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EC90-432 Guide to Employee Relations

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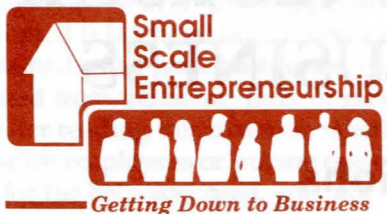
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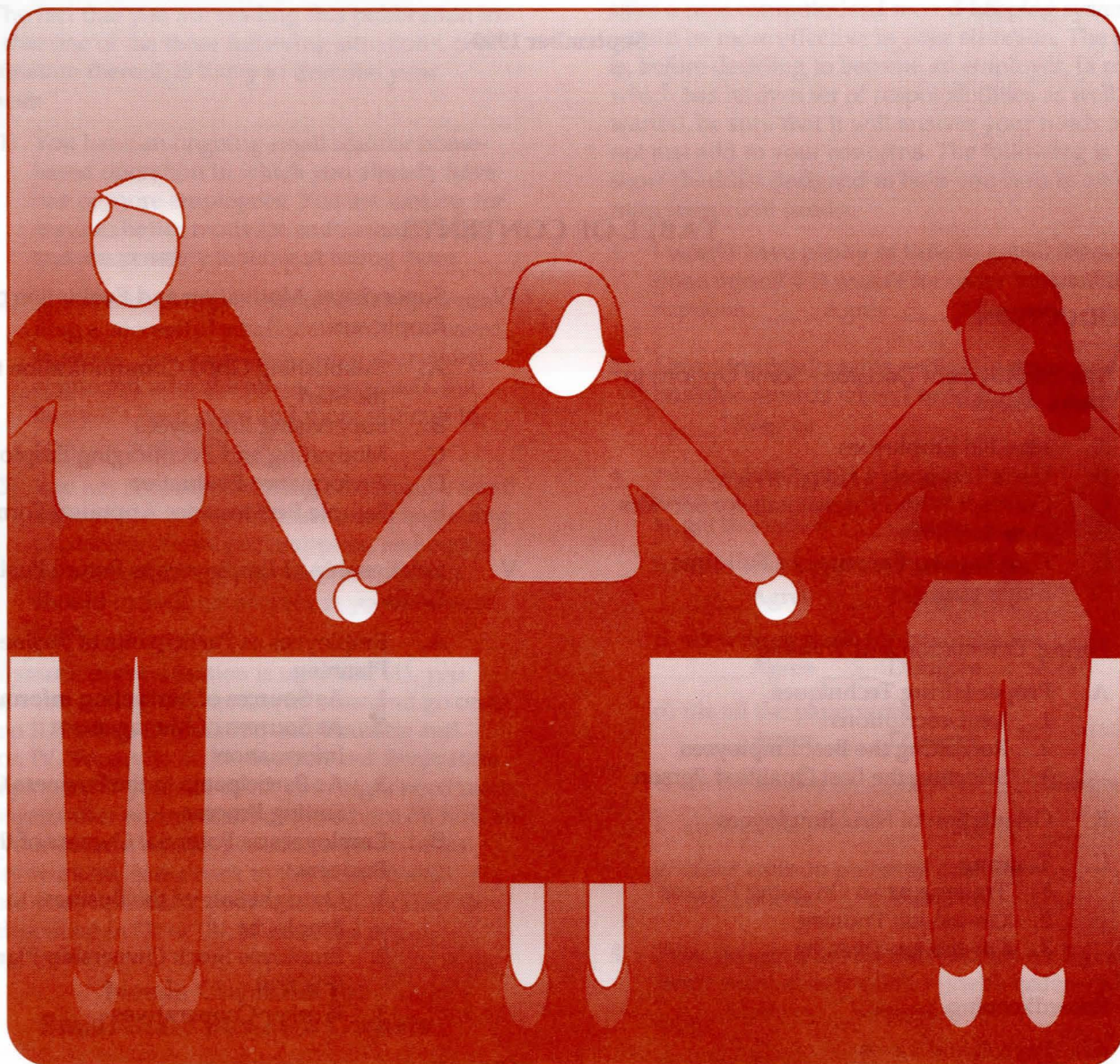
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Nebraska Cooperative Extension
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Guide To Employee Relations



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This publication will explore the benefits and pitfalls involved in employing people to help in your business. It is intended both for new and more established small-scale businesses, especially those operated from the home, farm or ranch.

After reading this material, whether you decide to take on employees or pursue one of the alternatives for the help you need, you will hopefully have a greater understanding and appreciation for what the employer/employee relationship is all about and what it can do for you.

The Employment Decision

The fact that you are reading this publication implies that one of the three following situations, or a combination thereof, is likely to describe your business:

- (1) You have an ongoing small scale or home-based operation in which you already have one or more employees. You are looking for ways to better motivate and manage them and are possibly looking at hiring more.
- (2) You are an entrepreneur who has been running a successful small scale or home-based business. You have been doing everything connected with the business yourself, but lately it's been more and more difficult to keep up with all the work.
- (3) You are seriously thinking of starting a small scale or home-based business and beginning to plan for the money, supplies, and equipment needed. You are wondering if you should include employees in your business plan.

