blind or who has a visual impairment might need a computer which operates by voice command or has a screen that enlarges print. “[What Is Reasonable Accommodation?](#),” *Marines*, accessed February 27, 2012. A tax credit is available to an eligible small business, and businesses may deduct the costs (up to \$15,000) of removing an architectural barrier. Small businesses should check with the appropriate government agency before making accommodations to make sure that everything is done correctly.

## Is a Business Hiring and Breeding Greedy and Selfish Employees?

If a business is worried about hiring a bunch of jerks, the EGOS Survey (Evaluation Gauge for Obnoxious Superstars) from *Fast Company* will help it find out. If a business owner answers truthfully, the owner can learn whether he or she is a leader of obnoxious superstars. Hiring jerks can happen in any size business. Robert I. Sutton, “[Quiz: Are You Hiring and Breeding Greedy and Selfish Employees?](#),” *Fast Company*, September 2, 2010, accessed February 3, 2012.

## Retention and Termination

Acquiring skilled, talented, and motivated employees will be a continuing concern for all small businesses. But the concerns do not end there. There will be issues concerning retention and termination of employment. **Retention** refers to keeping employees, and **termination** is about ending the employment of current employees against their will.

### Retention

Employee retention rates play an important role in the cost of running a business. The first few years of an employee's service are the most costly because money will be spent on recruiting and training the employee. It is only after the employee has been working for some time that he or she will start making money for the business. "[Improve Your Employee Retention Rate](#)," *Small Business Notes*, accessed February 3, 2012.

Because of the costly and time-consuming nature of hiring new employees, many companies today increasingly emphasize retaining productive people. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 295. Even the smallest of businesses should be concerned about retention because high turnover will be disruptive to the operations of the business and, as a result, may lessen the quality of the customer experience and customer satisfaction.

A good training and orientation program at the outset of employment can set the stage for increased retention. **Training** "is a continual process of providing employees with skills and knowledge they need to perform at a high level." John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 309. This continuing process is important. According to *Inc.com*, "the quality of employees and the continual improvement of their skills and productivity through training, are now widely recognized as vital factors in ensuring the long-term success and profitability of small businesses." "[Training and Development](#)," *Inc.com*, accessed February 3, 2012. Training programs will vary greatly depending on the size and the nature of the business. However, all training programs must be based on both organizational and individual needs, spell out the problems that will be solved, and be based on sound theories of learning. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 309. Many training and management development programs are not for amateurs, but the extent to which a small business can provide professionally delivered programs will be budget and needs related. In some instances, training is performed by someone who is currently doing the job—for example, using a particular machine, operating the cash register, stocking merchandise, and learning office procedures and protocols. Nothing additional is required.

Employee incentive programs are particularly important for small businesses because benefits satisfaction in small businesses typically lags behind benefits satisfaction in large corporations. A recent study "Building a Better Benefits Program without Breaking the Budget: Five Practical Steps Every Small Business Should Consider," *MetLife*, 2010, accessed February 3, 2012, [www.metlife.com/assets/institutional/services/insights-and-tools/ebts/small-market-whitepaper-v2.pdf](http://www.metlife.com/assets/institutional/services/insights-and-tools/ebts/small-market-whitepaper-v2.pdf), revealed that 81 percent of employees who are satisfied with their benefits are also satisfied with their jobs, whereas 23 percent of employees who are dissatisfied with their benefits are very satisfied with their jobs (Figure 12.5.2).

