

# PACE

## Fourth Edition

## Program for Acquiring Competence in Entrepreneurship

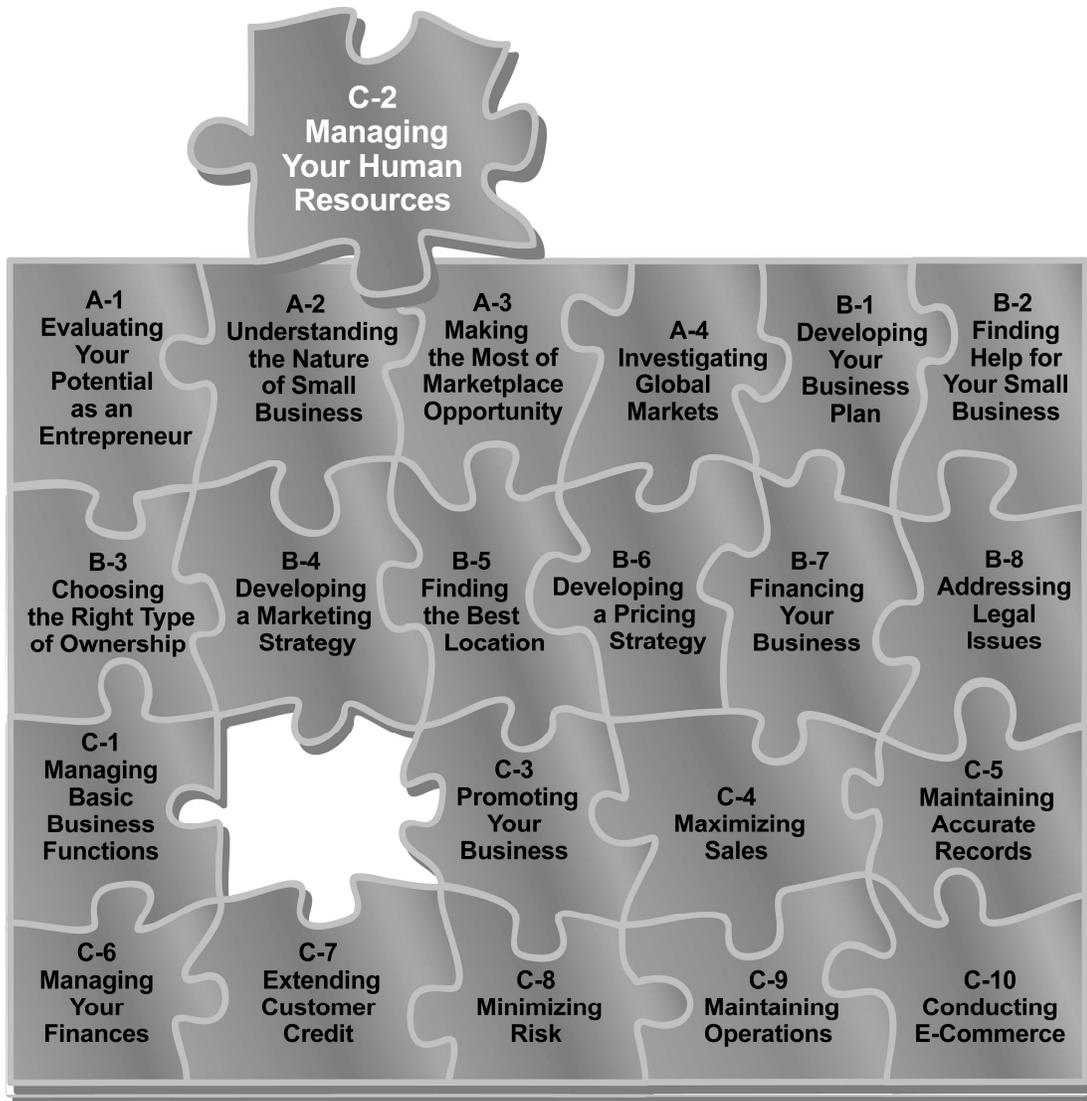




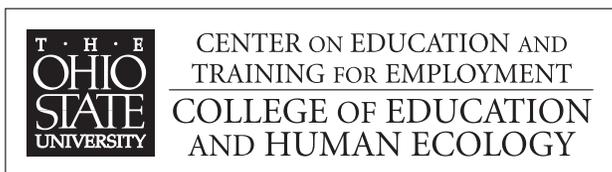
# PACE

## Fourth Edition

## Program for Acquiring Competence in Entrepreneurship



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This version of PACE was supported in part by a grant from OSU Extension.

## Foreword

I am pleased to introduce you to the Fourth Edition of the Program for Acquiring Competence in Entrepreneurship (PACE). PACE represents our continuing effort to respond to the needs of the education and business communities. At no other time in history has understanding entrepreneurship been as important. For one thing, promoting entrepreneurship carries the societal imperative as small businesses as a whole contribute much to the growth and renewal of regional and national economies.

When first published in the late 1980s, PACE properly emphasized that entrepreneurship was based as much on sound planning as having products and services that were responsive to the marketplace. Through its various revisions, PACE continued to focus on the general importance of planning and managing the startup of a small business.

The current PACE edition represents a necessary break from past versions in both its format and some content. For one thing, the text format has been substantially changed from paragraphs to a series of related sections with subheadings. This change allows readers to have greater accessibility to the information, whether it is delivered via a printed booklet or a technology-based approach. And the format allows the instructor/facilitator to have greater flexibility in selecting content to accommodate the needs of various audiences and settings.

In terms of the content, PACE continues to emphasize the importance of planning and managing of a small business. But it now includes a renewed emphasis on meeting customer expectations. Any business cannot exist without a comprehensive understanding of who receives its products or services. In this sense, PACE introduces the topic of conducting e-commerce. Until recently, the entrepreneurial horizon may have been limited to serving local customers only. The advent of the Internet offers the promise of serving many more customers, but not without the accompanying challenges.

This edition was supported in part by a grant from OSU Extension and in partnership with OSU South Centers – Piketon. We hope that PACE will provide you with the understandings necessary to help you to achieve your entrepreneurship goals.