If your current situation is most like (1), you might want to skip this section for now and go on to Section II, Hiring, Orientation and Training and Section IV, Supervision, Motivation and Evaluation of Employees. If you still think you might need more employees after noting some of the advice on how to help your current employees become even better quality workers, come back to this section and explore your options. If your situation is closer to that described in (2) or (3), please read on.

Needs Checklist for Small Scale Business Owners

For small scale business owners who are just getting started in business, or who are currently running all aspects of a business themselves without hired help, it is useful to first ask yourself this question. "Why do I think I need to hire someone to help in my business?" Has the business truly grown

larger than one person can handle? Try to step back and take an objective look at your operation. Maybe interruptions or cramped quarters are interfering with your ability to organize and get the job done efficiently.

If organization is the chief concern, there are more cost and time-effective options you might consider, such as re-organizing or even re-locating your workspace. Home-based manufacturing businesses often quickly outgrow the space available in the home, for example. At that point, it becomes hard to manage the paperwork, supplies, and the production process smoothly.

Maybe some time management techniques or even a new computerized record-keeping system would be more effective in your situation. The point is, before deciding to become an employer, (a role which has its own set of responsibilities as well as rewards), be sure that it will answer your needs and not just add to your concerns. The following is a short checklist designed to help you zero in on your most important needs:

1. I would have plenty of time to get all the work done myself if it wasn't for these constant interruptions. ☐ Agree ☐ Disagree
2. I have trouble locating orders, invoices and other business records when I need them. ☐ Agree ☐ Disagree
3. I never seem to have time to
 - a. get to market. ☐ Agree ☐ Disagree
 - b. meet with suppliers/salespeople. ☐ Agree ☐ Disagree
 - c. set written goals for my business. ☐ Agree ☐ Disagree
 - d. file all the paperwork. ☐ Agree ☐ Disagree
 - e. do the books. ☐ Agree ☐ Disagree
 - f. answer the phone. ☐ Agree ☐ Disagree
 - g. make calls on potential customers. ☐ Agree ☐ Disagree
4. Even though I have a slack season each year, I never seem able to catch up with orders/jobs. ☐ Agree ☐ Disagree

Now, look at your answers. Notice the ones with which you agreed. Count up the number of "agree" answers. If the number is seven or greater, you might want to consider implementing some additional time management ideas before taking any other steps.

There are a number of good resources on organizing special problem areas, such as paperwork, that

might give you just the edge you need on the workload. See the References section of this publication for ideas.

A. Hire No Employees

If, when running through the needs checklist, you discovered that other courses of action, such as instituting better time management techniques or improving your recordkeeping system will take care of your immediate needs without hiring employees; great! Congratulations. Resources on those subjects are included in the References section of this publication. Also, consult your local public or college libraries for others.

That doesn't mean that this booklet is of no further use to you, however. It's the nature of businesses to grow and change. Successful businesses plan for change. Those that do not adapt to change have difficulty staying in business.

A useful suggestion for the future, then, is to plan what you will do when your business grows to the point that it seems like you need another pair of hands and 48 hours in the day to get everything done. Below are a few questions to help you.

1. Do I ever want to be an employer?

If the answer to this question is "No" go on to question 2, if "Yes" skip question 2 and go on to section B)

2. Since I don't want to be an employer, when the business grows to the point that I can no longer handle it alone, I'll
 - a. sell it.
 - b. dissolve it.
 - c. change the product (service) to a more exclusive, higher priced one with a smaller market.
 - d. _____
 - e. _____

The point of the above exercise is to plan for the employment decision like you would any other major change in your business. Whether you become an employer or not, let it be a conscious choice that's right for your personal goals and your business.

B. Use a Temporary Help Service

If you've determined that your business life is well organized and things only seem to get hectic during some peak season of the year, (example: late winter through spring for a lawn and landscaping service), you might do well to use employees only during the especially busy times. The least time-consuming way to do this is to go through a temporary help service.

Such services may seem to cost you more per hour than you would have to pay on the open market. However, they have several advantages. One of the most important benefits is; the service takes care of all personnel details, such as payroll, record-keeping, tax deductions, workers compensation. They are the actual employer, not you.

Another important advantage to using a temporary help service is, even when the labor market is tight, the service will usually have employees available when you need them. These services also take care of recruiting, screening, hiring and training, which can be costly.

Temporary help services are also becoming more available, even in smaller communities. Check the yellow pages in surrounding communities under listings like "Employment Contractors - Temporary Help". If there are no such services in your area as of yet, they might represent a good business opportunity for some other entrepreneur! The local job service might also be able to find temporary help.

Points to Remember When Working With Temporary Help Services

1. Ask for references and check them out, the same as you would do with any professional. Annual reports or certified financial statements are also good ways to check out a company.
2. What types of recruiting, testing, training, evaluation and employee retention programs does the temporary help service use? Do they make it a point to keep up on your needs and the latest technology and train employees accordingly?
3. Be sure that you understand the terms of any agreement that you sign with the service. You might want to have an attorney look at the agreement the first time that you deal with them.
4. Make sure that your responsibilities to the service and to the temporary employee are spelled out to your satisfaction and made clear to everyone concerned.
5. If a temporary that you receive from the service is unsatisfactory, take action immediately. Demand the service that you are paying for from the agency. They should guarantee your satisfaction with the employee. Is there a refund policy?
6. Does the agency insure its workers? What type of coverage do they carry? Ask about fidelity bonds, workers compensation and liability-coverage.