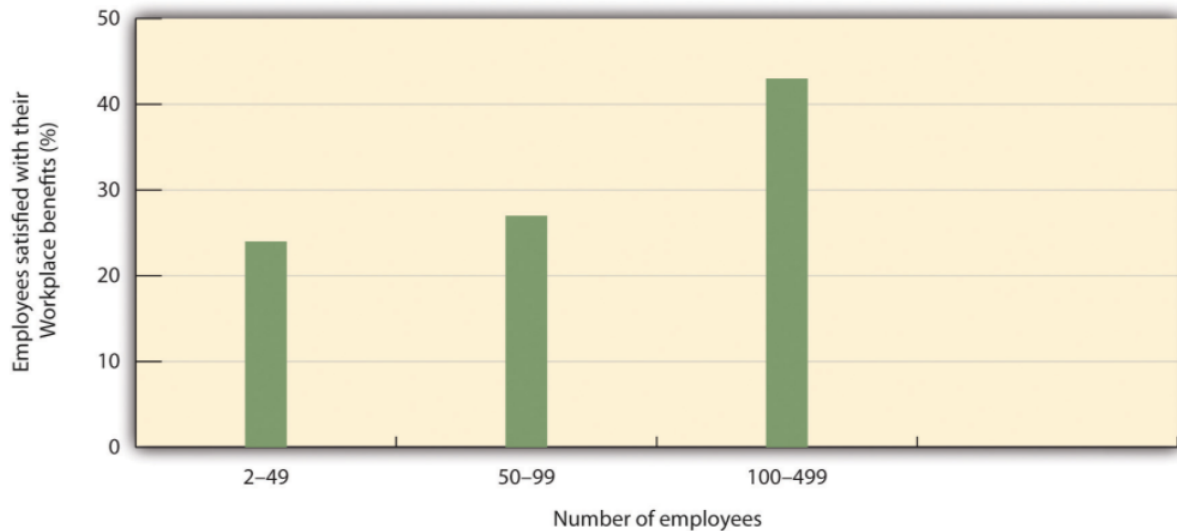


Figure 12.5.2: Benefits Satisfaction in Small Businesses. “Building a Better Benefits Program without Breaking the Budget: Five Practical Steps Every Small Business Should Consider,” MetLife, 2010, accessed February 3, 2012.

Given the importance of benefits to employees, small businesses need to be very creative about what kinds of incentives are offered to their employees. One of the biggest incentives may be the flexibility and camaraderie that are not available in larger businesses, “Employee Incentives for Small Business,” *Yahoo! Voices*, May 24, 2007, accessed February 3, 2012, [voices.yahoo.com/employee-incentives-small-business-359161.html](http://voices.yahoo.com/employee-incentives-small-business-359161.html). but to increase employee retention and attract the best and brightest, there will need to be more. Sharon McLoone, “How Do I...Offer Employee Incentives,” *Washington Post*, December 4, 2008, [voices.washingtonpost.com/small-business/2008/12/how-do-i-offer-employee-incentives.html](http://voices.washingtonpost.com/small-business/2008/12/how-do-i-offer-employee-incentives.html). Creating a sense of community, offering leadership opportunities, creating a culture of recognition, and constantly offering opportunity can be powerful incentives. “Employee Incentive Programs on a Small Business Budget,” *Small Business Notes*, accessed February 3, 2012. They can be very effective at increasing employee retention, particularly when there is insufficient money to provide large raises. People want to enjoy their jobs as well as earn money, and they may care about their community and passions equally as much as their salaries. This is an opportunity for small businesses because “smaller companies may be better positioned to provide work-life balance that makes for happier, healthier employees.” “Report: Cost-Effective Benefits Strategies for Small Businesses,” *ESBJournal.com*, October 19, 2010, accessed February 3, 2012.

#### Video Clip 12.5.1:

*Keeping Small Business Employees*



*Some ideas for keeping small business employees. They begin with a good job description.*



## Termination

Termination or firing will always be unavoidably painful, “[Employee Termination](#),” *Inc.com*, accessed February 3, 2012. but it is a managerial duty that is sometimes necessary. In small businesses, terminations are usually carried out by the owner. They should be done promptly to preserve the health of the business. “[Employee Termination](#),” *Inc.com*, accessed February 3, 2012. Terminations can be **termination at will** or **termination for cause**.

