Chapter

15 Leading the Growing Company and Planning for Management Succession

Anybody who accepts mediocrity—in school, on the job, in life—is a person who compromises, and when a leader compromises, the whole organization compromises.

—Charles Knight

The buck stops here.

—Harry S. Truman

LEARNING OBJECTIVES

Upon completion of this chapter, you will be able to:

1. **EXPLAIN** the challenges involved in the entrepreneur's role as leader and what it takes to be a successful leader.
2. **DESCRIBE** the importance of hiring the right employees and how to avoid making hiring mistakes.
3. **EXPLAIN** how to build the kind of company culture and structure to support the entrepreneur's mission and goals and to motivate employees to achieve them.
4. **DISCUSS** the ways in which entrepreneurs can motivate their workers to higher levels of performance.
5. **DESCRIBE** the steps in developing a management succession plan for a growing business that will allow a smooth transition of leadership to the next generation.

LEADERSHIP IN THE NEW ECONOMY

1. Explain the challenges involved in the entrepreneur's role as leader and what it takes to be a successful leader.

To be successful, an entrepreneur must assume a wide range of roles, tasks, and responsibilities, but none is more important than the role of leader. Some entrepreneurs initially are uncomfortable in this role, but they must learn to be effective leaders if their companies are to grow and reach their potential. **Leadership** is the process of influencing and inspiring others to work to achieve a common goal and then giving them the power and the freedom to achieve it. Without leadership ability, entrepreneurs—and their companies—never rise above mediocrity. Leadership skills are not easy to learn. In the past, many small business managers relied on fear and intimidation as leadership tools. Today, however, the workforce is more knowledgeable, has more options, is more skilled, and consequently demands a more sophisticated style of leadership.

leadership—*the process of influencing and inspiring others to work to achieve a common goal and then giving them the power and the freedom to achieve it.*

The rapid pace of change in the new economy also is placing new demands on leaders. Technology is changing the ways in which people work, the ways in which the various parts of an organization operate and interconnect, and the ways in which competitors strive for market dominance. To remain in the game, companies must operate at this new speed of business, and that requires a new style of leadership. Leaders of small companies must gather information and make decisions with lightning speed, and they must give workers the resources and the freedom to solve problems and exploit opportunities as they arise. Effective leaders now empower employees to act in the best interest of the business. They demonstrate trust in their employees and respect for their ability to make decisions. Many entrepreneurs have discovered that the old style of leadership has lost its effectiveness and that they must develop a new, more fluid and flexible style of leadership that better fits the needs of modern workers and competitive conditions.

Until recently, experts compared the leader's job to that of a symphony orchestra conductor. Like the symphony conductor, an entrepreneur made sure that everyone in the company was playing the same score, coordinated individual efforts to produce a harmonious sound, and directed the orchestra members as they played. The conductor (entrepreneur) retained virtually all of the power and made all of the decisions about how the orchestra would play the music without any input from the musicians themselves. Today's successful entrepreneur, however, is more like the leader of a jazz band, which is known for its improvisation, innovation, creativity, and freewheeling style. Max DePree, former head of Herman Miller, Inc., a highly successful office furniture manufacturer, explains the connection this way:

> Jazz band leaders must choose the music, find the right musicians, and perform—in public. But the effect of the performance depends on so many things—the environment, the volunteers playing in the band, the need for everybody to perform as individuals and as a group, the absolute dependence of the leader on the members of the band, the need for the followers to play well. . . . The leader of the jazz band has the beautiful opportunity to draw the best out of the other musicians. We have much to learn from jazz band leaders, for jazz, like leadership, combines the unpredictability of the future with the gifts of individuals.[1]

Management and leadership are not the same; yet both are essential to a company's success. Leadership without management is unbridled; management without leadership is uninspired. Leadership gets a small business going; management keeps it going. In other words, leaders are the architects of small businesses; managers are the builders. Some entrepreneurs are good managers yet are poor leaders; others are powerful leaders but are weak managers. The best bet for the latter is to hire people with solid management skills to help them execute the vision they have for their companies. Stephen Covey, author of *Principle-Centered Leadership*, explains the difference between management and leadership this way:

> Leadership deals with people; management deals with things. You manage things; you lead people. Leadership deals with vision; management deals with logistics toward that vision. Leadership deals with doing the right things; management focuses on doing things right. Leadership deals with examining the paradigms on which you are operating; management operates within those paradigms. Leadership comes first, then management, but both are necessary.[2]

Leadership and management are intertwined; one without the other means that a small business is going nowhere. Leadership is especially important for companies in the growth phase, when entrepreneurs are hiring employees (often for the first time) and must keep the company and everyone in it focused on its mission as growth tests every seam in the organizational structure. At this stage, selling everyone in the company on the mission, goals, and objectives for which the leader is aiming is crucial to a business's survival and success.

Effective leaders exhibit certain behaviors. They:

- *Create a set of values and beliefs for employees and passionately pursue them.* Values are the foundation on which vision is built. Leaders should be like beacons in the night, constantly shining light on the principles, values, and beliefs on which they founded their companies. Values are set forth from the top—employees look to their leaders for guidance in making decisions.
- *Define and then constantly reinforce the vision they have for the company.* Effective leaders have a clear vision of where they want their companies to go, and they concentrate on communicating that vision to those around them. Leaders articulate the firm's vision to every employee often.
- *Respect and support their employees.* To gain the respect of their employees, leaders must first respect those who work for them. Successful leaders put their employees first dedicated workforce is a company's most valuable resource, and they treat their employees that way.
- *Set the example for their employees.* A leader's words ring hollow if he fails to "practice what he preaches." Few signals are transmitted to workers faster than a leader who sells employees on one set of values and principles and then acts according to a different set. Employees expect leaders to "walk the talk." That is why integrity is perhaps the most important determinant of a leader's effectiveness.
- *Create a climate of trust in the organization.* Leaders who demonstrate integrity soon win the trust of their employees, an essential ingredient in the success of any organization. Honest, open communication and a consistent pattern of leaders doing what they say they will do serve to build trust in a business. An environment of trust becomes especially important when a company encounters a crisis. Workers are willing to band together to tackle the problem facing the company without sensing the need to protect their turf.
- *Focus employees' efforts on challenging goals and keep them driving toward those goals.* When asked by a student intern to define leadership, one entrepreneur said, "Leadership is the ability to convince people to follow a path they have never taken before to a place they have never been—and upon finding it to be successful, to do it over and over again."[3]
- *Provide the resources employees need to achieve their goals.* Effective leaders know that workers cannot do their jobs well unless they have the tools they need. They not only provide workers with the physical resources they need to excel but also the necessary intangible resources such as training, coaching, and mentoring.
- *Communicate with their employees.* Leaders recognize that helping workers see the company's overarching goal is just one part of effective communication; encouraging employee feedback and then listening are just as vital. In other words, they know that communication is a two-way street. Open communication takes on even greater importance when a company faces a difficult or uncertain future.
- *Value the diversity of their workers.* Smart business leaders recognize the value of their workers' varied skills, abilities, backgrounds, and interests. When channeled in the right direction, diversity can be a powerful weapon in achieving innovation and maintaining a competitive edge. Good leaders get to know their workers and to understand the diversity of their strengths. Especially important to young workers in the new economy is a leader's capacity for empathy, the ability to see things from another person's viewpoint (see Figure 15.1).
- *Celebrate their workers' successes.* Effective leaders recognize that workers want to be winners and do everything they can to encourage top performance among their people. The rewards they give are not always financial; in many cases, it may be as simple as a handwritten congratulatory note.
- *Encourage creativity among their workers.* Rather than punish workers who take risks and fail, effective leaders are willing to accept failure as a natural part of innovation and creativity. They know that innovative behavior is the key to future success and do everything they can to encourage it among workers.
- *Maintain a sense of humor.* One of the most important tools a leader can have is a sense of humor. Without it, work can become dull and unexciting for everyone.

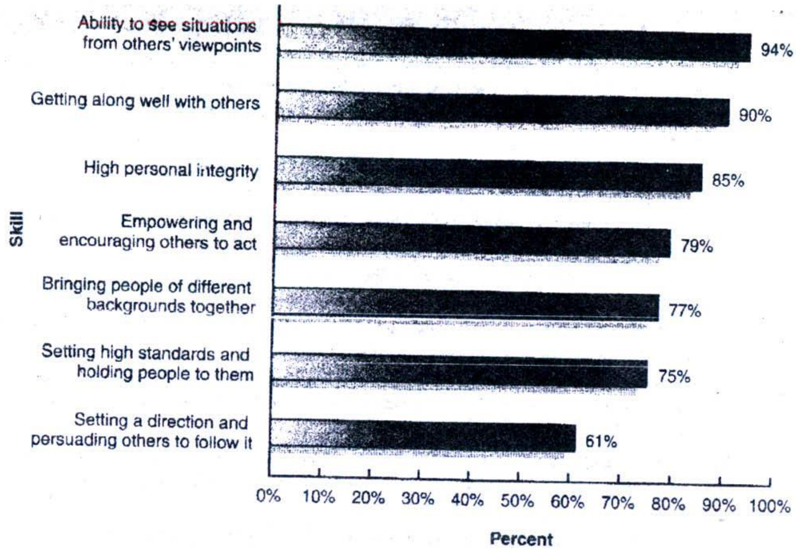

FIGURE 15.1 Generation X on Leadership: Skills That Gen-Xers Value Most in Leaders

Source: Peter D. Hart Research Associates, Inc., 1999.

A Company Example

*Former **Southwest Airlines'** CEO Herb Kelleher is famous for creating a work environment where fun is the watchword. Kelleher, who appeared at one employee function on a Harley-Davidson motorcycle and at another dressed as Elvis Presley, encouraged employees to have fun at work. Flight attendants sometimes pop out of overhead bins as passengers board, or they tell jokes over the plane's public address system. Crews have been known to liven up the preflight safety demonstrations with song and dance routines. On Halloween, employees dress up in costumes and hand out cake to passengers. The culture of fun at Southwest Airlines has built an esprit de corps that gives Southwest a unique advantage that competitors cannot match, and clown prince Herb Kelleher was its architect.*[4]

- *Create an environment in which people have the motivation, the training, and the freedom to achieve the goals they have set.* Great leaders know that *their* success is determined by the success of their followers. They create a work climate that enables others to achieve maximum performance.
- *Become a catalyst for change when change is needed.* With market and competitive climates changing so rapidly, small company leaders must make sure that their companies change along with them. Although leaders must cling to the values and principles that form the bedrock of their companies, they must be willing to change, sometimes radically, the policies, procedures, and processes within their businesses. If a company is headed in the wrong direction, the leader's job is to recognize that and to get the company moving in the right direction. Effective leaders understand that to preserve their businesses, they must change them constantly.
- *Keep their eyes on the horizon.* Effective leaders are never satisfied with what they and their employees accomplished yesterday. They know that yesterday's successes are not enough to sustain their companies indefinitely. They see the importance of building and maintaining sufficient momentum to carry their companies to the next level. A proactive stance is essential and strategic thinking a must.

Leading an organization, whatever its size, is one of the biggest challenges any manager faces. Yet, for an entrepreneur, leadership success is one of the key determinants of the company's success. In addition to the uncertainties of dealing with people, the job of the organizational leader is constantly changing. In these challenging times, leaders must clearly envision the future, share repeatedly and forcefully their vision for the firm, provide each employee with the tools needed to perform the job, the training to remain current, and the freedom that enables co-workers to manage and improve the process.

Table 15.1 offers useful tips on how to become a successful leader.

To be effective, a small business leader must perform four vital tasks:

- Hire the right employees and constantly improve their skills.
- Build an organizational culture and structure that allow both workers and the company to reach their potential.
- Motivate workers to higher levels of performance.
- Plan for "passing the torch" to the next generation of leadership.

TABLE 15.1

Tips for Becoming a Successful Leader in the New Economy

Source: Adapted from "Make Yourself a Leader," *Fast Company*, June 1999, tear-out booklet.

Leadership in the old days often meant that leaders had all of the answers and that employees were to follow them to the "promised land." Today, however, workers require a different style of leadership, one that involves more listening, empowering, delegating, and team building. The following tips can help you become a more effective leader.