C. Contract With Professionals

Sometimes you may need extra employees who require specialized skills, such as, bookkeeping, data entry, bulk mailing, advertising, copywriting, etc. For these skilled people, you may want to contract with professional business services. This will allow you to use their services only when you need them.

Please note: You should be cautious in contracting with individuals who are not already running their own business. The Nebraska Employment Security Law [Neb. Rev. Stat. 48-604(5)] states that an employer who contends that an individual is an independent contractor must be able to demonstrate all of the following:

- (1) The individual in question is not under the employer's control or direction when providing the service.
- (2) The service is outside of the usual course of, or place of, the business.
- (3) The individual is customarily engaged in an independently established trade, occupation, profession or business.*

(*Source: NEBRASKA LABOR LAWS c.1987, see References section)

Calling an employee an independent contractor merely to avoid paying employment benefits is prohibited by law.

As with temporary help services, the availability of professional business services in smaller communities or rural areas can be limited. You might need to contact professionals from other communities in the area to find one who will fill the bill for your business. Getting recommendations from other business people is an extremely good idea, too. Below are some tips for good working relationships with professionals.

1. Make sure that the professional understands that you are not just contracting for the specific task to be done, but also for them to provide you with the management information that you need to run the business successfully. This understanding is particularly important with bookkeeping services, CPA's, and tax attorneys. The most elaborate financial statements in the world are no good to you if you can't read them and use them to make management decisions. If your professional can't communicate on your terms, get one who can.
2. Again, be sure that all contracts and agreements are clear to you.
3. Make sure you set aside time to go over reports, financial statements, advertising, etc. with the professional on a regular basis. Communication is a two way street and it takes some time from you to make it work.

D. Hire Relatives

Lets say you've considered all of the above alternatives to actually hiring employees and, for whatever reason, they won't fill your needs. You really need someone to take over the phone on a regular basis or to help you refinish enough furniture quickly enough to avoid losing customers. Before running an ad in the newspaper, you might want to consider whether your daughter, son, spouse, parent or other family member would be a good choice for the job.

There are distinct tax savings associated with employing members of your immediate family (generally defined as spouse, parents and children by the IRS). The following is a listing of some of the advantages and disadvantages of hiring relatives as employees. You may want to sit down and make a separate list of those that apply in your situation.

ADVANTAGES

1. There can be substantial tax savings in employing immediate family members. If you employ your spouse, you need to withhold state taxes, federal taxes, and Social Security, but you do not need to pay Federal Unemployment Tax (FUTA). If you employ parents, you also are not liable for FUTA. You may hire your children, and pay no Social Security until they reach the age of 18. You do not need to pay FUTA on your children until age 21. (These regulations are subject to change. For detailed information in this area consult the latest edition of the IRS Circular E - "Employer's Tax Guide").
2. You do not incur advertising and other hiring expenses.
3. Family members are more likely to have personal goals that are compatible with yours. If that's the case, those goals should contribute toward bettering the business.
4. Employing your spouse or children offers other, less tangible benefits. If you are doing the kind of contingency planning that most successful family-owned businesses do, you may already have a plan for who will take over the business in the event of your serious illness or death. If not, it's worth careful consideration. If you do not plan ahead, family members might have to choose between running the business themselves, selling it, or trying to find a manager - all at a time of great stress. It's better to give them the opportunity to find out if they like being in the business without such pressure. Then, if such an unlikely event should occur, they will be in a better position to make decisions.

Many professional business consultants recommend that every owner of a small business have a written succession plan. The plan should include a will outlining whether the business will be dissolved or continued; a buy-sell agreement or carefully drawn outline for disposal or continuation of the business; and funding arrangements, such as life insurance, to carry out the management succession plan. It is advisable to consult an attorney for assistance in drawing up such a plan.

DISADVANTAGES

1. Because of the tax advantages available when hiring immediate family members, the IRS looks very closely at those relationships. Therefore, you will have to be especially careful to keep accurate employment records.
2. Disagreements and lack of communication between family members can be doubly serious if they are between persons also involved in your business. It's especially important in family businesses to have a simple organizational chart that spells out accountability and the "chain of command". Maintaining good communications and respecting the viewpoints of others are also crucial to the success of any family-run enterprise.
3. Setting specific business and personal/family goals is an extremely important activity for businesses involving family members. It's best if these are written down, and revised on a regular basis to keep everyone pulling in the same direction.

If you decide that your best course of action is to hire one or more family members, remember that, except for the special tax treatments for hiring immediate family members, these employees are treated the same as other regular employees. Consequently, be sure to read the other sections of this booklet as well.

E. Hire Regular or Temporary Part-time or Full-time Employees

If, after having read through this section, you feel that you are ready to hire employees on a regular or temporary full or part-time basis, read the sections that follow carefully. They contain some recommendations that may seem time-consuming at first, but are meant to save you time, money and possible legal hassles in the long run. In addition to this booklet, there is a list of references and sources of further information in the appendix that can be extremely useful. After deciding to hire employees, one of your first actions should be to obtain a federal employer

identification number (EIN) if you have not already gotten one for your business. This number must be on all of your correspondence with the Internal Revenue Service and most other government agencies. To apply for a number, contact the Internal Revenue Center nearest you and ask for Form SS-4.

