Guide 7:
Basic Human Resources
Guide 7: Basic Human Resources for the Entrepreneur

Introduction
Welcome to the Citibank Small Business information guide series. This is one of ten guides that have been developed just for you, a person who is thinking about starting a small business or who has made the commitment to start one. It is targeted to people who are considering starting a small business as well as small business owners who want to learn more about successful strategies and skills. Citibank worked with a team of entrepreneurs like you to develop, write, and produce this series. All of us know how important it is to have clear and concise information to make smart business decisions. Our goal is to share experiences about the dynamic, exciting small business community.

Overview
Establishing a small business is exciting but certainly has its challenges. Most new businesses start with no employees; the owners or partners handle everything. However, depending on the growth rate of your business, you may need to consider hiring additional employees. The addition of employees and the entire process of finding, hiring, and keeping the right employees can be one of the more challenging aspects of operating a small business. Federal and state laws govern every aspect of hiring, retaining, and firing employees. This guide will highlight those laws and regulations, but you should consult with the appropriate professional sources — your attorney, CPA, or business counselor, etc. — for the most current details and guidelines.

Human Resources involves more than just the hiring, retaining, and firing of employees; it involves the day-to-day management of the employees who contribute to producing the goods and services that your business provides. Large companies have a designated Human Resources department, but as a small business owner, you may be the Human Resources department.
This guide will provide practical guidance by focusing on the following topics.

I. Setting the Stage for Additional Employees
   - Identifying the Need for Additional Employees
   - Identifying the Needed Skills
   - Identifying Employee Options
   - Diversity in Your Workplace

II. Recruiting and Hiring Employees
   - Where to Find Employees
   - The Job Application
   - Employment Law
   - The Hiring Process
     - Reviewing the Applications
     - Conducting the Background Check (Pre-Employment Screening)
     - The Interview
     - Interview Follow-Up
     - Receiving New Employees
     - Laying the Groundwork – The Employee Handbook
   - Keeping and Motivating Employees
     - Mandated Benefits
     - Optional Benefits

III. Ending Relationships with Employees
   - Retirement
   - Resigning
   - Layoffs/ Downsizing
   - Termination

I. SETTING THE STAGE FOR ADDITIONAL EMPLOYEES

Identifying the Need for Additional Employees
You can’t always do everything yourself. As your business grows, the employees that you identify you need and hire become more and more important to the success of your business. Adding employees can impact your business at many levels so give careful
thought to this first step. Be very sure about why you need the additional assistance. You must be able to clearly articulate your business needs to potential employees so they can determine if there is a match between your needs and their employment goals. You might ask yourself the following questions. Each of these categories will be discussed later in the guide.

<table>
<thead>
<tr>
<th>What Type of Employee Are You Looking to Hire?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Am I looking for <strong>full-time employees</strong> who maintain a regular schedule to handle the responsibilities for certain aspects of the business?</td>
</tr>
<tr>
<td>Am I looking for <strong>part-time employees</strong> to address seasonal demands or special project needs?</td>
</tr>
<tr>
<td>Am I looking to <strong>contract</strong> certain day-to-day oversight areas, such as janitorial, groundskeeping, delivery, etc.?</td>
</tr>
<tr>
<td>Am I looking to <strong>outsource</strong> specific expertise, such as marketing, distribution, fulfillment, etc.?</td>
</tr>
</tbody>
</table>

To help you clarify the reason for additional employees, complete the following activity.

**Activity: Why Additional Employees?**

Using a sheet of paper, reproduce the following chart. Brainstorm all the advantages and disadvantages of hiring additional employees. When finished, you should be able to answer the following questions.

- Do I really need to hire additional employees?
- Will hiring additional employees be cost effective by making my business more efficient and therefore, more profitable?
- But, what considerations do I need to make when hiring additional employees? (for example, paying out an additional salary, finding space in the office, buying additional equipment, etc.)