Ronald L. Jacobs  
Director  
Center on Education and Training for Employment



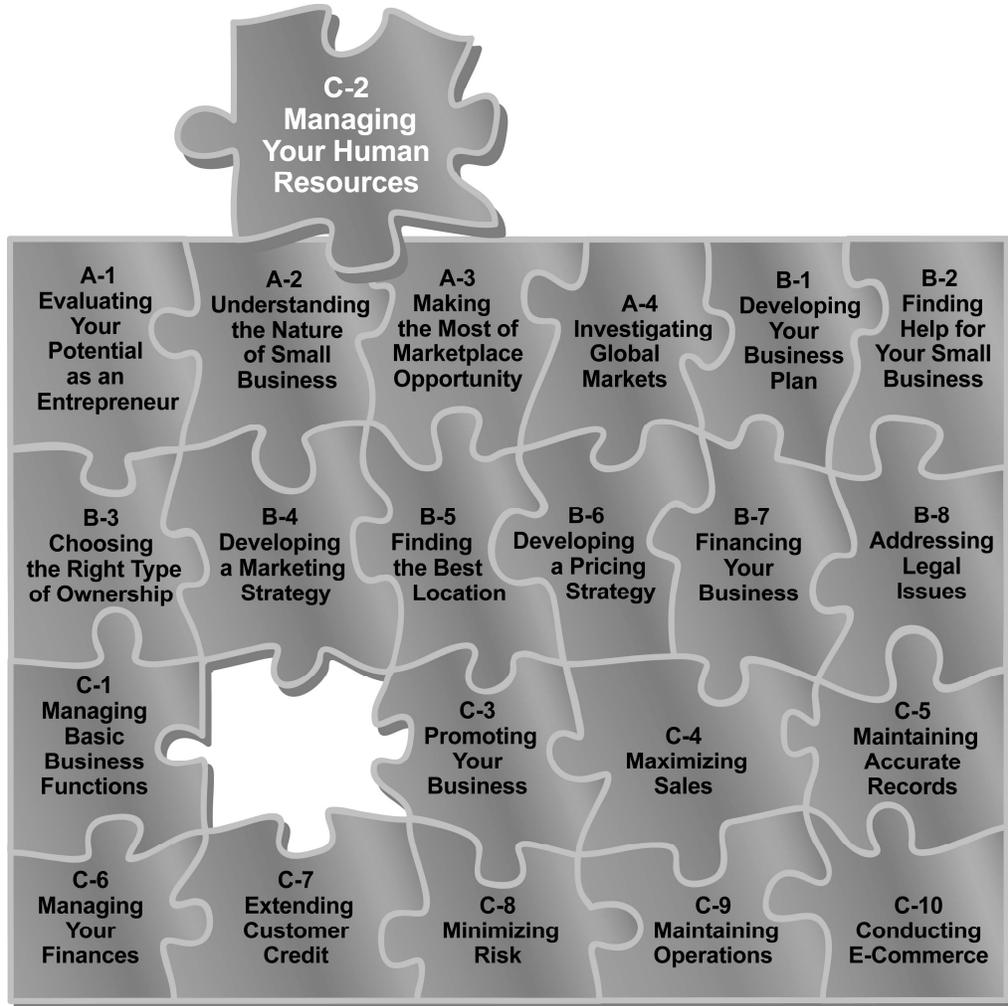
# Overview

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## Introduction

Successful entrepreneurs are very effective managers of the people who work for them. The human resources that drive your organization are the most valuable, yet costly, asset that you have. Manage them wisely and your business will flourish for years to come.

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## Overview, Continued

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**Rationale** Your business needs dedicated employees to perform well in order to succeed. Managing human resources effectively will lead to hiring and retaining productive employees.

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**Objectives** By the conclusion of this module, you will be able to:

- Explain the importance of human resource management including:
  - its impact on the bottom line
  - challenges to managing effectively.
- Describe the recruiting and hiring processes including:
  - job analysis
  - job description
  - recruiting methods
  - making the final decision.
- Describe the training and development process including:
  - its intended results
  - the types of training programs.
- State the relevance of compensation and explain:
  - the types of compensation
  - how to establish a pay system
  - record keeping requirements
  - available compensation plans.
- Identify the components of leadership and explain how they work together
- Explain the three types of relationship building.
- Name the obligations that employers have toward employees.

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## Overview, Continued

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**Relevant  
NCSEE  
standards**

This module aligns with the following National Contents Standards for Entrepreneurship Education (NCSEE):

- J.05 Delegate responsibility for job tasks.
- J.01 Develop a personnel organizational plan.
- J.07 Recruit new employees.
- J.13 Orient new employees (management's role).
- J.14 Conduct training class/program.
- J.16 Exhibit leadership skills.
- J.21 Build organizational culture.

More information on the NCSEE is available at: [http://www.entre-ed.org/Standards\\_Toolkit](http://www.entre-ed.org/Standards_Toolkit).

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**Topics**

The topics in this module are:

<b>Topic</b>	<b>See Page</b>
What Is Human Resource Management?	4
Recruiting and Hiring	6
Training and Development	9
Compensation	10
Leadership	12
Relationship Building	16

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**Exhibits**

The exhibits in this module are:

<b>Exhibit</b>	<b>See Page</b>
Recruiting methods chart	7
Sample employee handbook table of contents	13

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**Before you  
begin**

After reviewing the above objectives for this module, determine whether you can already meet those objectives and consult your instructor if you can.

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# What Is Human Resource Management?

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**Introduction** Small business owners often start by hiring family members and friends as employees. As the business grows, other people come on board. Because the success of your business depends largely on the performance of employees, human resource management (HRM) is of utmost importance.