HIRING, ORIENTATION, AND TRAINING

Hiring and training of the "right" employees makes the management job much easier. If you are a large organization, the loss of a key employee can be very troublesome and inconvenient. However, if you are a small business, the loss of a key employee can cause serious problems in the operation of the company. Key individuals in a small company often carry a large load of work and are essential to everyday operation of the business.

Expansion of a small business also requires good planning in the human resources area. Proper hiring, orientation and training of new or replacement employees is essential both in keeping old employees and in effectively using new ones. A good human resources (employees) plan includes several major areas which should be considered. These areas include, job descriptions, recruiting, selection, and employee orientation and training.

Job Descriptions

Job descriptions should be written for every employee of the business, including the owner-operators. Written job descriptions should be made available for both current employees and prospective ones. It is usually good practice to have present employees help to either write or rewrite the job description that applies to their position. This description should ideally be reviewed at least once a year to make sure it is current and fits the actual responsibilities of the position. It may be appropriate to include this as a part of the annual review process for the employee.

The description of the job can be very useful in several ways. First, it lists the duties and responsibilities that are associated with the position. Sometimes it also describes where the job is to be performed, the working conditions, and how the job is conducted. The job description also outlines the qualifications, skills, education, experience and type of person desired for the position. In addition to the list of the duties to be performed and accomplishments expected, most job descriptions include a sentence stating that other responsibilities and duties as assigned by the supervisor are also a part of the position. A sample job description is included at the end of this publication.

Recruiting Employees

There are four major sources to which an employer can go when replacing an employee or adding one due to expansion: within the organization (also within the family in family businesses), competitors, schools or training institutions, and the general employment market.

From Within - A good current employee who knows the business and its operations can be the best candidate for advancement. If new training is needed, it will likely be somewhat minimal and specific only for the new requirements.

It is important that the employee be qualified and competent to assume the new duties. Do not promote just for the sake of helping a current employee or family member. Remember, it is your business and you need to have good employees who will generate bottom line profits for the business.

If current employees do not fit the needs for the job, then look elsewhere. There are both advantages and disadvantages to hiring from within and it would be wise to develop some sort of policy on this and make sure all employees are aware of it.

From Competitors - If you are able to hire employees who have been successful in a competitor's business, you may have some assurance that they are well trained and familiar with work requirements. They can also provide you with knowledge of the competitor and how the business operates. These factors can often mean quick returns and benefits for your company.

You should be aware that the hiring of employees from competitors can also have some repercussions. Remember that the competitors can also "raid" your business of employees and receive the same benefits. The cost of hiring employees from your competitors can also be more expensive and can cause your labor cost to significantly increase and reduce profits.

Employment Agencies - Both state and private employment agencies have possibilities for you to find a suitable employee. The state agencies can be quite helpful, especially in finding employees for entry level positions. The state agencies are generally able to provide lists of prospective employees and charge no fee. Private agencies can often provide a better choice of more skilled employees or those who require specific training but they charge varying fees for their services. Generally the private agencies do the initial screening for you and only send people who fit your job description and requirements.

Educational Institutions - Many employers overlook the possibilities for new employees from schools in the area. This might include high schools, trade schools, colleges, universities, community colleges, and technical training institutions. As a business owner-operator, you may even find it useful to volunteer as an instructor or speaker so you can meet

prospective employees in the training process. By investing some of your time in local education, you will also help in a flow of well qualified employees into your business.

"Outside" - the General Employment Market - There are several outside sources available as sources of new employees. First, the recommendations of current employees might be useful in your finding good employees. Employees usually do not recommend people who will not be good workers because they will feel somewhat responsible.

Former employees might be encouraged to return if they were good workers when they left your employ. It is also possible that some former employees who did not want to work full time may consider job sharing as a way to work part time. With two or more people sharing a job, you will have the full time work equivalent and the workers will be able to work part time.

Some people will be asking for work during the regular course of your business, and it would be wise to keep a list and information on each of them for future reference. This will give you a pool of applicants to choose from when an opening occurs. This list should also include former applicants who were not successful for previous jobs. It may be that they will be acceptable for the current opening. This group of prospective employees may allow you to immediately screen for the position without having to advertise or announce the opening to the rest of the community.

If you are required to advertise, don't overlook newsletters, local newspapers and community bulletin boards as sources of applicants. If you need part-time help, you also might advertise in senior citizen's centers.

Selecting The Best Employee

If your recruiting efforts are successful, you should have a number of qualified people applying for an open position. To select the very best person for your firm, it is important to follow some simple procedures in the selection process.

First, an application form should be used. The application form will give you an opportunity to see job related information for each of the candidates for the job. The application should include education information, experience, skills, work history, special training, and references. This information will allow you to do some initial screening of applicants.

Second, you may want test applicants. The tests may be specific to a particular skill such as typing or dictation or be general in regard to people skills or aptitude. There are various tests that may be used and specific counseling by experts may be the best way to decide if you should use this as a sorting method.