1. *Leaders are both confident and modest.* Being a leader is not about making yourself more powerful; it's about making the people around you more powerful.
2. *Leaders are authentic.* No one believes in a leader who fails to "walk the talk." Leadership requires integrity and sincerity. These characteristics are the building blocks of trust.
3. *Leaders are good listeners.* Successful leaders know that some of the best ideas come from the people who actually do a job every day, and these leaders are willing to listen to employees. The chief enemy of involving workers in decision making is grandiosity, the belief that the leader has all of the answers.
4. *Leaders are good at giving encouragement, and they are never satisfied.* Leaders constantly test their own stamina and courage and those of the people in their organizations by raising the standards of performance. They are an organization's top cheerleaders when people succeed and are supportive when people fail.
5. *Leaders make unexpected connections.* Leaders arrange for interaction among people who otherwise might not get together. Then they listen for innovative ideas that result from those interactions and act on them.
6. *Leaders provide direction.* However, that does not mean that they have all of the answers, as the Wizard of Oz seemed to have. Modern leaders know how to ask probing, revealing questions of others that provide insight into the best course of action. Steve Miller, a manager at Royal Dutch Shell, says, "No leader can have all the answers. . . . The actual solutions about how best to meet the challenges of the moment have to be made by the people closest to the action. . . . The leader has to empower these frontline people, to challenge them, to provide them with the resources they need, and then hold them accountable."
7. *Leaders protect their people from danger and expose them to reality.* The surest way leaders can protect their organizations from danger is to keep everyone focused on the vision. Exposing people to reality means forcing the organization to face up to the need for change. Although many people are uncomfortable with and resistant to change, leaders know that their organizations must change or risk being left behind.
8. *Leaders create change and stand for values that don't change.* Although change is essential to an organization's survival, a leader must protect those values and principles that are central to the company's core. Losing these would cause the company to lose its identity. However, leaders must always watch for habits and assumptions that the company must change if it is to continue to prosper.
9. *Leaders lead by example.* Leaders recognize that they are always under the microscope and that workers are always interpreting leaders' actions. That is why leaders must live by the principles they espouse. Leaders use small gestures to send big messages.
10. *Leaders don't blame; they learn.* Leaders know that creativity and innovation carry with them the risk of failure. They also understand that creativity and innovation are essential to the organization's survival and do not punish people just because they tried and failed. Their attitude is: Try, fail, learn, and try again.
11. *Leaders look for and network with other leaders.* Successful leaders are *not* Lone Rangers. They look for allies and the opportunity to network with others so they can learn to become more effective leaders. Leaders build relationships.
12. *The job of the leader is to make more leaders.* In the past, the assumption was that an organization needed just one strong leader. Today, the organization with the most leaders usually wins! Your ultimate challenge is not just to become an effective leader but also to create more leaders in your company.

Learning Objective

HIRING THE RIGHT EMPLOYEES

The decision to hire a new employee is an important one for every business, but its impact is magnified many times in a small company. Every new hire a business owner makes determines the heights to which the company can climb—or the depths to which it will plunge. "Bad hires" can poison a small company's culture. Hiring mistakes are also incredibly expensive, and no organization, especially a small one, can afford too many of them. One study concluded that an employee hired into a typical entry-level position who quits after six months costs a company about $17,000 in salary, benefits, and training. In addition, the intangible costs—time invested in the new employee, lost opportunities, reduced morale among co-workers, and business setbacks—are seven times the direct costs of a "bad hire." In other words, the total price tag for this "bad hire" is about $136,000![5]

Avoiding Hiring Mistakes

As crucial as finding good employees is to a small company's future, it is no easy task. Today, increased demand for skilled knowledge workers and relatively low levels of unemployment have combined to create a hiring crisis for business owners. The severity of this labor shortage will worsen, too, thanks to demographic trends. Currently, the ratio of workers to retirees is 4:1. By 2011, when baby boomers begin retiring, this ratio will begin dropping, reaching 3:1 in 2020 before bottoming out at 2:1 in 2030.[6] Competition among businesses for quality workers is intense, and the battle for talent has taken on higher stakes. Rapidly advancing technology and increasing globalization give companies of all sizes access to most of the same resources so that the balance of competitive power shifts to those companies with superior human resources. Small businesses must mentally equate the search for quality new employees with their survival. There is no way to successfully compete without high-quality employees. Consequently, small firms must approach the hiring process with a commitment to fill the open positions with high-quality employees, even if this process takes longer than expected.

Managerial talent is both expensive and a good investment when entrepreneurs want to grow their business and recognize that they cannot do it alone.

A Company Example

*That was exactly the case for Doug Harrison, founder and CEO of the **Scooter Store**. The company is now a $200 million provider of power wheelchairs and scooters for the physically challenged. It took Doug seven and a half years to develop his business model to a point where he felt it was time to grow the business to a higher level of sales. He needed experienced and expensive management talent. In fact, he paid the new managers more than he was making in salary. Doug sold them on his plan, turned them loose, and they delivered the goods—you might say he got what he paid for!*[7]

Even though the importance of hiring decisions is magnified in small companies, small businesses are most likely to make hiring mistakes because they lack the human resources experts and the disciplined hiring procedures large companies have. The hiring process is informal and its results often unpredictable. In the early days of a company, entrepreneurs rarely take the time to create job descriptions and specifications; instead, they usually hire people because they know or trust them rather than for their job skills. Then, as the company grows, business owners hire people to fit in around these existing employees, often creating a very unusual, inefficient organizational structure built around jobs that are poorly planned and designed.

The following guidelines can help small business managers avoid making costly hiring mistakes:

ELEVATE RECRUITING TO A STRATEGIC POSITION IN THE COMPANY. Assembling a quality workforce begins with a sound recruiting effort. By investing time and money at this crucial phase of the staffing process, entrepreneurs can generate spectacular savings down the road by avoiding costly hiring mistakes. The recruiting process also is the starting point for building quality into a company. Recruiting is so important that smart entrepreneurs no longer leave the task to human resource managers, choosing instead to become actively involved in the process themselves. Truly aggressive entrepreneurs *never* stop recruiting because top quality talent is hard to find and extremely valuable.

Attracting a pool of qualified job candidates requires not only constant attention but also creativity, especially among smaller companies that often find it difficult to match the more generous offers large companies make. With a sound recruiting strategy and a willingness to look in new places, however, smaller companies *can* hire and retain high caliber employees. The following techniques will help.