**Additional employees will be a positive asset for my business because:**
- 
- 
- 

**Additional employees will be a negative asset for my business because:**
- 
- 
-
Identifying the Needed Skills

Once you have made the decision that you do need additional employees, focus on the skills (both broad and specific) that employees should bring to the business. Be clear about the knowledge, attitudes, and skills that you are looking for - this focus will help you to match the right applicant with the job position and business needs. When identifying the needed skills for the position, consider the skill sets that will best complement the products or services that your business provides. Be sure to include the need for these and other skills in the job description and any job advertising. Which skills will your employees need to have?

<table>
<thead>
<tr>
<th>Potential Skill Sets Needed by Additional Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Communication</strong></td>
</tr>
<tr>
<td>the ability to effectively speak, write, and express themselves; the ability to explain all or certain areas of the business</td>
</tr>
<tr>
<td><strong>Problem-Solving</strong></td>
</tr>
<tr>
<td>the ability to identify and solve business-related problems</td>
</tr>
<tr>
<td><strong>Human Relations</strong></td>
</tr>
<tr>
<td>the ability to use their personal skills to resolve potential conflicts, provide support for other employees, and be sensitive to feelings and situations</td>
</tr>
<tr>
<td><strong>Planning/Organization</strong></td>
</tr>
<tr>
<td>the ability to supervise, direct, and guide themselves and other employees to reach personal and business goals and objectives; the ability to effectively plan and make efficient use of time</td>
</tr>
<tr>
<td><strong>Day-to-Day Work Skills</strong></td>
</tr>
<tr>
<td>the ability to be punctual, to manage his or her time, to cooperate with others, and to accept responsibility - all those items that create a successful work environment</td>
</tr>
</tbody>
</table>

Although you want someone who is compatible with your business philosophy, it may not be advantageous to try to hire someone with similar strengths and weaknesses as
yourself. Employees come with many different personalities, abilities, and skill sets. Your goal should be to identify your business need and match that need with the candidate with the right skills and expertise. Remember that most people find work satisfying when the work fits their own personal work style or personality. However, your business has needs as well. Make sure potential employees are aware of your needs and be thorough in your analysis of potential employees and how they will fit into the culture of your business. What work styles will work best with you and your business?

The previous activity and the one that follows are simple ways for you to capture your thoughts and provide some direction in your hiring process.

**Activity: Identifying Needed Skills**

Using a sheet of paper, reproduce the following chart. Think about the areas of the business where you are looking to add employees. Use the following activity to clarify not only the work you want accomplished with the new employee(s) but also the skills needed to accomplish that work.

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Work to be Accomplished</th>
<th>Skills Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Areas</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Identifying Employee Options**

- **Traditional Options**

  The traditional way that most businesses add employees is through hiring full-time employees. This process is discussed in the next section of the guide.
Taking the step to hire additional employees is a big one as you will now be responsible for payroll, benefits, unemployment insurance, maintaining a productive work environment, and a host of additional employee-related details.

- **Alternative Options**

While the traditional option for adding employees may be through hiring full-time employees, there are several alternatives you may want to consider for your business.

<table>
<thead>
<tr>
<th>Options</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Temporary, Part-Time</td>
<td>• Convenient</td>
<td>• The needed skills may not be instantly available.</td>
</tr>
<tr>
<td></td>
<td>• Economical - only pay for the amount of work you need and when you need the work</td>
<td>• Potential hidden compensation-related costs</td>
</tr>
<tr>
<td></td>
<td>• Solution to the needs of a special projects or seasonal demands.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Not responsible for providing employee benefits.</td>
<td></td>
</tr>
</tbody>
</table>
### Options

- Leasing, Outsourcing, Contracting

### Advantages

- Time that would have been spent on business activities, such as bookkeeping, payroll, sales, employee personnel records, warehousing and shipping, etc. can be redirected to other areas of the business.
- You are able to “buy” just what you need.
- May allow for economies of scale along with greater variety in the area of employee benefits.
- Many business needs such as janitorial, facility and equipment maintenance, etc. may be addressed more efficiently through this option than through hiring permanent employees.