The third procedure is the personal interview. This is the most important step for you to follow in selecting the person who fits best in your company. You can use the information collected in the application and any testing you did to help you prepare for the interview.

A specific time should be set up for the interview and questions prepared for the candidate to answer. The candidate should be made to feel comfortable and welcome with simple questions about background or interests. The job description might be a useful tool to use to help guide the interview. Adapt the interview to your particular style and ask questions which are relevant to the job and will help you to make a good decision to hiring a new employee.

Orientation

It is important to bring new employees into the work environment as quickly as possible. Too many small business owners do not give any orientation to new employees, they simply put them to work. A successful manager can not assume that new employees already know everything about the company or the job. A small investment of time in orientation will help the new employee to quickly become effective in the job.

The new employee should be made aware of business hours, rules, regulations, dress and other company policies. This might be done with a company manual which explains all of this to the employee. Make sure the employee knows how important they are to the business and how they fit in to the entire company. This is a good time to explain their role in the overall company and what they will contribute. This is also a good time to make sure the employee knows the chain of command and to whom they report for instructions. Also make sure the employee has a copy of the job description.

The new employee should be introduced to everyone and made to feel welcome to the business. New employees are usually very enthusiastic and willing to learn. They usually will have more questions after the first day or two of work. It is important that you or someone in authority be available to answer the questions that will arise during the early days of employment.

Training

The process of training goes beyond the initial training given during the first few weeks. Training is an ongoing process that should be viewed as an investment in future profits. The rapid changes that we are facing in both business and technologies requires that we all provide updating and education in the new things that are happening. The training process takes place in two major ways, on-the-job training, and off-the-job training.

Most job training in small companies takes place on-the-job. Employees can be trained as they are producing and will take pride in being able to improve their output or efficiency. One of the advantages of training within your own business is that you can use your own employees as trainers and still keep the business operating normally. It is also very easy to bring outside trainers into your business and have them do training while normal operating of the business continues.

Off-the-job training may involve seminars, schools, and work away from the job. Trade schools, community colleges, and various institutes offer all sorts of training for small businesses. Small Business Development Centers and University Extension Centers are also sources of training available for small businesses. Some programs can be custom fit to your company or you may choose to have training in a more general fashion with other similar businesses.

Training and development of your employees is an investment in the future of your business. Continuing education for your employees will return far more than you have invested and should improve your profit.

RECORDKEEPING

In Nebraska, employers are liable for the following employment taxes and insurance costs for all employees, (with certain exceptions for members of your immediate family, discussed previously): withholding of state and federal income taxes, payment of both the employer's portion and the withheld employee's portion of FICA (Social Security), payment of FUTA (federal unemployment insurance), payment of Nebraska unemployment insurance, and payment of Worker's Compensation insurance.

The main reasons that accurate employment records should be kept are: to facilitate accurate and timely payment and reporting of employment taxes; to show that you, as an employer, are complying with all applicable federal and state employment laws; to keep track of costs; and to be able to give employees accurate reports of their wages, benefits and job performance.

Listed below are suggestions for specific types of records which will make the above tasks easier.

A. Payroll and Taxes

Reports of individual payroll payments and amounts withheld must be made to state and federal governments on a quarterly and yearly basis. At year end, each employee receives a W-2 form showing total withholding payments made for the employee during the calendar year. The easiest way to accomplish these tasks are to keep a payroll file for each employee with the following information.

1. An employment card showing at least the following:
 - a. Name, home address, telephone number
 - b. Social Security number
 - c. Sex
 - d. Name of next of kin and address
 - e. Marital status and number of exemptions claimed
 - f. Citizenship status
2. A W-4 form
3. A copy of the Immigration and Naturalization Service I-9 form for the employee. You fill out this form at hiring, certifying that you have seen proof that the employee is a U.S. citizen or a resident alien authorized to work in the United States. (If the employee is a resident alien, also see the special information under C. Other Records.)
4. An individual payroll or earnings record listing the following:
 - a. Rate of pay
 - b. Social Security number
 - c. Regular and overtime hours worked each pay period
 - d. Hours of sick leave, vacation leave, etc.
 - e. Gross pay each pay period
 - f. Each deduction, listed separately
 - g. Quarterly totals of each of the above amounts

This record will provide you with information for quarterly and year-end reports to state and federal governments. Forms for such records can be purchased at most office supply stores.

If you have more than one employee, an additional summary payroll sheet or payroll register should be made each payday, which shows names, social security numbers, rate of pay, hours worked, overtime hours, total pay and amount of deductions for FICA (Social Security), and deductions for insurance, pension, and/or savings plans.

B. Benefits

In addition to paying wages, taxes and required employment insurance, you may choose to offer certain fringe benefits to your employees. While these are not required, they sometimes give you a critical edge in recruiting and retaining the best quality employees. The following list outlines the most commonly offered employee benefits:

1. Paid Vacations, Sick Leave, and Holidays

Often paid only to full time employees, these benefits usually accrue after employees have

spent some time with the business. As length of employee service increases, the number of days of vacation and sick leave each year commonly increase as well.

2. Optional Insurance Programs

These include general health insurance, life insurance, long term disability insurance, dental plans, and others. Since availability and costs vary greatly by location and type of business, contact your insurance agent for information.