Look inside the company first. One of the best sources for top prospects is right inside the company itself. A promotion from within policy serves as an incentive for existing workers to upgrade their skills. Additonally, an entrepreneur already knows the employee's work habits, and the employee already understands the company's culture.

Encourage employee referrals. To cope with the shortage of available talent, many companies are offering their employees (and others) bonuses for referring candidates who come to work and prove to be valuable employees. Employees serve as reliable screens because they do not want to jeopardize their reputations with their employer. Rewards companies offer to employees for successful referrals range from weekend getaways to cash. At Redback Network, a high-tech networking company, referral bonuses range from $2,500 to $10,000 (for especially hard-to-fill positions)![8]

A Company Example

Perficient, an Internet services company, was growing so fast that CEO Jack McDonnell needed to increase the company's workforce from nine employees to 180 employees in just 10 months. Using outside recruiters proved to be too time-consuming and costly, so McDonnell offered employees $5,000 referral bonuses. The incentive worked so well that one team leader posted an ad on an internet job bulletin board and began interviewing candidates who responded on weekends. His efforts led to three new hires for Perficient and $15,000 in bonuses for himself![9]

Make employment advertisements stand out. Getting employment ads noticed in traditional media is becoming more difficult because they get lost in the swarm of ads from other companies.

A Company Example

Roger Mody, founder of Signal Corporation, understands how important hiring the right employees is to his information technology company. The company's employment ads reflect its unique culture.

Courtesy of Veridian Corporation.

Roger Mody, founder of ***Signal Corporation****, an information technology provider, uses humor to make his employment ads stand out and to communicate the sense of fun in the company's culture. One recent ad ran a photo of Mody after a company pie-eating contest with the tag line "And you should see us on casual day." Although newspaper ads still top employers' list of ad placement, some businesses are attracting candidates through other media such as billboards and online ads.*

Use the Internet as a recruiting tool. The Internet is one of the fastest-growing media for employment ads because it offers tremendous reach at a relatively low cost and is effective, especially for companies recruiting high-tech workers. Many companies post jobs on several of the many job bulletin boards on the Web, including Monster, HotJobs, Career Builder, Employment Guide, and others.

A Company Example

Darlene Chapin, recruiting manager at ***Cheetah Technologies****, a computer network-management company, says the Internet has proved to be the most effective recruiting tool she uses. Chapin emphasizes that the Internet is just one part of a comprehensive recruiting effort. Cheetah also uses ads in newspapers and technical publications, employee referrals, career fairs, college visits, and other methods to find employees.*[10]

The wording of Internet ads is extremely important. In their ads, entrepreneurs should be specific about the qualifications a candidate must have and should describe the benefits their companies offer in an honest but appealing manner.

Recruit on campus. For many employers college and university campuses remain an excellent source of workers, especially for entry-level positions. After screening résumés, a recruiter can interview a dozen or more high-potential students in just one day. On some campuses, competition for the best students is so intense that companies are going to extreme measures. For example, large signing bonuses for graduates in "hot" career fields are becoming more common.

Forge relationships with schools and other sources of workers. Some employers have found forging long-term relationships with schools and other institutions to be a valuable source of workers. As colleges and universities begin to offer students greater internship opportunities, a small business can gain greatly by hosting one or more students for a semester or for the summer. The company has an opportunity to observe the student's work habits and to sell the student on a permanent position after graduation.

A Company Example

C.P. Shipping of Tampa, Florida, has found that hiring international students as interns is particularly valuable because of the students' knowledge of the language and culture of locations where the company does business.

Recruit "retired" workers. Many businesses are drawing on a pool of workers with much to offer: senior citizens. With a lifetime of work experience and time on their hands, "retired" workers can be the ideal solution to many entrepreneurs' labor problems. Currently, only 13 percent of Americans over the age of 65 work, but changes in Social Security laws now allowing them to earn more may encourage more retirees to return to take on part-time jobs.

Bonne Bell, a small cosmetics firm in Lakewood, Ohio, has 87 senior citizens on its payroll. (The oldest is 89, and 30 percent of them are over 70.) The company's owner, Jess Bell, who is 75, says the program has been a huge success for the seniors and her company. "We realized that many seniors are simply not ready to retire when they reach 65," she says.[11]

A Company Example

Wal-Mart and McDonald's are other examples of companies that have used this strategy effectively. Older employees can also be a valuable asset to smaller firms.

Consider using offbeat recruiting techniques. To attract the workers they need to support their growing businesses, some entrepreneurs have resorted to rather unconventional recruiting techniques such as the following:[12]

- Sending young recruiters to where college students gather on spring break.
- Having an airplane tow a banner over competitors' offices that reads "Don't make a career mistake."
- Launching a monthly industry networking meeting for local workers at Internet companies.
- Keeping a file of all of the workers mentioned in the "People on the Move" column in the business section of the local newspaper and then contacting them a year later to see if they are happy in their jobs.

Offer what workers want. Of course, adequate compensation is an important consideration for job candidates, but other less tangible factors also weigh in a prospect's decision to accept a job. For young knowledge workers especially, a fun, yet professionally challenging, work environment can be as important as salary. In fact, a survey by O'Conner Kenny Partners Inc., found that the factor topping college students' list when evaluating a job offer is "a fun working environment."[13]

That's why Bill Ziercher, CEO of ***Sterling Direct****, a direct marketing company, emphasizes having fun in his business. Employees have a contest for the sloppiest desk of the week, in which the winner has the privilege of displaying "Pat the Pig" (a Beanie Baby) on his or her desk. Ziercher also holds regular events such as the recent on-site beach party, complete with karaoke machine and Super Soaker water guns and often gives away tickets to sporting events as part of other contests.*[14]

A Company Example

CREATE PRACTICAL JOB DESCRIPTIONS AND JOB SPECIFICATIONS. Small business owners must recognize that what they do *before* they ever start interviewing candidates for a position determines to a great extent how successful they will be at hiring winners. The first step is to perform a **job analysis**, the process by which a firm determines the duties and nature of the jobs to be filled and the skills and experience required of the people who are to fill them. Without a proper job analysis, a hiring decision is, at best, a coin toss. The first objective of a job analysis is to develop a **job description**, a written statement of the duties, responsibilities, reporting relationships, working conditions, methods and techniques used, and materials and equipment used in a job. A results-oriented job description explains what a job entails and the duties the person filling it is expected to perform. A detailed job description should include a job title, job summary, duties to be performed, nature of supervision, the job's relationship to other jobs in the company, working conditions, definitions of job-specific terms, and general comments needed to clarify any of the preceding categories.