### Disadvantages

- The leasing or outsourcing company may have different operational procedures that you will need to adjust to in your business.
- Even though you retain ultimate responsibility for your business, there may be a sense of day-to-day loss of complete control over your business.

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**Diversity in Your Workplace**

As mentioned in several areas of this guide, as owner, you want to identify employees who are compatible with your business philosophy and culture. Employees come from all walks of life and have many different personalities, abilities, and skill sets. The competitive strength of your business is tied directly to knowledgeable workers. Depending on the nature of your business, be willing to explore the many diverse human capital options as a way to raise the effectiveness of individuals, teams, and ultimately, the bottom line of your business.
II. RECRUITING AND HIRING EMPLOYEES

As discussed earlier, securing employees with the skills and personality that match your business needs is crucial to the success of your business.

**Where to Find Employees**

There are many ways to identify potential new employees. If you really know what you want, go out and find them - don't wait for them to come to you. Also, keep in mind that each state has a state employment service and part of their mission is to help businesses find the employees they need. There are also private employment agencies (often with associated fees). You can also post Help Wanted signs, newspaper ads, etc. Use the following activity to help you identify places to find potential employees.

<table>
<thead>
<tr>
<th>Yes or No</th>
<th>As a source for additional employees, I would consider using the following methods:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• I would contract with an employment agency.</td>
<td></td>
</tr>
<tr>
<td>• I would hire a “headhunter,” depending on the type of employee I needed.</td>
<td></td>
</tr>
<tr>
<td>• I would promote from within, if I had existing employees.</td>
<td></td>
</tr>
<tr>
<td>• I would allow existing employees who are familiar with the needed position and skills, to recommend candidates, perhaps with an attached “bonus” if the candidate is hired.</td>
<td></td>
</tr>
<tr>
<td>• I would advertise in newspapers, trade association magazines, etc.</td>
<td></td>
</tr>
</tbody>
</table>

**The Job Application**

Although it might sound easier to hire employees through an informal, verbal process, it is recommended that the application be in writing. A job application provides you with critical information on the potential employee to help you make the decision to hire or not. Keep all applications on file, as you never know when you might have additional employment needs and can save yourself time, energy, and resources by considering previous candidates.
Check out your local library for business publications on job applications and interview tips and many other employment/hiring forms. Also, do a web search using the term *job applications* to view sample forms that various companies have used with success. There are many job application examples. Review them and use the areas that are appropriate; however, make sure your application targets the needed position. A good employment application includes prior work experience, special skills, educational background, and consent to check references. Included in the application should be a Background Check Release Form giving you permission to not only check references but also to conduct a credit check.

### Tips on Managing Job Applications

- Have applicants complete the application before you talk with them.
- Ask questions that allow the applicant to talk about themselves, their work habits, their experience, and their skills.
- Be careful about asking for personal information that is not job-related.
- Remember that it is your responsibility to know and adhere to appropriate employment laws – such as the Equal Employment Opportunity Act, Age Discrimination in Employment Act, and others. See brief summaries of these laws and others in the next section.

### Employment Law

As a small business owner, you are responsible for knowing the laws that apply to your business. It is worthwhile to sit with your attorney, or other appropriate professionals, to explain your employment plan of action, and have that person review with you the current laws and guidelines that have implications for you. It is your responsibility to be aware of these laws and their meaning and to be cautious when you interview potential employees. Some of the major employee-related legal requirements that you need to be aware of in your business include the following.
Key Employment Laws

<table>
<thead>
<tr>
<th>Law</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equal Employment Opportunity Act</strong></td>
<td>Prohibits discrimination in employment practices because of race, religion, sex, or national origin.</td>
</tr>
<tr>
<td><strong>Age Discrimination in Employment Act</strong></td>
<td>Prohibits unfair hiring and treatment of employees based on age.</td>
</tr>
<tr>
<td><strong>Fair Credit Reporting Act</strong></td>
<td>Assures a consumer’s right to access his or her credit file and dispute incorrect information.</td>
</tr>
<tr>
<td><strong>Americans with Disabilities Act (ADA)</strong></td>
<td>Prohibits discrimination against individuals with physical handicaps. This includes not only the hiring practices but also the design of the facility.</td>
</tr>
</tbody>
</table>

The Hiring Process

- **Reviewing the Applications**
  Because you probably will have multiple applicants, you need to establish a review process that will be consistent with all applicants. If you have other employees on the management team, you may want to have those individuals review and provide feedback.