3. Promotions, Raises, Commissions and Bonuses

All different ways that employees can increase their compensation through outstanding performance, these methods of reward are worth considering even in the smallest business operation. When offering such rewards, it's important to make them appropriate for the effort needed, reasonably attainable, and, of course, affordable. (See Section IV)

4. Profit Sharing and Pension Plans

Through various types of stock ownership or profit sharing plans, key employees can, over time, become co-owners of the business. This is especially desirable for business owners who may plan eventually to sell out to employees (See Section V, Part B).

Because of administrative costs, true pension plans are increasingly limited to large employers. However, insurance-funded plans, or employer-financed IRA's may be suitable for smaller companies. More information is available on both profit sharing and pension plans in IRS Publication 1048, "Filing Requirements for Employee Benefit Plans".

C. Other Records

In addition to the obvious personnel records, such as job descriptions and copies of performance evaluations that are all discussed elsewhere in this publication, there are a few special pieces of information that you may need to keep in personnel files for certain classes of employees. The following are examples:

1. For employees under sixteen years of age, you must keep a copy of an employment certificate, which you obtain from the Nebraska Department of Labor and which must be approved by the child's school district superintendent. This certificate states that they are allowed to be employed (subject to certain restrictions) despite the fact that they are under sixteen. For more information on child

labor laws, contact the Nebraska Department of Labor.

2. For resident alien employees, it's advisable to keep a copy of their Immigration and Naturalization Service Form I-551 Alien Registration Receipt Card (Resident Alien Card; the so-called "green card").

Supervision, Motivation and Evaluation of Employees

Establishing a good line of communication with employees will help assure effective working relationships right from the start. Remember that communication is a two way process and that employees also should feel free to express themselves. Perhaps the best way to describe the communication needed is to discuss the various management styles used to supervise employees.

The first style of supervising employees might be described as Theory X management. This particular method assumes that employees do not like to work and must be threatened into producing results. Theory X managers feel that employees have little ambition, avoid work whenever possible, and especially avoid responsibility. This style of management is generally from the top down and consists of employees simply following orders. There is not much two-way communication. Most of us would consider that Theory X mismanages employees. Overwork, verbal assaults, under recognition and under-training do not make for good communication and satisfied employees.

A second management style is called Theory Y. This type of manager believes that employees crave responsibility. Theory Y managers also feel that employees dislike threats and want to satisfy their need for self esteem enhancement. This style feels that work is natural for employees and assumes that employees want to know what is expected of them. Theory Y also assumes employees like to be told when they are doing a good job. The management style used here is a two way process that might be termed top down and bottom up. The advice of employees is actively encouraged and used in decision making.

The third management style is called Theory Z. This theory of management assumes that employees are self-motivated. This type of manager believes that employees are capable of thinking and setting goals consistent with company goals. Theory Z managers develop a "family" temperament among all of the employees. Team building and development of work that benefits the overall business is a high priority.

Theory Z was developed from the Japanese style of management that has been extremely successful. It tends to rely somewhat on sacrifices of employees for

a period of time to assure company success. When success has been achieved, the company is expected to see that employees are appropriately rewarded.

Employees need to know what is expected of them. Managers should develop skills in effective and appropriate delegation of work. Past research has shown that employees will take responsibility and respond well to delegation of certain tasks. Theory Y and Z seem to work very effectively in involving employees in the decision making process. Employees are important to every small business and effective supervision makes them even more of an asset.

Motivating and Encouraging

There are several ways to motivate and encourage employees. Some or all of the following methods might be used by a small business owner.

Salaries and Compensation - The compensation paid to employees consists of salaries or wages and fringe benefits. Many business owners do not explain to employees the fringe benefits of their job. A good way to motivate employees is to explain the benefits they are receiving that do not have to come out of their wages. Telling employees about their benefits helps them to understand and feel good about their position.

Bonuses and Incentives - It is often a good practice to tie employee earnings into performance. If this is possible, use of bonuses or incentives may help both encourage employees and improve profits. If the bonus payments are tied directly into the profit output of an employee, the bonuses will not cost money, but make you money.

A bonus or incentive payment should not be a regular occurrence unless it is tied into performance and profitability. Otherwise the employees will begin to expect the bonus no matter what their performance. You must keep an accurate record of contributions that employees make to equitably distribute any bonuses. **Caution!** If bonuses seem to be unfair, it can be a detriment to motivating and encouragement of workers.

Working Conditions - Employees can be motivated and encouraged to do better work simply by improving their working conditions. The surroundings and facilities themselves should first be examined. Perhaps the employees should also have some input into how things should be changed or maintained. Break rooms and change rooms should be clean and acceptable to employees. The use of music, if appropriate, often improves the attitude of employees. Many other factors can also be considered and it is very important to involve the employees in the evaluation process. Flex time in workhours can be a large factor in allowing workers to participate in family affairs, especially for working mothers.

Praise and Recognition - The use of praise and recognition is the least expensive and most effective method of encouraging and motivating employees. Many studies have shown that the effective use of praise or recognition motivates better than dollars. People like to be recognized for their achievements, both small ones and big ones. This is something that can be given every day of the year and even several times a day.