job analysis—*the process by which a firm determines the duties and nature of the jobs to be filled and the skills and experience required of the people who are to fill them.*

job description—*a written statement of the duties, responsibilities, working conditions, and materials and equipment used in a job.*

Preparing job descriptions is a task most small business owners overlook; however, this may be one of the most important parts of the hiring process because it creates a "blueprint" for the job. It is important for a business owner to define the tasks that need to be accomplished. Without this blueprint, a manager tends to hire the person with experience whom they like the best. Useful sources of information for writing job descriptions include the manager's knowledge of the job, the worker(s) currently holding the job, and O*Net, a Web site that replaced the *Dictionary of Occupational Titles (D.O.T)*, and lists more than 20,000 job titles and descriptions. O*Net serves as a useful tool for getting a small business owner started when writing job descriptions. Table 15.2 provides an example of the description drawn from O*Net for an unusual job.

The second objective of a job analysis is to create a **job specification**, a written statement of the qualifications and characteristics needed for a job in terms of education, skills, and experience. A job specification shows a small business manager what kind of person to recruit and establishes the standards an applicant must meet to be hired. When writing job specifications,

job specification—*a written statement of the qualifications and characteristics needed for a job in terms of education, skills, and experience.*

TABLE 15.2
A Sample Job Description from O*Net

Worm Picker—gathers worms to be used as fish bait: walks about grassy areas, such as gardens, parks, and golf courses, and picks up earthworms (commonly called dew worms and nightcrawlers). Sprinkles chlorinated water on lawn to cause worms to come to the surface and locates worms by use of lantern or flashlight. Counts worms, sorts them, and packs them into containers for shipment.

some managers define the traits a candidate needs to do a job well. Does the person have to be a good listener, empathetic, well organized, decisive, a "self-starter?" Should she have experience in Java or C++ programming? One of the best ways to develop a list of these traits is to study the top performers currently working for the company and focus on the characteristics that make them successful. Table 15.3 provides an example that links the tasks for a sales representative's job (drawn from a job description) to the traits or characteristics a small business owner identified as necessary to succeed in that job.

PLAN AN EFFECTIVE INTERVIEW. Once an entrepreneur knows what she must look for in a job candidate, she can develop a plan for conducting an informative job interview. Too often, small business owners go into an interview unprepared, and as a result, they fail to get the information they need to judge the candidate's qualifications, qualities, and suitability for the job. Conducting an effective interview requires an entrepreneur to know what she wants to get out of the interview in the first place and to develop a series of questions to extract that information. The following guidelines will help an owner develop interview questions that will give her meaningful insight into an applicant's qualifications, personality, and character:

Develop a series of core questions and ask them of every candidate. To give the screening process more consistency, smart business owners rely on a set of relevant questions they ask in every interview. Of course, they also customize each interview using impromptu questions based on an individual's responses.

Ask open-ended questions (including on-the-job "scenarios") rather than questions calling for "yes or no" answers. These types of questions are most effective because they encourage candidates to talk about their work experience in a way that will disclose the presence or the absence of the traits and characteristics the business owner is seeking.

Create hypothetical situations candidates would be likely to encounter on the job and ask how they would handle them. Building the interview around such questions gives the owner a preview of the candidate's work habits and attitudes.

Probe for specific examples in the candidate's past work experience that demonstrate the necessary traits and characteristics. A common mistake interviewers make is failing to get candidates to provide the detail they need to make an informed decision.

TABLE 15.3
Linking Tasks from a Job Description to the Traits Necessary to Perform a Job Successfully

Job Task	Trait or Characteristic
Generate and close new sales	"outgoing"; persuasive; friendly
Make 15 "cold calls" per week	"self-starter"; determined; optimistic; independent; confident
Analyze customers' needs and recommend proper equipment	good listener; patient; empathetic
Counsel customers about options and features needed	organized; polished speaker; "other oriented"
Prepare and explain financing methods	honest; "numbers oriented"; comfortable with computers and spreadsheets
Retain existing customers	customer oriented; relationship builder

Ask candidates to describe a recent success and a recent failure and how they dealt with them. Smart entrepreneurs look for candidates who describe them both with equal enthusiasm because they know that peak performers put as much into their failures as they do their successes and usually learn something valuable from their failures.

Table 15.4 lists some interview questions one manager uses to uncover the traits and characteristics he seeks in a top-performing sales representative.

CONDUCT THE INTERVIEW. An effective interview contains three phases: breaking the ice, asking questions, and selling the candidate on the company.

Breaking the ice. In the opening phase of the interview the manager's primary job is to diffuse the tension that exists because of the nervousness of both parties. Many skilled interviewers use the job description to explain the nature of the job and the company's culture to the applicant. Then they use "icebreakers," questions about a hobby or special interest, to get the candidate to relax.

Asking questions. During the second phase of the interview, the employer asks the questions from her question bank to determine the applicant's suitability for the job. Her primary job at this point is to listen. Effective interviewers spend about 25 percent of the interview talking and about 75 percent listening. They also take notes during the interview to help them ask follow-up questions based on a candidate's comments and to evaluate a candidate after the interview is over. Experienced interviewers also pay close attention to a candidate's nonverbal clues, or body language, during the interview. They know that candidates may be able to say exactly what they want with their words, but that their body language does not lie!