- **Conducting the Background Check (Pre-Employment Screening)**
  Once the interview applicants are selected, conduct a background and reference check. The applicant should sign a Background Check Release Form allowing you to check references with former employers and conduct a credit check of various consumer reports. For samples of Background Check Release forms, check your local library or bookstore for business publications providing samples of these forms that you can use in your hiring process. You might also do a web search, using the term *background check release form* for available forms. Be careful of any associated costs associated with such. Also, visit
http://www.privacyrights.org, a non-profit consumer information and advocacy organization, for a Fact Sheet on Background Checks & Workplace. Regardless of the size of your business, pre-employment screening is a necessary hiring practice to avoid lawsuits and costly hiring mistakes. You and your business can be held liable for the actions of a new employee, especially if you did not conduct a background check.

Laws vary from state to state as to what information can be used in any pre-employment screening so be sure to check with the appropriate legal authority for current regulations. Before doing any background check, it is important that your small business compiles with the Fair Credit Reporting Act and the Americans with Disabilities Act. Under the Fair Credit Reporting Act (FCRA), potential employees must sign a release form giving you authorization before you can perform a background credit check. The FCRA covers not only credit reports but all consumer-type reports. Under the Americans with Disabilities Act (ADA), employers are restricted in using medical and disability data in the hiring process.

You may want to consider outsourcing this task. Hiring professionals to complete this task can provide you with the information you need while maintaining all legal requirements. Even though you may decide to outsource this task, you need to be familiar with the process. Resources such as the Small Business Administration (SBA) can provide valuable guidance.

• The Interview

The objective of any interview is to find out as much as you can about the applicant. In order to keep the interview focused, prepare questions that you want to ask the applicant and document the answers. Ask questions that will allow applicants to talk about themselves, their work habits, their experience, and their skills. Be careful to focus all interview questions on the skills, experience, and qualifications of the candidate as it relates to the job. As you conduct your interview, be sure that you keep all applicable laws in mind and
be aware of information that you are and are not allowed to ask for. Steer clear of any personal references. A Fact Sheet gives interviewees a chance to review the job description, job expectations, hiring, and other processes and to ask any questions. When conducting multiple interviews, establish a checklist to treat all interviewees fairly and avoid any possible bias. As you collect information necessary for your decision-making process, never commit yourself until all interviews are conducted. You want to attract highly skilled and motivated people who fit in well with the mission of your company so be sure to market the job to the applicant and highlight the positives of the job as well as the considerations the applicant should make.

• **Interview Follow-Up**
  Once you identify the right employee, you should make a job offer. Be careful not to promise something you cannot deliver. Also, be sure to follow-up with those applicants not selected. Even though an applicant doesn't fit a present need, you may have future needs that might suit previous applicants.

<table>
<thead>
<tr>
<th><strong>Tips for Success in Hiring</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Don't overlook</strong> any requirements for special training or licensing. If the job requires it, be sure to include in the job description. Will the special training need to already be in place or are you willing to pay for new employee training?</td>
</tr>
<tr>
<td><strong>Don't overlook</strong> the need for “people” (soft) skills, especially if the position requires the employee to represent your company in public.</td>
</tr>
<tr>
<td><strong>Don't overlook</strong> an awareness of work styles in the job description. Potential employees will need to know what is expected of them and under what conditions they will need to deliver what is expected of them.</td>
</tr>
</tbody>
</table>

• **Receiving New Employees**
  What happens on the first day of a job can impact every day afterward.
• **Employment Paperwork**

Included in any initial employment orientation should be a discussion about the rules, policies, and operational procedures of the business, and an Employment Agreement Form indicating the employee has read and understood these rules, policies, and procedures for the business. There is also the standard employment paperwork, such as: IRS Form W4, Form I-9, and an Emergency Notification form. Check the Glossary at the back of this guide for an explanation of each of these items. There may even be the need to sign a Confidentiality Agreement, depending on the nature of your business.