- **Termination at will.** Employment at will means that a person does not have an employment contract. The person is employed “at the will” of the employer for as little or as long as the owner desires. It also means that a person can stop working for an employer at any time. An employer “doesn’t need to give a reason for termination of an ‘at will’ employee, as long as the termination isn’t unlawful or discriminatory... Termination can be due to a merger, workforce reduction, change in company direction and business focus, poor company performance, or any number of other legitimate reasons.” “[Employees: Job Termination Rights FAQs](#),” *Lawyers.com*, accessed February 3, 2012.
- **Termination for cause.** When someone is terminated for cause, that person is being fired for a specific reason, Alison Doyle, “[Terminated for Cause](#),” *About.com*, accessed February 3, 2012 one of which may be behavior. Common causes for termination include but are not limited to stealing, lying, falsifying records, embezzlement, insubordination, deliberately violating company policies or rules, absenteeism and tardiness, unsatisfactory performance, changed job requirements, sexual harassment, and failing a drug or alcohol test. Alison Doyle, “[Terminated for Cause](#),” *About.com*, accessed February 3, 2012; “[Employee Termination](#),” *Inc.com*, accessed February 3, 2012. Sexual harassment is a form of sex discrimination that violates Title VII of the Civil Rights Act of 1964. According to the EEOC, sexual harassment is “unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitutes sexual harassment when submission to or rejection of this conduct explicitly or implicitly affects an individual’s employment, unreasonably interferes with an individual’s work performance or creates an intimidating, hostile or offensive work environment.” “[Facts about Sexual Harassment](#),” *US Equal Employment Opportunity Commission*, June 27, 2002, accessed February 3, 2012.

When an employee has been terminated, the small business owner should inform the other employees. As a general rule, the less said to coworkers and other employees about an employee’s termination, the better. People will be curious, but do not infringe on the terminated employee’s privacy or say something that might leave a person open to legal action. “[Employee Termination: Informing Other Employees](#),” *Small Business Notes*, accessed February 3, 2012. The best approach is to inform immediate coworkers, subordinates, and clients by simply telling them that the company no longer employs the employee. Do not mention any details but do include an explanation of how the terminated employee’s duties will be carried out in the future. “[Employee Termination: Informing Other Employees](#),” *Small Business Notes*, accessed February 3, 2012.

## Outsourcing

**Outsourcing** is the practice of using outside firms, some of which may be offshore, to handle work that is normally performed within a company. “[The Benefits of Outsourcing for Small Businesses](#),” *New York Times*, January 1, 2008, accessed February 3, 2012. . Small business owners routinely outsource a range of services, such as landscaping; building, utility, and furniture maintenance; distribution; and cleaning. Joanna L. Krotz, “[Tips for Outsourcing Your Small-Business Needs](#),” *Microsoft*, accessed February 3, 2012, [www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=WTbndqFrlli#T](http://www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=WTbndqFrlli#T); David L. Kurtz, *Contemporary Business, 13th Edition Update* (Hoboken, NJ: John Wiley & Sons, 2011), 303. Consistent with the trend set by larger corporations, small businesses are outsourcing a range of services, many of which were once considered fundamental internal functions. David L. Kurtz, *Contemporary Business, 13th Edition Update* (Hoboken, NJ: John Wiley & Sons, 2011), 303.

A major reason for outsourcing is cost reduction. Other benefits of outsourcing include increasing efficiency, enabling a company to start new projects quickly, allowing a company to focus on its core business, leveling the playing field with larger companies, and reducing risk. “[The Benefits of Outsourcing for Small Businesses](#),” *New York Times*, January 1, 2008, accessed February 3, 2012. . There is no question that outsourcing can be a good idea, but outsourcing is not always a good idea.