Certain personality types need more praise than others, but everyone likes to be recognized for the good things they do. Even those people who do not seem to get really excited about being praised actually do like it inside. Almost everyone finds honest praise motivating. Some of us have to work harder than others to give praise but it is something to work on and once we start doing it, it gets easier. The improved response from praising employees is worth the effort in itself. An increase in profits could also be a result.

Performance Evaluation

Each employee will probably be evaluated somewhat differently, even in small companies or stores. It is unlikely that every individual will be doing exactly the same thing in the same way. You may want to examine such things as productivity, influence on customers, attitudes, efficiency, reliability, honesty, personal appearance, and enthusiasm. Whatever the criteria, make sure that it is related to the job tasks and doesn't become based on whether or not you personally like the individual performing those tasks.

It is absolutely necessary to evaluate employees regularly. Formally evaluate a new employee after three or six months of performance. Performance evaluation should be an ongoing process that culminates in at least an annual review after the probation or beginning period. The evaluation can be used for salary review purposes, promotion, training decisions, and the employee's own career development. It can effectively be used as a motivating process if timely and properly done.

A good way to proceed with a performance review is to follow the job description and use it as a guide for discussion. This is an excellent time to go over each part of the job description and make any changes that are appropriate. A form for doing a job performance review is included at the end of this publication. Mutual goal setting can also be accomplished at this time. Any areas that need improvement can also be discussed and plans for improvement, including completion dates, can be agreed upon.

The most important part of your business success is the people who work for you. It is very important that you keep good people, help them improve and reward them appropriately. The best way to accom-

plish this is by developing an effective and regular performance review program. This is also a good opportunity for two way communication and a chance to get feedback from employees.

Relationship of Employees to Future Business Goals

In exchange for all the additional responsibility that they add to your life as owner/manager of a small scale business, employees bring with them certain pluses. There are the obvious ones of course, an extra pair of hands and perhaps different skills than those you possess. Some of the most important benefits, however, are not so obvious. Employees can actually help you manage the business more competitively. Their input, if handled properly, can be one of your greatest business assets.

A. Employees as Participants in Business Planning

1. As Sources of Marketing Information

One of your most immediate and important sources of information on what customers want and need are frontline salesclerks and service personnel. Whether you are running a mail order business, a product manufacturing business, or a small service enterprise, the people who answer the phone or open the mail are going to get all the inquiries from customers.

Make sure you have a systematic, but simple way that they can keep track of these inquiries and get them to you. When deciding what new products or services to develop, or evaluating present products and service, this information is invaluable. A few suggestions for keeping track of marketing information are outlined below:

- a) Have employees plot customer addresses on a map, using checks or mailing addresses.
- b) Have a simple phone contact form, or a customer survey that employees fill out from talking to the customer, or that they encourage the customer to complete. Keep it very short and easy to use.
- c) Have simple tally sheets for product and service requests and complaints.

2. As Sources of Management Information

On, no! Not the old employee suggestion box routine again! Actually, it's still a good idea, but maybe needs a little refinement. Give employees a specific idea of what you're looking for. Maybe you want energy (read "money")

saving ideas or ways to make production of a certain product or provision of a routine service a little faster. Also, ask employees what motivates them to do a better job. You may be surprised to find out that it isn't just more money. Some sort of recognition would also encourage employees to contribute ideas.

3. As Participants in the Business Goal Setting Process

There has been a lot of publicity in recent years on the use of "quality circles" and other ways of including employees in decision making in large industries. Quite a few companies spend large amounts of money on getting input from employees that they can use to help plan their future. Why? Because often employees, if encouraged to share their knowledge in appropriate ways, can pinpoint what's going well and what needs improvement in your business faster and more accurately than you can.

Employees are on the front lines; dealing directly with customers and receiving inquiries and complaints. In a small scale business, you may not be able to offer your employees the highest salaries, but you can give them a sense of control and ownership in the business by involving them appropriately in planning and decision making. In return you can easily obtain valuable input about your products and services, the competition, and what customers want. Large corporations have to pay big money and design elaborate feedback schemes to get this kind of information.

Help your employees set their own objectives for standards of customer service, or level of quality control. Then show them how their goals fit into your overall goals for the business. For resources on the goal setting process, consult the References section.

B. Employees as Potential Owners of the Business

In the section on hiring relatives, a suggestion was made that every family-owned business have a plan for "business succession" which spells out which family members, if any, will continue to operate the business in the event of the owner's death or disability. If, in your business, you do not have any family members who are interested in taking over, you can still plan to keep the business "in the family" if you have one or more key employees who are interested in business ownership.

There are a number of legal ways that this can be accomplished **over time**, in addition to a conven-

tional sale. It is essential, however, to have legal help in structuring any of these alternatives. The following is a short informational discussion of three ways that employees can purchase a business. Other sources of information on these and related topics are included in the References section.

1. Outright Sale of the Business to an Employee

This is the same as any conventional sale and is the most commonly used method of transferring ownership to employees. It has one considerable drawback, however. Either the employee must have a substantial source of capital with which to buy out the owners, or owners must finance the sale themselves and wait a period of time to take their investment out of the business. During this period of time, of course, owners continue to be exposed to business risk and could lose their investment.