As a small business owner with many tasks and responsibilities, an *Employee Handbook* may not be a priority for you to develop at this time, and it may not be in place when you start your business. However, it may be a good idea to consider creating a series of fact sheets that outline the rules, policies, and operational procedures for your business. Create each fact sheet so that it has a single focus. This format would allow you to make necessary revisions at appropriate times without having to reprint an entire handbook, when and if you do create one. For topic suggestions for the fact sheets (and the *Employee Handbook*), see the list in the next section.

• **Orientation Process**

Do everything possible to start new employees off on the right track. Once all of the official paperwork has been completed and appropriately filed, designate a period of time for proper training of the employee for his or her new role. Taking this step can eliminate much frustration, provide feedback to the new employee, and prevent misunderstandings from all involved.

**Laying the Groundwork**

When you treat your employees professionally and legally, your business is more likely to be successful. To ensure that your employees understand all operational procedures and policies, you may choose to have these guidelines in writing. An *Employee*
*Handbook* is a central spot to explain the company policies and employee benefits and rights. This document should be easy to follow and updated on an annual basis. Once established, employees should sign an acknowledgement indicating they have read and they understand the *Handbook*. This signed acknowledgement should be maintained in the employee’s personnel file. Again, an extensive *Employee Handbook* may not be a priority for you to develop at this time.

There are many samples for you to review when developing your own *Employee Handbook*. Check your local library or bookstore or the Internet for how-to publications that would help you write your *Employee Handbook*. However, be sure that the *Handbook* or guidelines that you develop reflect your business philosophy, image, culture, goals, and objectives. Consider using the following checklist of areas to determine what to include in your *Employee Handbook*.

<table>
<thead>
<tr>
<th>Employee Handbook or Fact Sheet Areas to Consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Overtime Conditions</td>
</tr>
<tr>
<td>• Hours (working and overtime)</td>
</tr>
<tr>
<td>• Use of illegal drugs or alcohol; substance abuse</td>
</tr>
<tr>
<td>• Leave (Sick, Vacation, Religious, Emergency, Jury Duty, etc.)</td>
</tr>
<tr>
<td>• Disciplinary Action</td>
</tr>
<tr>
<td>• Non-Discrimination Policy</td>
</tr>
<tr>
<td>• Compensation (hourly, wages, commission, etc. along with process for promotion, etc.)</td>
</tr>
</tbody>
</table>

**Keeping and Motivating Employees**

With an increasingly mobile workforce and demand for talented people, employees may be willing to pick up and leave for various reasons (i.e. higher salary, better benefits, etc.) How you manage your employees has a lot to do with retaining them.
Yes, benefits are important and critical, but if you are going to have employees, you must strive to establish an environment where employees can grow, thrive, and be challenged.

You can keep employees happy and content in their jobs in many ways; many of which do not cost a lot of money. Recognition can range from a simple pat on the back to a more elaborate Employee of the Month recognition program, staff meeting announcements, special parking spots, etc. This motivational process can also apply to Team of the Month recognition if your business operates in a team environment. Do not think you will have all the answers. Establish an open workplace environment where employees feel welcome to provide feedback on the employment process, the workplace environment, and the production process. After all, they are closest to the process and know it best.

As your business grows, you may want to consider additional but broader motivational options. These might include bonus plans, 401(k) plans, profit-sharing, and stock options to name a few. Although these may not be typical benefits for most small business owners to provide for their employees initially, they are certainly worth considering as your business grows.

Most employees in the United States work under a merit increase pay system involving periodic review and job performance evaluation. This process includes a periodic review and evaluation of how well the employee is performing in his or her job. Employees want – and expect – security in their jobs; they have come to expect a comprehensive pay and benefits program. Employees want to know they will be rewarded for their contributions to the business.