## When Is Outsourcing a Good Idea?

Outsourcing is a good idea when it allows a small business “to continue performing the functions it does best, while hiring other companies [many of which may be other small businesses] to do tasks that they can handle more competently and cost-effectively.” David L. Kurtz, *Contemporary Business, 13th Edition Update* (Hoboken, NJ: John Wiley & Sons, 2011), 303. Traditionally, payroll and personnel services have been outsourced by small businesses, but small businesses now use outside



providers for a much greater range of services, including the following: Joanna L. Krotz, “Tips for Outsourcing Your Small-Business Needs,” *Microsoft*, accessed February 3, 2012, [www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=WTbndqFrlli#T](http://www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=WTbndqFrlli#T).

- **Accounting and bookkeeping.** A growth area here is outsourcing accounts receivable. This enables a small business to sell off its accounts receivable and invoices to a financing company. Peter Emerson, “[Accounts Receivable Outsourcing](#),” *Streetsdirectory.com*, accessed February 3, 2012. As a small business grows, the process of collecting accounts receivable may become too cumbersome to handle without collection agencies becoming involved. “[When Does Outsourcing Accounts Receivables Make Sense](#),” *Streetsdirectory.com*, accessed February 3, 2012.
- **Specialist and expert help.** [Elance](#) offers a range of services for small businesses. It has access to thousands of professionals around the world who can provide services such as graphic design, multimedia presentations, engineering, sales and marketing, writing, and translation. Joanna L. Krotz, “Tips for Outsourcing Your Small-Business Needs,” *Microsoft*, accessed February 3, 2012, [www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=ZR0tpRAO-q#T](http://www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=ZR0tpRAO-q#T).
- **Public relations and marketing services.** These services are costly, require specialized expertise, and are not usually full-time needs. “[When Does Outsourcing Accounts Receivables Make Sense](#),” *Streetsdirectory.com*, accessed February 3, 2012. Many service providers specialize in the needs of small businesses.
- **Virtual assistants.** These people are independent entrepreneurs who provide administrative, creative, or technical support. A growing phenomenon, they work on a contractual basis via online or electronic communications. [Virtual Office Temps](#) and [VirtualAssistants.com](#) are examples of companies that can connect virtual assistants with any company that is interested. Adapted from Joanna L. Krotz, “Tips for Outsourcing Your Small-Business Needs,” *Microsoft*, accessed February 3, 2012, [www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=ZR0tpRAO-q#T](http://www.microsoft.com/business/en-us/resources/management/recruiting-staffing/tips-for-outsourcing-your-small-business-needs.aspx?fbid=ZR0tpRAO-q#T).
- **Creating benefits package.** A tremendous amount of time and creativity would be required for a smaller company to create a benefits package that is competitive in the marketplace. “[Benefits Packages for Emerging Businesses: Creating Long-Term Value for Your Employees](#),” *Monster Hiring Center*, accessed February 3, 2012. Given the vast complexities of health care, including health-care laws that differ by state, outsourcing this activity makes good sense.
- **Legal services.** A small business may need to consult an attorney for a variety of reasons, including the following:
  - Choosing the business structure
  - Constructing a partnership agreement
  - Obtaining a corporate charter
  - Registering a corporation’s stock
  - Obtaining a trademark, a patent, or a copyright or intellectual property
  - Filing for licenses or permits at the local, state, and federal levels
  - Purchasing an existing business or real estate
  - Hiring employees, independent contractors, and other external suppliers (outsourcing)
  - Extending credit and collecting debts
  - Creating valid contracts
  - Initiating or defending against lawsuits
  - Keeping current on and compliant with business law and regulations (e.g., advertising, employment and labor, finance, intellectual property, online business law, privacy law, environmental regulations, and the Uniform Commercial Code)
  - Protecting intellectual property
  - Protecting ideas or inventions from others’ infringement “[Business Law and Regulations](#),” *US Small Business Association*, accessed February 3, 2012. “[Small Business Planner: Protect Your Ideas](#),” *US Small Business Administration*, accessed February 3, 2012; adapted from William M. Pride, Robert J. Hughes, and Jack R. Kapoor, *Business* (Boston: Houghton Mifflin, 2008), 159.