Small business owners must be careful to make sure they avoid asking candidates illegal questions. At one time, interviewers could ask wide-ranging questions covering just about every area of an applicant's background. Today, interviewing is a veritable minefield of legal liabilities, waiting to explode in the unsuspecting interviewer's face. Although the Equal Employment Opportunity Commission (EEOC) as the government agency responsible for enforcing employment laws does not outlaw specific questions, it does recognize that some questions can result in employment discrimination. If a candidate files charges of employment discrimination against a company, the burden of proof shifts to the employer to prove that all preemployment questions are job related and are nondiscriminatory. In addition, many states have passed laws that forbid the use of certain questions or screening tools in interviews. To avoid trouble, business owners should keep in mind why they are asking a particular question. The goal is to identify individuals who are qualified to do the job well. By steering clear of questions about subjects that are peripheral to the job itself, employers are less likely to ask questions that will land them in court. Wise business owners ask their attorneys to review their bank of questions

TABLE 15.4
Interview Questions for Candidates for a Sales Representative Position

Trait or Characteristic	Question
"outgoing"; persuasive; friendly; "self-starter"; determined; optimistic; independent; confident	How do you persuade reluctant prospects to buy?
good listener; patient; empathetic; organized; polished speaker; "other oriented"	What would you say to a fellow salesperson who was getting more than his share of rejections and was having difficulty getting appointments?
honest; customer oriented, relationship builder	How do you feel when someone questions the truth of what you say? What do you do in such situations?
Other questions:	If you owned a company, why would you hire yourself? If you were head of your department, what would you do differently? How do you recognize the contributions of others in your department? If you weren't in sales, in what other job would you be?

before using them in an interview. Table 15.5 offers a quiz entitled "Is It Legal?" to help you understand the kinds of questions that are most likely to create charges of discrimination.

Selling the candidate on the company. In the final phase of the interview, the employer tries to sell her company to desirable candidates. This phase begins by allowing the candidate to ask questions about the company, the job, or other issues. Again, experienced interviewers note the nature of these questions and the insights they give into the candidate's personality. This part of the interview offers the employer a prime opportunity to explain to the candidate why her company is an attractive place to work. Remember: The best candidates will have other offers, and it's up to you to make sure they leave the interview wanting to work for your company. Finally, before closing the interview, the employer should thank the candidate and tell him what happens next (for example, "We'll be contacting you about our decision within two weeks").

Table 15.6 outlines a 10-step process for hiring and retention and Table 15.7 describes 10 interviewing mistakes small business owners must avoid.

CHECK REFERENCES. Small business owners should take the time to check every applicant's references. Although many business owners see checking references as a formality and pay little attention to it, others realize the need to protect themselves (and their customers) from hiring unscrupulous workers. Is it really necessary? Yes! According to the Society for Human Resource Management, more than half of candidates either exaggerated or falsified information about their previous employment on their résumés.[15] Checking references thoroughly can help employers uncover false or exaggerated information. Rather than contacting only the references listed, experienced employers call applicants' previous employers and talk to their immediate supervisors to get a clear picture of the applicant's job performance, character, and work habits. After talking with the references a candidate for a top financial position his company had listed, one entrepreneur took the time to contact the applicant's previous employers. He soon discovered that the candidate had stolen money and misused company credit cards in a previous job. *None of the references listed mentioned the incident.*

Experienced small business owners understand that the hiring process provides them with one of the most valuable raw materials their companies count on for success—capable, hard-working people. They know that hiring an employee is not a single event but the beginning of a long-term relationship. Table 15.8 features some strange but true incidents that employers have encountered during the selection process.

3. Explain how to build the kind of company culture and structure to support an entrepreneur's mission and goals and motivate employees to achieve them.

BUILDING THE RIGHT ORGANIZATIONAL CULTURE AND STRUCTURE

Culture

culture—*the distinctive, unwritten, informal code of conduct that governs an organization's behavior, attitudes, relationships, and style.*

A company's **culture** is the distinctive, unwritten, informal code of conduct that governs its behavior, attitudes, relationships, and style. It is the essence of "the way we do things around here" and often originates with the founder. In many small companies, culture plays as important a part in gaining a competitive edge as strategy does. It has a powerful impact on the way people work together in a business, how they do their jobs, and how they treat their customers. Company culture manifests itself in many ways—from how workers dress and act to the language they use. For instance, at some companies, the unspoken dress code requires workers to wear suits and ties, but at many companies employees routinely come to work in jeans and T-shirts and enjoy perks such as Friday afternoon parties! The culture at some small companies is more an extension of college life than a transition to corporate life, which suits these companies' young, college-educated workers just fine!

In many companies, the culture creates its own language. At Disney, for instance, workers are not "employees"; they are "cast members." They don't merely go to work; their jobs are "parts in a performance." Disney's customers are "guests." When a cast member treats someone to lunch, it's "on the mouse." Anything negative—such as a cigarette butt on a walkway—is "a bad Mickey," and anything positive is "a good Mickey."

Creating a culture that supports a company's strategy is no easy task, but the entrepreneurs who have been most successful at it believe in having a set of overarching beliefs to serve as powerful guides for everyday action. Culture arises from an entrepreneur's consistent and relent-

TABLE 15.5

Is It Legal?

Some interview questions can land an employer in legal hot water. Review the following interview questions and then decide whether you think each one is "legal" or "illegal."

Legal	Illegal		
❑	❑	1.	Are you currently using illegal drugs?
❑	❑	2.	Have you ever been arrested?
❑	❑	3.	Do you have any children or are you planning to have children?
❑	❑	4.	When and where were you born?
❑	❑	5.	Is there any limit on your ability to work overtime or to travel?
❑	❑	6.	How tall are you? How much do you weigh?
❑	❑	7.	Do you drink alcohol?
❑	❑	8.	How much alcohol do you drink per week?
❑	❑	9.	Would your religious beliefs interfere with your ability to do this job?
❑	❑	10.	What contraceptive practices do you employ?
❑	❑	11.	Are you HIV-positive?
❑	❑	12.	Have you ever filed a lawsuit or a workers' compensation claim against a former employer?
❑	❑	13.	Do you have any physical or mental disabilities that would interfere with your doing this job?
❑	❑	14.	Are you a U.S. citizen?
❑	❑	15.	What is your race?

Small business owners can use the "OUCH" test as a guide for determining whether an interview question might be considered discriminatory:

- Does the question *O*mit references to race, religion, color, sex, or national origin?
- Does the question *U*nfairly screen out a particular class of people?
- Can you *C*onsistently apply the question to every applicant?
- Does the question *H*ave job-relatedness and business necessity?