**Employee Benefits**

By law, you must provide certain, mandated benefits, but you have many options when providing optional benefits for your employees. Benefits can be costly – what is the advantage of offering them? The main reasons are to not only attract but also to retain valuable employees and foster good morale. What is your competition doing in terms
of the benefits they provide for their employees? Be sure to clearly communicate the benefits plan to all employees.

In deciding on an employee benefits package, carefully consider all aspects before you make the final decisions. Consider the following questions. Are there additional questions you would want to ask?

<table>
<thead>
<tr>
<th>Questions to Ask When Considering an Employee Benefits Package</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What kinds of benefits might interest my employees?</td>
</tr>
<tr>
<td>• How much am I willing to pay for such coverage?</td>
</tr>
<tr>
<td>• Is there a priority order of importance – is a medical plan more important than a retirement plan?</td>
</tr>
<tr>
<td>• For me, what is the purpose of having a benefits plan, both from a cost-effective perspective as well as an employee morale perspective?</td>
</tr>
</tbody>
</table>

• **Mandated Benefits**

As an employer, you must pay in full or in part for certain legally mandated benefits and insurance coverage, such as Social Security, Unemployment Insurance, and Workers’ Compensation.

  • **Social Security** — an insurance program sponsored by the federal government paying benefits to qualified individuals.
  • **Unemployment Insurance** — a joint federal and state insurance program providing income to workers who have lost their jobs through no fault of their own.
  • **Workers’ Compensation** — state-regulated programs that insure workers against injuries that occur on the job or job-related illnesses or death.

• **Optional Benefits**

Although the basic package of employment benefits may include insurance (health, disability, and life), retirement plans, compensation, and paid leave
(maternity leave), it can also be expanded to include a variety of leave options, bonuses, service awards, and even financial support for additional education and training, etc. Additional benefits like these can be costly but in the long run, may be better for your business because they can help to keep employees with you.

A retirement plan (for example, a 401K) is a popular benefit offered to and expected by most of today's workforce. Contributions to a qualified plan that meets IRS specifications are tax deductible. A retirement specialist can propose options to meet your business needs. One currently popular benefit plan is flexible compensation where employees can select coverage to meet their needs in the areas of health coverage, retirement income, etc. Be sure to check with your local financial institutions for professional assistance in making these important decisions. Specialists and investment representatives are available at your local Citibank Financial Center. Visit http://www.citibank.com/us/citibusiness/retirement.htm and http://www.citibank.com/us/citibusiness/401k.htm for more information on these services.

Aside from the basic optional benefits, some employees have come to expect additional benefits based on their increased level of responsibility. Such benefits might include a company vehicle, expense accounts, gym memberships, parking privileges, child day care, extra vacation, and others. What types of benefits do you think your employees may appreciate or expect? What might you be willing to provide in order to retain employees?

Based on individual needs, some employees may want or may require flexibility in their work arrangements. If you can provide some flexibility in employee work schedules, it may help in building morale and loyalty in your workforce. Be sure to outline the options in the Employee Handbook and include any special arrangements in the employee contract and personnel file. This process might involve flex time, part-time, job share, or telecommuting. The availability
of these options depends on your business plan. Let's review several popular work arrangements.

<table>
<thead>
<tr>
<th>Popular Work Arrangements</th>
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</thead>
<tbody>
<tr>
<td><strong>Flex Time</strong></td>
</tr>
<tr>
<td><strong>Compressed Work Week</strong></td>
</tr>
<tr>
<td><strong>Telecommuting</strong></td>
</tr>
<tr>
<td><strong>Part-time Work or Job Sharing</strong></td>
</tr>
</tbody>
</table>

III. ENDING EMPLOYMENT

- **Retirement** – Hopefully, this is on a positive note, after many years of productive employment, allowing individuals to relax and enjoy the fruits of their labor.

- **Resigning** – Employees may decide to leave a current job for various reasons. They may have found other employment; they may be moving to a new geographic location; or they may be unhappy and feel unproductive in their current job.