However, the cost of a full-time attorney would probably be prohibitive. Outsourcing these services is an appropriate choice. Some legal firms offer small businesses a flat monthly fee instead of charging them by the hour. Rob Johnson, “[Legal Advice... on a Budget](#),” *Wall Street Journal*, November 15, 2010, accessed February 3, 2012. a practice that is very helpful to the small business budget.

## When Is Outsourcing a Bad Idea?

Although outsourcing has benefits, there are times when it is a bad idea. For example, sales and technology development are operations that are generally best handled in-house because they are full-time needs that are at the heart of any business. “[When Does Outsourcing Accounts Receivables Make Sense](#),” *Streetdirectory.com*, accessed February 3, 2012, Outsourcing might actually end up being the more expensive alternative, leading to a financial loss instead of a gain. An example would be the cost of a highly specialized expert. “[When Outsourcing Is Not a Good Idea](#),” *Streetdirectory.com*, accessed February 3, 2012. In addition, when outsourcing overseas, the small business owner and/or managers may not be prepared to manage projects across time differences and cultural barriers and may not have clear guidelines, expectations, and processes in place to manage product or service quality. “[The Benefits of Outsourcing for Small Businesses](#),” *New York Times*, January 1, 2008, accessed February 3, 2012.

## Office Productivity

All small businesses want their employees to work better and smarter. In fact, the smaller a business is, the more efficient and effective it must be. Productivity is an issue in two places: the office and in manufacturing. Office productivity (which applies to all levels in the organization) is discussed in this section, and the role of technology is the focus. “Office” is used broadly to include, for example, physical offices, virtual offices, work situations that involve in-the-car time (e.g., realtors and salespeople), restaurant kitchens, and people who work on the sales floor in retail establishments.

Even the smallest of businesses can improve productivity by using technology, even though such use may be very limited in some instances. For example, goods and services needed to run a business can often be ordered online; e-mail can be used for customer and supplier communication; taxes can be filed online; and a simple software package like *Microsoft Communicator* allows intra- and extracompany communication via e-mail, text, and video. It will be the rare business that uses no technology.

Some have referred to technology as the road map to small business success—helping grow the business, work smarter, attract more customers, enhance customer service, and stay ahead of the competition. “[Technology: Your Roadmap to Small-Business Success](#),” *Intel*, accessed February 3, 2012. An important component of all this is high office productivity. Efficiency and effectiveness in the office will benefit the entire business.

With the proliferation of social networks, small businesses are implementing more Facebook-like applications into their day-to-day operations. Donna Fuscaldo, “[Using Social Networking to Boost Office Productivity](#),” *Fox Business*, November 12, 2010, accessed February 3, 2012, . [Yammer](#), for example, “enables a company’s employees to gather inside a private and secure social network that can be controlled and monitored by the employer. The goal is to increase productivity...[It] is about making people work more productively using communication that’s becoming very popular in the consumer space.” Donna Fuscaldo, “[Using Social Networking to Boost Office Productivity](#),” *Fox Business*, November 12, 2010, accessed February 3, 2012,. Other similar products include [Conenza](#) and [Chatter](#).