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**Basic functions** The table below describes how HRM fits into some of the basic business functions.

<b>Basic Function</b>	<b>HR Application</b>
Organizing Staff	<ul style="list-style-type: none"><li>• Identifying the employees you need to hire.</li><li>• Training them on specific job duties.</li></ul>
Directing Staff	<ul style="list-style-type: none"><li>• Leading and motivating your employees.</li><li>• Building solid work relationships.</li></ul>
Evaluating Performance	<ul style="list-style-type: none"><li>• Assessing employee job performance.</li><li>• Rewarding them for their work.</li></ul>

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**Impact on the bottom line** Your human resources have a monumental impact on the organization's profitability. People contribute to the success of your business as follows:

- The image that employees project into the community is what people will remember about your organization. Their behavior and appearance influence consumer response to what you have to offer.
  - Productivity levels determine whether you get what you pay for when employing individual workers. People are a costly resource, and you have to manage them as carefully as any other resource in order to realize the return on your investment.
  - The skilled workforce that you need to meet consumer demand has to be tended to and nurtured. Effectively using employee skills leads to maximizing that particular resource – your human resources – and profits accordingly.
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## What Is Human Resource Management? Continued

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### Challenges

Competent HRM leads to retention of a satisfied and skilled workforce. Perform this function well in order to meet the following challenges with a positive outcome:

- Treat your employees with care and concern for their well being. Any of them, especially the most qualified ones, might seek better jobs with competitors if they're dissatisfied.
- When valuable employees (especially managers and expert workers) leave, you have to train and develop new employees while maintaining your business operations.
- The cost of hiring and training employees is high. Avoid turnover by managing people effectively.
- Carefully develop procedures that support employees in their endeavors and make working conditions as safe and rewarding as possible.
- Assign responsibility that challenges your employees and encourages them to improve their skill set. Give them recognition for their accomplishments.

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### People power

People make the difference. By managing them well, you can grow from a small business with great potential to a business that happens to be small in size but great in stature.

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# Recruiting and Hiring

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## Introduction

A key factor in running a successful business is matching the right applicant to each specific job. Apply proven techniques for assessing your human resources need, and then follow through by recruiting the right person to fill the vacancy.

Key point: A good match ensures that you get the job done, and the employee is happy about contributing to the success of the organization.

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## Job analysis

In order to find the best person for a particular job, start by defining the specific tasks involved in each duty required by the position. Job analysis is the process of identifying these tasks as well as other job requirements including:

- knowledge
  - skills
  - behaviors
  - experience
  - education.
- 

## Job description

The job description is a written document summarizing the data collected in the job analysis. The following guidelines apply to creating a job description:

- Make the document comprehensive yet concise in its level of detail. It will be a profile of the person you need to recruit and hire.
  - List the job duties, and provide details on required skills and knowledge, reporting relationships, and also on the desired levels of experience and education for the job.
  - Limit the job description to one or two pages.
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## Recruiting and Hiring, Continued

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**Recruitment** With the job description in hand, you can begin to search for the most qualified candidates to consider for the open position.

**Methods of recruiting** – The chart below presents the advantages and disadvantages of the most common methods used by small businesses for recruiting job applicants.

Method	Advantages	Disadvantages
Referrals	Inexpensive	May direct unqualified candidates to you in order to find a friend or family member a job
Word of mouth	Inexpensive	Has no guaranteed results
Employment agencies	Pool of screened applicants	Expensive and may reach to include unqualified people
Newspaper ads	Wide exposure and opportunity to attract local candidates	May attract unqualified candidates and more responses than desired
School placement services	Pool of screened applicants	Applicants may lack experience
Professional organizations	Appeal to qualified candidates with experience and skills	Expensive
Online searches	Inexpensive with wide exposure to potential candidates	May attract unqualified candidates

**Making a decision** – After recruiting several applicants, base your final decision on the following data:

- Review the information on the application related to previous employment, education, and personal data. This cursory assessment will reveal whether the candidate meets the minimal job requirements. If the candidate meets minimal requirements, you can schedule the next step – the face-to-face interview.