- **Layoffs/Downsizing** – Reducing your workforce is an unpleasant but sometimes necessary part of owning and operating a business. Keeping your business running is your main goal, and there may be times when the best decision is to reduce your workforce to maintain the financial health of your business. Downsizing may be a permanent or temporary reduction in employees and is usually a difficult process for the business owner. The key to
a successful reduction in workforce is to provide adequate compensation, if possible, based on skill and experience.

- **Termination** – Situations may arise where an employee performs poorly in his or her role or violates the policies and guidelines of the business. In this situation, termination of the employee may be necessary. Again, this is an unpleasant but necessary part of owning and operating your own business. Be sure that you are familiar with the laws and regulations associated with termination of employees, as “wrongful termination,” harassment, discrimination, etc. can be cause for potential employer liability. Ultimately, the safest approach to terminating an employee is to make sure you have a reasonable and legitimate business reason – one that is well documented. Having an established, professional hiring process can insure that your business follows legal guidelines, while providing you with the right employees for your business.

For whatever reason you end your working relationship with employees, make sure that the situation is handled professionally. You may want to use an exit interview as a way to bring closure to the relationship.

**Summary**

The role of human resources in a company is a valuable one. While you, as a new small business owner, may not have an established HR department, the principles and guidelines covered in this chapter are still applicable to you as you acquire additional employees. Finding, hiring, and retaining the right employees for your business is the key to your company’s growth and development. However, it takes careful oversight and constant management of your employees to ensure that your business is producing its goods and services in a quality and cost-effective manner. Be aware of the morale of your employees and the job that they are doing for you. As a business owner, the health of your business depends on making tough and correct employee decisions. It is up to you to provide clear leadership for your employees, manage their expectations, and make the best decisions possible for the business.
IV. So, What’s Next?

We hope this guide has been helpful. Next, in Guide 8, you will explore the process of Creating a New Business Plan That Works for You. You will pull together the information you have developed or collected about your new business and create a blueprint for your business. Be sure to review and use the other guides in this series as you continue your exploration of entrepreneurship.

You now have the tools you need to further develop and refine your business idea.
V. Glossary

**Age Discrimination Act**
prohibits discrimination of the hiring and the treatment of employees based on age. Prohibits the discrimination of anyone over 40 in hiring or while on the job.

**Americans with Disabilities Act (ADA)**
federal law that prohibits discrimination against individuals, with physical handicaps, including hiring practices and facility design

**Background Check**
process of examining a job applicant’s past to determine how well the skills and experience match those of the required job

**Background Check Release Form**
a form signed by a potential employee giving the prospective employers permission to conduct a background check of previous employment and consumer-related reports

**Contract Employees**
employees hired for a specific period of time to complete a specific project either at an hourly rate or at a total project rate

**Economies of Scale**
when more units of a good or a service can be produced on a larger scale, yet with (on average) less input costs

**Employee**
person who works for compensation in return for designated work and/or services

**Employer**
person who hires and pays wages for designated work and/or services

**Employee Handbook**
document that provides the company policies and employee benefits and rights

**Employment Application**
form potential employees complete providing background on themselves and their educational and work experience

**Employment Contract**
formal agreement between employer and employee, stating the terms of employment in a company

**Employment Interview**
a formal meeting used by employers to evaluate prospective employees

**Entrepreneur**
person who sets up a new business

**Equal Employment Opportunity Act**
prohibits discrimination by employers on the basis of race, color, religion, sex, or national origin

**Experience**
the skill or knowledge gained by actually doing something

**Fair Credit Reporting Act**
assures a consumer’s right to access his or her credit file and dispute incorrect information

**Form I-9 – Customs & Immigration**
issued by the U. S. Customs & Immigration Services, it verifies that a person is eligible to work in the United States

**Form W-4 – IRS**
employee’s Withholding Allowance Certificate. Employees complete their filing status and withholding allowance to determine the amount of taxes to be withheld from their wages with each paycheck.
**Full-time Employees**
employees who hold wage or salary jobs of at least 35 hours per week. They usually participate in the various benefit plans provided by the employer.