Some see the iPad as changing how business relationships are built—providing opportunities to connect with prospects in a more meaningful way and allowing people to collaborate with others in real time from wherever they are. Brent Leary, “[The iPad: Changing How We Build Business Relationships](#),” *Inc.com*, May 2010, accessed February 3, 2012. The iPad is also changing the way people can work. The [SoundNote](#) application allows note taking and recording a meeting simultaneously; once written, the notes can be e-mailed directly to the participants. Ken Burgin, “20 Ways an iPad can Improve Your Restaurant, Café, Hotel or Bar,” *ProfitableHospitality.com*, March 14, 2011, accessed February 3, 2012, [profitablehospitality.com/news/index.php/kitchen-management/20-ways-an-ipad -can-improve-your-restaurant-cafe-hotel-or-bar](#). Just want to take notes? Use [Evernote](#). Michael Hyatt, “How to Use Evernote with an iPad to Take Meeting Notes,” accessed February 3, 2012, [michaelhyatt.com/how-to-use-evernote-with-an-ipad-to-take-meeting-notes.html](#). The iPad can be used in the kitchen of a restaurant, a café, a hotel, or a bar for finding recipes and cooking instructions, displaying recipes as PDF files, and working on budgets and cost analyses. Ken Burgin, “20 Ways an iPad can Improve Your Restaurant, Café, Hotel or Bar,” *ProfitableHospitality.com*, March 14, 2011, accessed February 3, 2012, [profitablehospitality.com/news/index.php/kitchen-management/20-ways-an -ipad-can-improve-your-restaurant-cafe-hotel-or-bar](#). In retailing, the iPad can be used as a virtual sales assistant. In a dress department, coordinating accessories from a jewelry store or the shoe department can be accessed and recommended to the customer. Car dealers could customize a car by showing colors and finishes to the customer—all while standing in the parking lot. Natalie Zmuda, “[iPad Poised to Revolutionize Retail Industry](#),” *Business Insider*, April 24, 2010, accessed February 3, 2012, [www.businessinsider.com/ipad-poised -to-revolutionize-retail-industry-2010-4](#). In real estate, the iPad can be used for buyer consultations, listing presentations, tracking properties, and chatting with clients—just to name a few. Patrick Woods, “Tips for Using the iPad for Real Estate,” *PatrickWoods.com*, July 5, 2010, [www.patrickwwoods.com/tips-for-using-the-ipad-for-real-estate](#).

## Video Clip 12.5.2:

*Using the iPad for Real Estate*

*Some tips on how to use the iPad in real estate.*

Although every small business owner may not see an immediate need for an iPad, it is a technology worth checking out. New applications for office productivity are coming out all the time.

A **smartphone** is a device that lets a person make phone calls but has other features found on a digital assistant or a computer, such as sending and receiving e-mail and editing Microsoft Office documents. Liane Cassavoy, "What Is a Smartphone?," *About.com*, accessed February 3, 2012, [cellphones.about.com/od/glossary/g/smart\\_defined.htm](http://cellphones.about.com/od/glossary/g/smart_defined.htm). A popular brand is the Apple iPhone. Smartphones give a person access to company data that is normally not possible without a laptop; make it possible to accomplish more, faster; enable mobile workers to connect to company information while on the road; keep your calendar, address book, and task lists organized; and, perhaps most importantly, keep frustrations to a minimum because the technology is designed to work in tandem with a **server** and a **personal digital assistant (PDA)**. Christopher Elliott, "5 Ways Smartphones & Servers Boost Productivity," *Microsoft*, accessed February 3, 2012, [www.microsoft.com/business/en-us/resources/technology/communications/smartphones-and-business-productivity.aspx?fbid=WTbndqFrlli](http://www.microsoft.com/business/en-us/resources/technology/communications/smartphones-and-business-productivity.aspx?fbid=WTbndqFrlli). A server is a computer or a series of computers that link other computers or electronic devices together. "Server (Computing)," *Wikipedia*, February 2010, accessed February 3, 2012, [en.Wikipedia.org/wiki/Server\\_\(computing\)](http://en.Wikipedia.org/wiki/Server_(computing)). A PDA is a handheld computer that acts "as an electronic organizer or day planner that is portable, easy to use and capable of sharing information with your PC." Craig Freudenrich and Carmen Carmack, "[How PDAs Work](#)," accessed February 2, 2012. Blackberry is a popular brand of the PDA. The smartphone can be used for numerous business functions, such as tracking equipment and accounts, keeping calendars and address books, connecting to the Internet, acting as a global positioning system (GPS), and running multimedia software. Craig Freudenrich and Carmen Carmack, "[How PDAs Work](#)," accessed February 2, 2012.