Answers: 1. Legal. 2. Illegal. Employers cannot ask about an applicant's arrest record, but they can ask if a candidate has ever been convicted of a crime. 3. Illegal. Employers cannot ask questions that would lead to discrimination against a particular group (e.g., women). 4. Illegal. The Civil Rights Act of 1964 bans discrimination on the basis of race, color, sex, religion, or national origin. 5. Legal. 6. Illegal. Unless a person's physical characteristics are important for high job performance (e.g., lifting 100-pound sacks of flour), employers cannot ask candidates such questions. 7. Legal. 8. Illegal. Notice the fine line between question 7 and question 8; this is what makes interviewing a challenge! 9. Illegal. This question would violate the Civil Rights Act of 1964. 10. Illegal. What relevance would this have to an employee's job performance? 11. Illegal. Under the Americans with Disabilities Act, which prohibits discrimination against people with disabilities, people with HIV or AIDS are considered "disabled." 12. Illegal. Workers who file such suits are protected from retribution by a variety of federal and state laws. 13. Illegal. This question also would violate the Americans with Disabilities Act. 14. Illegal. This question violates the Civil Rights Act of 1964. 15. Illegal. Employers cannot ask questions about a job applicant's race. The Civil Rights Act of 1964 bans discrimination on the basis of race, color, sex, religion, or national origin.

less pursuit of a set of core values that everyone in the company can believe in. In some cases, the original organizational culture set forth by the founder may prove to be ineffective and successors face the challenge of introducing a new culture; consider the People Soft example.

A Company Example

Few firms have experienced a greater corporate culture change in the past decade than the employees of ***PeopleSoft****. The firm's founder, David A. Duffield, turned the reins of his firm over to Craig Conway, a product of the Larry Ellison school of "take-no-prisoners" management at Oracle. Before long PeopleSoft was in serious financial difficulty. Duffield's leadership style created a corporate culture described, even in the software development industry, as peculiar. Duffield had provided free breakfasts for all employees, allowed employees to bring their pets to the office, and practiced a participative management style.*

TABLE 15.6

The 10-Step Hiring and Retention Process

10-Step Hiring and Retention Process	
Step 1.	Ask yourself the following questions: Do I really need to replace the person who left? What happens if I don't? Can others assume the responsibility and tasks?
Step 2.	Look inside. Whenever, possible promote from within.
Step 3.	Before you interview potential candidates, develop a set of standards against which you will judge each candidate. Don't compromise.
Step 4.	When interviewing, ask pertinent questions that will help you identify individuals with a track record of producing tangible results.
Step 5.	Ask others in your organization to spend time with a candidate to get a second opinion.
Step 6.	Focus on determining the candidate's skills at problem solving, teamwork (if relevant), and other specifically relevant job performances.
Step 7.	After your selection and the candidate's acceptance, be sure that the transition into the new position is smooth. Examples of this include having the new employee's workstation well equipped, co-workers aware of the new employee's arrival, and a welcome function where all parties can be introduced.
Step 8.	Assign each new employee a mentor to ensure that he or she learns the job from an employee who will start them on the right track.
Step 9.	Whenever possible, plan a dinner with the new employee's family and yours. You sold the job to the new hire; now do the same for the spouse.
Step 10.	For the first four to six months meet briefly with the new hire on a regular basis. New employees view your business through "fresh eyes" and can often help the firm recognize new opportunities.

Craig Conway wore power suits, expected others to do so as well, and did not greet employees with a big hug, as Duffield often would. Gone were the free breakfasts and pets and in came strategic planning and "corporate discipline." Many key executives left to form other firms or work with competitors. However, Conway held firm and in September 2000 released PeopleSoft's Internet-based product PeopleSoft 8, which has proved to be a market success. The firm is now financially sound.[16]

TABLE 15.7

10 Interviewing Mistakes

1. Succumbing to pressure to hire fast, which often arises as a result of failing to begin the search process far enough in advance. Plan ahead!
2. Falling victim to the halo effect, the tendency to attribute a host of positive attributes (e.g., intelligence, sense of humor, honesty, etc.) to a candidate based on one positive attribute (e.g., well spoken). This tendency is called the horn effect when it works in a negative fashion.
3. Asking leading or "canned" questions, those in which it is obvious to everyone involved, including the job applicant, what the "right" answer should be.
4. Talking too much. A common mistake inexperienced interviewers make is doing most of the talking while the candidate has to work hard just to become part of the conversation. Remember the 25/75 rule!
5. Failing to take notes during the interview. Jotting down key points, questions, and impressions as they occur will be of tremendous value when it's time to make a final decision about a particular candidate.
6. Accepting generalizations from a candidate. Effective interviewers probe for specific results and examples from candidates so they can verify applicants' qualifications and characteristics more objectively.
7. Asking questions that could lead to charges of discrimination and land the company in a nasty lawsuit. Keep questions job focused and consistent.
8. Failing to check a candidate's references. This routine procedure may uncover inconsistencies and falsehoods in the candidate's background. It can help small business owners avoid making a "bad hire" and lawsuits charging them with "negligent hiring." Ask former employers, "Would you hire him or her again?"
9. Making snap judgments. A common tendency among novice interviewers is to make a decision about a candidate in the first few minutes of an interview and then to spend the rest of the interview justifying that decision.
10. Committing candidate-order error. Experienced interviewers know that the order in which they interview candidates can affect their evaluations of them. Most recent candidates tend to have the advantage. Be aware of this tendency.

TABLE 15.8

Strange but True!

Source: "Hiring Horrors," *Your Company*, April 1999, p. 14; Mike B. Hall, "From Job Applicants," Joke-of-the-Day, www.jokeoftheday.com, December 8, 2000; Karen Axelton, "L-L-L-Losers!" *Business Start-Ups*, April 2000, p. 13.

If you read enough résumés, conduct enough interviews, and check enough references, sooner or later you will encounter something bizarre. Consider the following examples (all true).