2. Employee Stock Ownership Plans (ESOPs)

In simple terms, an ESOP is a type of employee benefit plan in which the employer contributes either shares of company stock or cash to a special fund on behalf of employees. If the contribution is cash, it can be used to buy out the owner's shares.

There are distinct tax advantages to this type of sale and it has often been used by small business owners to sell to employees. The drawbacks to this method are that it is complicated and expensive to establish, it must be accomplished over a long period of time, and it is a definite commitment once it has been set in place.

As a general rule, an ESOP should only be considered if owners of the business anticipate substantial growth and are sure that, at some point, they will want to sell. For more information on this topic, consult an attorney. Other information sources are included in the references section.

3. Worker Cooperatives

In actuality, a cooperative is just a different form of business corporation. There are many different forms of worker cooperatives, some of which closely resemble the agricultural co-ops that are so familiar to Nebraskans. One of the most effective forms of worker cooperatives, however, is based on the highly successful cooperatives in Mondragon, Spain and adapted for American use by the Industrial Cooperative Association (ICA) of Somerville, MA. (Address listed in References)

In the ICA model, each worker purchases a membership share in the cooperative corporation. The money goes into an account for each individual. Each year the cooperative distributes a share of net earnings (or net losses) to each member account. Only a certain percentage of earnings are distributed to the members each year. The rest remains in their accounts and is thus available for reinvestment by the cooperative.

With appropriate legal assistance, employees could set up such a cooperative corporation to purchase the assets of most businesses. The disadvantages of this method are similar to those of an ESOP. It is complicated and costly to set up. Also, statutes covering cooperative corporations vary a great deal from state to state. Worker cooperatives are still an alternative worth considering, however, especially for larger businesses or where there is no other buyer available.

CONCLUSION

This publication is intended as an overview of major aspects of employee relations as they relate to small scale businesses. It is designed as a first guide, which brings up various employment issues and indicates sources where business owners can find more in-depth information. Also feel free to contact your local extension office for assistance.

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(Other useful titles from SBA include *Planning and Goal Setting for Small Business and Recordkeeping in a Small Business*. For information on ordering publications, write to SBA-Publications, P.O. Box 30, Denver, CO 80201-0030)

Zimmer T., Scarborough N., (1988) *Small Business Fundamentals*. Merrill Publishing Co., Columbus, OH.

Useful Addresses

Federal Department of Labor
106 South 15th St., Room 715
Omaha, NE 68102 (402) 221-4682

Industrial Cooperative Association
58 Day Street, Suite 203
Somerville, MA 02144 (617) 629-2700
(Has information on worker cooperatives, ESOPs)

Internal Revenue Service
106 South 15th St.
Omaha, NE 68102 1-800-424-1040
(Call toll free for forms and information)

National Center for Employee Ownership
2201 Broadway, Suite 807
Oakland, CA 94612 (415) 272-9461

Nebraska Department of Labor
Labor and Safety Standards Division
State Office Building
Box 95024
Lincoln, NE 68509-5024 (402) 471-2239
(Has publications on child labor and other laws)

Nebraska Workers' Compensation Court
State Capitol Building
Lincoln, NE 68509-8908 (402) 471-2568

SAMPLE JOB DESCRIPTION FORMAT

Job Title:

Employee Name:

Department:

Date:

Reports To:

Effective Date:

Qualifications Required:

Primary Function:

Major Responsibilities:

1.

2.

3.

4.

5.

6.

7.

8.

SAMPLE EMPLOYEE PERFORMANCE REVIEW

Employee Name:

Date of Review:

Title:

Review covers period since:

ACHIEVEMENT IN MAJOR AREAS OF RESPONSIBILITY

List employee's major responsibilities (from job description). Briefly document degree of achievement exhibited in each.

1.

2.

3.

4.

5.

6.

7.

8.

In discussing performance, determine if employee has a clear understanding of his/her responsibilities. If not, modify job description or prepare a memo clarifying expectation for the future.

AREAS WHERE IMPROVEMENT HAS BEEN MADE SINCE LAST REVIEW:

AREAS WHERE IMPROVEMENT CAN BE MADE:

Action Plans

1.

2.

3.

4.

I have been given a copy of this evaluation and an opportunity to discuss it with my supervisor. Signature does not necessarily indicate agreement with the evaluations.

Supervisor _____ Date _____ Employee _____ Date _____

SAMPLE EMPLOYEE PERFORMANCE REVIEW

Employee Name: _____ Date of Review: _____
 Title: _____ Review covers period since: _____

ACHIEVEMENT IN MAJOR AREAS OF RESPONSIBILITY

List employee's major responsibilities (from job description). Briefly document degree of achievement exhibited in each.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____

In discussing performance, determine if employee has a clear understanding of his/her responsibilities. If not, modify job description or prepare a memo clarifying expectations for the future.

AREAS WHERE IMPROVEMENT HAS BEEN MADE SINCE LAST REVIEW:

AREAS WHERE IMPROVEMENT CAN BE MADE:

Action Plan

1. _____
2. _____
3. _____
4. _____

I have been given a copy of this evaluation and an opportunity to discuss it with my supervisor. Signature does not necessarily indicate agreement with the evaluations.

Supervisor: _____ Date: _____
 Employee: _____ Date: _____