Note: Use the job application to make a list of questions to ask during the face-to-face interview. Take this opportunity to clarify any ambiguous data on the form.

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## Recruiting and Hiring, Continued

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### Recruitment (continued)

**Making a decision** – After recruiting several applicants, base your final decision on the following data:

- Schedule an interview. During this face-to-face encounter, evaluate the candidate's communication skills, composure, and appearance while gathering more information to support your decision. Take the following steps to prepare for and conduct the interview:

Step	Action
1	Review the candidate's application.
2	Prepare the questions that you want to ask during the session.
3	Greet the candidate and make him or her feel comfortable.
4	Guide the conversation toward the topics that you need to cover. Don't dominate it.
5	Ask open-ended questions that encourage the candidate to talk. Don't ask questions to which the answer is "yes" or "no." Seek specific examples in a candidate's history that demonstrate an ability to perform required tasks of the job description.
6	Keep the interview business-like and professional. Don't lose the focus and waste time.
7	Contact the candidate's references. Ask the candidate about his or her qualifications and whether a former employer would rehire him or her based on past experience.

Key point: Federal legislation prohibits discrimination in hiring based on race, color, national origin, religion, sex, or age. Before you start the interview, carefully research the rules to make sure your line of questioning is legal and fair to the job candidate.

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# Training and Development

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## Introduction

After hiring the most qualified person for the job, you have to train him or her. Base your training program on realistic but challenging goals and objectives. You might need to address training areas such as:

- using software applications
  - operating special equipment
  - following established procedures.
- 

## Intended results

The results that you strive to achieve through training include:

- increased productivity
  - decreased absenteeism and turnover
  - decreased cost of waste due to errors
  - more pay raises for employees
  - less supervision of employees.
- 

## Orientation

Newly hired employees require special training in the form of orientation to the specific job as well as the organization. This activity is your first chance to make a good impression on the individual you've chose to become part of your team. Typical orientation programs include:

- business overview, mission, and vision
- roles and responsibilities
- policy and procedures
- specific job duties and tasks.

Note: A well presented orientation will benefit both the employee and the company. Informed employees are more satisfied, which leads to loyalty and high productivity. Your investment in their skills and knowledge as they start can provide insight into the fit of the new hire and the business. They will also likely be able to contribute more effectively in less time through a structured orientation.

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## Training programs

Job requirements determine the details of a training program. There are several approaches to training, and several delivery methods. It can be as informal as shadowing a job incumbent or it can be as formal as classroom sessions.

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# Compensation

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**Introduction** A major employee concern is compensation, and rightfully so. What you have to offer employees in the way of wages, health insurance, and other benefits has a great impact on their job satisfaction and morale.

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**Types of compensation** The types of benefits that you might include in your company's compensation package include:

- wages
- health insurance
- life insurance
- paid time off (vacation, holidays, and sick leave)
- profit-sharing programs
- retirement benefits.

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**Comparison with others** As owner and possibly the HR manager, you need to know what other local businesses are offering their employees in the way of compensation. You will compete with them for the most qualified potential employees and may lose a good prospect, or not be able to retain a top performer, if your compensation is inferior.

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**Establishing a pay system** The following table describes the Small Business Administration's suggested procedure for establishing a pay system (<http://www.sba.gov/library/pubs/pm-2.pdf>).

Step	Action
1	Define the jobs in your company.
2	Evaluate the jobs and rank them by difficulty and responsibility.
3	Price the jobs by finding out the going rate outside your company. Often you can find this information through your local or state workforce system. They keep track of local labor trends.
4	Establish the pay system.
5	Communicate the plan to employees.
6	Appraise employee performance at regular intervals.
7	Base the employee's pay rate on performance appraisal results.