Like everyone else, small businesses have to do more with less. This means that effective collaboration is increasingly critical to success. Because collaboration is a daily requirement for all small businesses, the question becomes how to have productive collaboration without using up too much time and costing too much money. What is needed is a way to "spur employees to share ideas and increase productivity while protecting work-life balance." "Evaluating Shift to Online Communication Tools," *Pgi.com*, accessed February 3, 2012, [www.pgi.com/us/en/content/download/7845/130408/file/PGI\\_WhitePaper\\_Return%2Bon%2BCollaboration\\_v05.pdf](http://www.pgi.com/us/en/content/download/7845/130408/file/PGI_WhitePaper_Return%2Bon%2BCollaboration_v05.pdf). A recent study reported that among companies that used collaboration tools, 72 percent reported better business performance. "Evaluating Shift to Online Communication Tools," *Pgi.com*, accessed February 3, 2012, [www.pgi.com/us/en/content/download/7845/130408/file/PGI\\_WhitePaper\\_Return%2Bon%2BCollaboration\\_v05.pdf](http://www.pgi.com/us/en/content/download/7845/130408/file/PGI_WhitePaper_Return%2Bon%2BCollaboration_v05.pdf). One popular collaboration tool is web conferencing: "Web conferencing services enable users to hold collaborative meetings with interactive whiteboard tools, give sales demonstrations with real-time efficacy, stage presentations with full and select moderator control or hold enhanced, multimedia roundtable discussions...And, with recording and playback tools available in the leading Web

conferencing service providers, audience members and other authorized users can access meetings, presentations and demonstrations again and again or continually reference whiteboard sessions.”“Web Conferencing Review,” *Top Ten Reviews*, accessed February 3, 2012, [web-conferencing-services.toptenreviews.com](http://web-conferencing-services.toptenreviews.com).

Although Top Ten Reviews ranked [Infinite Conferencing](#), [Netviewer Meet](#), and [Adobe Connect Pro](#) as the 2011 top three web conferencing services, each small business should select the product that best serves its needs and its budget.

## Virtual or Telecommuting Employees

Another boon to office productivity and adding to the bottom line is the **virtual or telecommuting employee**. This is an employee that works from a location other than the traditional office. They can work from anywhere. Ruth Mayhew, “What Are the Advantages & Disadvantages of Virtual Offices and Telecommuting?” *Chron.com*, accessed May 30, 2012, [smallbusiness.chron.com/advantages-disadvantages-virtual-offices-telecommuting-1167.html](http://smallbusiness.chron.com/advantages-disadvantages-virtual-offices-telecommuting-1167.html). There is no agreement on the number of US workers that are already telecommuting. However, it has been estimated that 40 percent of the US workforce hold jobs that lend themselves to telecommuting. “[Analysis Shows Telecommuting Can Cut Persian Gulf Oil Use by Almost Half](#),” *Telecommute Connecticut*, accessed May 30, 2012; Peter Suci, “[Telecommuting Can Save Employers Money, Too](#),” *AllBusiness.com*, March 9, 2011, accessed February 3, 2012, [www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/15480193-1.html](http://www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/15480193-1.html).

The advantages of virtual employees include the following: “Flexible Telecommuting Has Many Benefits for Your Small Business,” *AllBusiness.com*, March 9, 2011, accessed February 3, 2012, [www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/11493648-1.html](http://www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/11493648-1.html); Peter Suci, “Telecommuting Can Save Employers Money, Too,” *AllBusiness.com*, March 9, 2011, accessed February 3, 2012, [www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/15480193-1.html](http://www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/15480193-1.html); James Ware and Charles Grantham, “Flexible Work: Rhetoric and Reality,” *Tech Republic*, accessed February 3, 2012, [www.techrepublic.com/whitepapers/flexible-work-rhetoric-and-reality/384538](http://www.techrepublic.com/whitepapers/flexible-work-rhetoric-and-reality/384538).