**Human Resources**
business oversight for not only the hiring and firing of employees but also looking management of employee relationship on a daily basis

**Part-Time or Temporary Employees**
employees who are hired to fill a temporary vacancy or to help with an additional work load on a short-term basis. The employers usually do not pay any benefits; however, if the person works through an employment agency, they may receive basic benefits, such as health care.

**Outsourcing**
having a service or product supplied or manufactured by another

**OSHA**
Occupational Safety & Health Administration of the U.S. Department of Labor. Has the mission to assure the safety and health of workers by setting and enforcing standards and encouraging continual improvement in workplace safety and health.

**Salary**
a set amount of money earned by an employee per year or some other defined fixed length

**Skills**
ability that comes from training or practice

**Skill Set**
broad-based categories of skills, such as communication, planning, human relations, organization, and day-to-day work skills each of which contain specific job skills

**Strength**
being strong in certain areas; having certain capacities

**Wages**
employee earnings that are paid by the hour, day, or work item
VI. Additional Resources

Every day, there are new business opportunities and events that affect the business climate or business strategies. These print and online resources can keep you well-informed.

**Websites**

**American Marketing Association**
Industry reports, detailed dictionary of marketing terms, and educational resources
http://www.marketingpower.com

**Association for Enterprise Opportunity (AEO)**
The national association of organizations committed to microenterprise development
http://www.microenterpriseworks.org

**Business Week magazine**
http://www.businessweek.com

**Citibank**
Experienced small business advisors and custom financial resources for cash management, credit card processing, investment, and more; locate offices and learn about business strategies and programs
http://www.citibank.com/us/citibusiness

**Dun & Bradstreet credit reporting company**
http://www.dnb.com or 1-800-234-3867

**eBay**
Information about how to set up an online business
http://www.ebay.com

**Entrepreneur magazine**
Online resources, plus small-business blog
http://www.entrepreneur.com

**Export-Import Bank of the United States**
Provides information and training to promote international trade by small business

**Fast Company magazine and its Small Business Intelligence Center**
Offers a variety of articles, resources, and tools
http://www.fastcompany.com

**FORBES magazine**
http://www.forbes.com

**FORTUNE Small Business**
http://www.fortune.com/fsb

**INC Magazine**
The daily resource for entrepreneurs
http://www.inc.com

**Kauffman Foundation**
Encourages entrepreneurship across America and improves the education of children and youth by focusing its operations and grantmaking on entrepreneurship and education
http://www.kauffman.org

The trusted guide for entrepreneurs on the path to high growth
http://www.eventuring.org/

**National Association for the Self-Employed (NASE)**
Supporting the needs of micro-business and the self-employed
http://www.nase.org

**National Association of Women Business Owners (NAWBO)**
Networking and support, education programs, and more
http://www.nawbo.org
Guide 7: Basic Human Resources

National Business Association
A not-for-profit association, specifically designed and actively managed to assist the Self-Employed and Small Business Community in achieving their professional goals
http://www.nationalbusiness.org

Online Women’s Business Center
Helps women to achieve their dreams and improve their communities by helping them start and run successful businesses
http://www.onlinewbc.gov

Service Corps of Retired Executives (SCORE)
An organization of volunteers who provide free online and in-person education for small businesses
http://www.score.org

Small Business Administration
Strives to maintain and strengthen the nation’s economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

Society for Hispanic Professionals
A unique source of opportunity in professional development, educational services, and personal fulfillment for Hispanics
http://www.nshp.org

U.S. Patent and Trademark Office
Promotes the progress of science and the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries
http://www.uspto.gov/

Young Presidents Club
An educational organization aimed at providing better leadership through education and friendship
http://www.ypo.org/learning.html

The Wall Street Journal Center for Entrepreneurs
Contains current stories and extensive resources on trends that affect you and your business
http://www.startupjournal.com/

Publications

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