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## Compensation, Continued

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**Record keeping** A specialist in payroll and record keeping is required to administer employee compensation packages. He or she will know the most current practices and documentation requirements for performing tasks such as:

- tracking hours worked, regular and overtime
  - taxes paid by the business
  - taxes withheld from employee paychecks
  - insurance paid
  - unemployment compensation paid
  - profit-sharing dividends paid.
- 

**Obtaining benefits for employees** Shop around to find the best benefits to offer your employees. Many insurance and retirement programs are available, and you may want your employees to hear presentations from several options.

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**Available plans** Each employee benefit plan has advantages and disadvantages. Refer to the U.S. Small Business Administration paper, *Managing Employee Benefits*, at [www.sba.gov/library/pubs/pm-3.doc](http://www.sba.gov/library/pubs/pm-3.doc), to obtain the basics of an employee benefits program.

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# Leadership

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## Introduction

The most effective managers lead by example. Employees look to you for direction and incentive. In small business, there are few levels of management so you'll likely be very accessible to employees. Make sure that you develop strong leadership skills in key areas such as:

- communication
  - motivation
  - evaluation.
- 

## Communication

Communication directly impacts job performance. Take the time to apply effective communication skills whenever interacting with employees, as well as suppliers and other people you encounter.

**Employee meetings** – These meetings represent important opportunities to share the status of the business and important topics. Meetings can also be a great way to solicit employee input into the business.

**Employee handbook** – An important link between the employee and management is the employee handbook. It serves to orient new employees, but it also serves as a reference document when questions arise later about company HR policy (compensation packages, benefits, reporting structures, ethics, etc.).

Exhibit: The next page is sample employee handbook table of contents.

**Newsletter** – Publishing a company newsletter is an important way of communicating with employees. The newsletter doesn't have to be long and involved to be worthwhile. But it does require an employee who is dedicated to gathering information and organizing it into the proper format for distribution.

**Email** – Email is a very efficient way to communicate with employees. It takes a brief moment to write and send a message that is instantaneously received. The method of responding to email is equally efficient and with just a couple clicks of the mouse, you have opened two-way communication.

**Memo** – The interoffice memo is a common way to communicate. They can be quick and accurate. As with email, memos should be written with a very clear and concise style, and be kept short and to the point.

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## **Sample Employee Handbook Table of Contents**

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## Leadership, Continued

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### Motivation

Along with communicating effectively, inspiring leaders are good motivators. They know how to show their appreciation by expressing to employees how much they mean to the organization. Motivation involves providing incentives for employees to perform their best for the business. Three types of motivators are basic needs, extrinsic motivators, and intrinsic motivators.

**Satisfying basic needs** – A good place to start is to motivate employees by satisfying basic needs. The fundamental necessities that you can most effectively influence are:

- safety and well being
- need to be respected
- sense of self-worth
- sense of accomplishment.

Example: Establishing an effective safety policy can reinforce your desire to be sure employees are not injured at work. Quickly resolving safety issues that employees identify demonstrates your commitment.

**Extrinsic motivators** – Extrinsic motivators come from outside the employee. They are factors that you can influence with careful attention to detail.

Examples: Creating incentive pay may encourage employees to achieve the goals necessary for the additional pay. A fear of termination if an error is made may encourage people to be cautious. They may also be motivated to find another job.

**Intrinsic motivators** – Intrinsic motivators come from inside the employee. They are very personal influences that originate from within and are difficult for you to impact.

Example: Sending a letter of appreciation to an employee's home because of a particular job well done may motivate intrinsically.

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## Leadership, Continued

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### Evaluation

Many employee transitions, from promotion to termination, happen as a result of evaluation. You can objectively determine the correct way to respond to job performance by using proven evaluation techniques.

**Performance appraisal** – This evaluation tool provides a basis for constructive criticism and determining compensation. Record the data you’ve collected about employee job performance on the appraisal form and use it as the basis for providing feedback, both positive and negative, to the employee.

**Goal setting** – Evaluation can be motivating when done fairly and consistently. Based on the data collected during the performance appraisal, work with employees to set realistic goals by which you can objectively measure future job performance.