- Companies could save \$6,500 annually per employee.
- Virtual employees tend to be happier, healthier, and less stressed compared to their office-bound coworkers.
- Virtual workers are significantly more productive than their office-bound colleagues. The differential is estimated at 15 percent.
- Virtual employees almost always give back more than 50 percent of the time they save by not commuting.
- Some virtual workers actually put in more time per week than those who commute.

From the perspective of the virtual employee, the advantages of telecommuting are as follows: no distractions from coworkers; no stress from office politics; spending more time with the family; saving money on transportation, parking, and clothing; and avoiding traffic or saving time by not commuting. Arnold Anderson, “Advantages of Telecommuting Jobs,” *Chron.com*, accessed May 30, 2012, <http://smallbusiness.chron.com/advan...-jobs-765.html>.

Virtual employees offer terrific advantages to the small business owner who is always looking to cut costs and attract high-quality employees. However, it is not something that works for everyone and every kind of business. For example, a restaurant cannot have a virtual waiter...at least not yet. A small business that wants to use virtual employees must create the appropriate infrastructure—that is, technology, security, policies, behavioral protocols, performance management, and so forth—to provide the best support for telecommuting workers in how, where, and when they do their jobs. Stegmeier Consulting Group, “The Business Case for Web Commuting: How to Reduce Workplace Costs and Increase Workforce Performance,” *Computer World*, accessed February 3, 2012, [www.computerworld.com/pdfs/Citrix\\_Business\\_Case\\_Web\\_Commuting.pdf](http://www.computerworld.com/pdfs/Citrix_Business_Case_Web_Commuting.pdf). For support with telecommuting challenges, small business owners can tap into [The Alternative Board](#), an organization with three thousand small- and mid-sized-business owners. “Flexible Telecommuting Has Many Benefits for Your Small Business,” *AllBusiness.com*, March 9, 2011, accessed February 3, 2012, [www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/11493648-1.html](http://www.allbusiness.com/labor-employment/working-hours-patterns-telecommuting/11493648-1.html).

### Video Link 12.5.3: NOT TO BE FOUND> FIND OTHER VIDEO

Making Telecommuting Work

Looking at telecommuting from the employee and the employer perspectives.

[www.cbsnews.com/video/watch/?id=10162239n?tag=bnetdomain](http://www.cbsnews.com/video/watch/?id=10162239n?tag=bnetdomain)

### KEY TAKEAWAYS

- Deciding to hire someone will always be a big step because there will be an immediate need to worry about payroll, benefits, unemployment, and numerous other issues.

- The hiring process includes identifying job requirements, choosing sources of candidates, reviewing applications and résumés, interviewing candidates, conducting employment tests (if desired), checking references, conducting follow-up interviews if needed, selecting a candidate, and making an offer.
- It is very important to know employment law before proceeding with the hiring process. For example, several potential questions are illegal to ask.
- Whether it is required or not, small businesses should be willing to make accommodations for employees with disabilities.
- Retention is an important concern for all small businesses.
- When an employee is to be terminated, it is best to do it promptly.
- Outsourcing is about using outside firms, some of which may be offshore, to handle work that is normally performed within a company. Outsourcing can be either good or bad; it depends on the situation.
- Office productivity is about working smarter and better. Social networking, the iPad, smartphones, online collaboration tools, and virtual employees can all help increase productivity.

## EXERCISES

1. As the owner of a one-hundred-employee business, you just learned that some of your employees were “dumpster diving” in the trash outside a competitor’s offices. In other words, they were looking for information that could provide your company with a competitive advantage. With investigation, you found out that the head of the espionage operation was a personal friend. You have decided to fire your friend immediately, along with his dumpster divers. How should you proceed with the termination of your friend and his operatives so that you will not be held liable in a lawsuit? Would you reconsider the firing of the operatives? Why or why not?
2. Robert is trying to convince his father, Frank of Frank’s BarBeQue, to integrate more technology into his restaurant operations because it will increase productivity. Assuming the role of Robert, select technologies that you think would be a good fit for Frank’s restaurant. Prepare your recommendations for Frank.

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