**How to evaluate job performance** – The following procedure describes how to conduct the performance appraisal and set goals:

Step	Action
1	Establish set intervals for meeting with each employee privately to assess their job performance.
2	Review the data gathered about the job performance of each employee including: <ul style="list-style-type: none"><li>• performance measures</li><li>• direct observation of behavior</li><li>• supervisor input.</li></ul>
3	Discuss the results of your evaluation with the employee.
4	Set goals and objectives in collaboration with them.
5	“Contract” with the employee for future performance and agree upon the compensation he or she will receive for meeting the set objectives.

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# Relationship Building

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## Introduction

Developing a harmonious relationship with your employees will be a real asset to the organization. After recruiting and hiring good employees, work hard to form a strong bond that will last for a long time. The three main areas of employee relations are:

- health and safety
  - unions
  - company-sponsored groups.
- 

## Health and safety

The Occupational Safety and Health Act (OSHA) of 1970 requires you to provide a safe and healthful working environment for your employees. The following guidelines apply to making the workplace safe and healthy for workers:

- Implement a safety training program to reduce accidents and promote safe conditions
  - Post signs to alert employees to potential dangers, if necessary
  - Set aside an area for employees who experience health problems
  - Stock your facility with proper first aid supplies
  - Keep a list of emergency contact numbers
  - The OSHA website, [www.osha.gov](http://www.osha.gov), is a valuable resource.
- 

## Unions

Small businesses are less likely to be involved in union activity than large ones. While union membership has been in decline in general, certain industries (printing, manufacturing, construction, etc.) are likely to have established unions.

**Employee involvement** – Employees join unions for a variety of reasons. They may feel that it affords them a better opportunity for financial benefits or good working conditions. Often it gives individuals a sense of self-expression and self-determination concerning their wants and needs.

**Your attitude** – Many entrepreneurs have strong negative feelings about unions. They often perceive union activity as a personal insult and union organizers as outsiders who want to stir up trouble. But you don't have to regard the presence of a union as detrimental. You can have a positive, productive, and mutually beneficial relationship with union members.

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## Relationship Building, Continued

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### **Company-sponsored groups**

Company-sponsored groups help employees get acquainted with each other away from work. Individuals can engage in a common activity and develop friendships.

**Social groups** – Employee groups focusing on sports and leisure activities are considered social groups. They include:

- sports teams (such as bowling and softball teams)
- philanthropic clubs (such as participating in charity events or races)
- special events (such as celebrating birthdays and holidays).

**Company-oriented groups** – Some groups have company-related theme groups. These co-workers engage in activities that lead to achieving organizational objectives such as employees who come together to explore investments in either their own company or others and inventors who meet to exchange ideas that might one day become company goods or services.

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# **PACE**

## **Program for Acquiring Competence in Entrepreneurship**

### **Fourth Edition**

#### **Cluster A – Exploring Entrepreneurship**

Module A-1 Evaluating Your Potential as an Entrepreneur  
Module A-2 Understanding the Nature of Small Business  
Module A-3 Making the Most of Marketplace Opportunity  
Module A-4 Investigating Global Markets

#### **Cluster B – Planning for Business Success**

Module B-1 Developing Your Business Plan  
Module B-2 Finding Help for Your Small Business  
Module B-3 Choosing the Right Type of Ownership  
Module B-4 Developing a Marketing Strategy  
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Module B-7 Financing Your Business  
Module B-8 Addressing Legal Issues

#### **Cluster C – Business Management for the Entrepreneur**

Module C-1 Managing Basic Business Functions  
Module C-2 Managing Your Human Resources  
Module C-3 Promoting Your Business  
Module C-4 Maximizing Sales  
Module C-5 Maintaining Accurate Records  
Module C-6 Managing Your Finances  
Module C-7 Extending Customer Credit  
Module C-8 Minimizing Risk  
Module C-9 Maintaining Operations  
Module C-10 Conducting E-Commerce



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