- After having lunch with a job candidate, a business owner took the applicant to her office for more discussion. The discussion ended, however, when the applicant dozed off and began snoring.
- On his résumé, one candidate wrote, "It's best for employers if I not work with people." Another included the following note: "Please don't misconstrue my 14 jobs as job hopping. I have never quit a job."
- An interviewer told a man applying for a clerical job to relax before taking a typing test. He flexed his fingers and then took off his shirt!
- An applicant at a warehouse proudly reviewed his prison record for the interviewer, adding that he had gotten much better: Rather than steal from his grandmother, he stole only from her friends and beat her up only if she refused to give him money.
- When asked about his personal interests, one candidate proudly replied, "Donating blood. Fourteen gallons so far!"
- At the end of an interview, the interviewer asked the candidate if he had any questions. His only question: "Is the office close enough so I can run home three times a day to Water Pik my teeth?"
- One candidate asked if he could bring his rabbit to work with him, adding that the rabbit was focused and reliable but that he himself had been fired before.
- When asked about why he had been fired from several jobs, one candidate said that his previous employers had conspired to place an evil curse on him.
- When asked what his ideal job would be, another candidate showed his lack of motivation, saying, "To lie in bed all day, eat chocolate, and get paid."

Recommendations from previous employers can sometimes be quite entertaining, too. The following are statements from managers about workers.

- "Works well when under constant supervision and cornered like a rat in a trap."
- "This young lady has delusions of adequacy."
- "A photographic memory but with the lens cover glued on."
- "If you were to give him a penny for his thoughts, you'd get change."
- "If you stand close enough to him, you can hear the ocean."

Nurturing the right culture in a company can enhance a company's competitive position by improving its ability to attract and retain quality workers and by creating an environment in which workers can grow and develop. Which organizational culture will be most effective is never easy to determine. However, one thing is certain: The culture must support exceptional performance and be compatible with the firm's stated values and benefits. Companies that have been successful in creating supportive cultures rely on the following principles.

RESPECT FOR WORK AND LIFE BALANCE. Successful companies recognize that their employees have lives away from work. One recent study of Generation X workers found that those companies that people most wanted to work for erased the traditional barriers between home life and work life by making it easier for employees to deal with the pressures they face away from their jobs. These businesses offer flexible work schedules, part-time jobs, job sharing, telecommuting, sabbaticals, on-site day care, and dry cleaning.

A Company Example

Roger Greene, founder of ***Ipswitch Inc.****, a software company in Lexington, Massachusetts, has built his company on the concept of work–life balance. Company policy discourages employees from working late into the night and on weekends, and Greene recently raised the minimum vacation period for employees to five weeks a year. "Live life as it goes along and do neat things while you're working and enjoy every year of your life," he advises his employees. Ipswitch's rate of employee turnover is half that of the industry average.*[17]

It is logical to believe that grief equates to lower productivity, but it is rare to see how expensive grief is to our economy. The Grief Recovery Institute reports that workplace grief results in the loss of $75 billion in productivity. The Grief Index on page 500 illustrates its findings.

Although these data are subjective and not exact, they represent an attempt to quantify the effects of the loss of 2.4 million loved ones each year. Employee assistance programs can be very valuable in helping individuals cope with the emotional loss and the corresponding period

Source: The Gerief Recovery Institute

The Grief Index	
Death of a Loved One Cost: $37.6 billion	**Death of an Acquaintance** Cost: $7 billion
Divorce/Marital Woes Cost: $11 billion	**Money Trouble at Home** Cost: $4.6 billion
Family Crisis Cost: $9 billion	**Pet Loss** Cost: $2.4 billion

of depression that can produce declining productivity. Entrepreneurs need to recognize that proactive intervention in these cases both demonstrates a genuine interest in the employee's loss, as well as helping the individual overcome the loss and return sooner to full productivity.[18]

A SENSE OF PURPOSE. As you learned in Chapter 3, "Strategic Management and the Entrepreneur," one of the most important jobs an entrepreneur faces is defining the company's vision and then communicating it effectively to everyone the company touches. Effective companies use a strong sense of purpose to make employees feel connected to the company's mission. At motorcycle legend Harley-Davidson, employees are so in tune with the company's mission that some of them have tatooed the company's name on their bodies!

A SENSE OF FUN. For some companies, the barriers between work and play are blurred. The founders of these businesses see no reason for work and fun to be mutually exclusive. In fact, they believe that workplaces that create a sense of fun make it easier to recruit quality workers and encourage them to be more productive and more customer oriented. Employees are encouraged to participate in activities designed to build their skills in teamwork and human relations. These "fun" events improve employees' ability to work in teams in a creative and productive manner.

DIVERSITY. Effective companies not only accept cultural diversity in their workforces, but they also embrace it, actively seeking out workers with different backgrounds. Today businesses must recognize that a workforce that has a rich mix of cultural diversity gives the company more talent, skills, and abilities from which to draw. The result is a stronger company.

A Company Example

That was the approach taken by the shareholder-owned, publicly-chartered mortgage funding organization ***Fannie Mae****. The organization's goal was to have a workforce that "mirrors" American demographics. The results are impressive and include an increase in minority-held management positions from 9 percent in 1994 to 24 percent in 2001. In addition, managerial positions held by females increased from 40 percent to more than 45 percent.*[19]

A study of the demographics of the United States quickly reveals the steady march toward an increasingly diverse population. The workforce is beginning to reflect the diversity of our culture and its composition. In the 100 largest cities in America, non-Hispanic white males now are a minority. Surrounding the issue of a diverse American culture lies the continually intensifying problem of the shortage of skilled workers.

Entrepreneurs must articulate the positive value of a diverse workforce and then compete in the labor market to attract and retain the best-qualified workers. In the case of diversity, both society and the organization are the beneficiaries of an effective diversity program. Fred Kleisner, chairman and CEO of Wyndham International (Wyndham Hotels), explains, "I want diversity to be more than a corporate initiative. . . . I want it to be a living part of our culture, a belief system and service philosophy that permeate from each of our employees."[20]

INTEGRITY. Employees want to work for companies that stand for honesty and integrity. They do not want to check their own personal values systems at the door when they report to work. Indeed, many workers take pride in the fact that they work for companies that are ethical

YOU Be the Consultant . . .

Last Resort Workers

Tim Rock, owner of Rock Communications, a small printing company in Newton, Iowa, was concerned about the growth prospects of his business, not because of a lack of customers but because of a lack of employees. Rock was constantly short of workers. "Every day we'd be one or two or five people short," says Rock. Then one day, while driving down Interstate 80, Rock thought of the prison just outside of town and the number of men there with plenty of time on their hands. Why not hire some of the inmates to work at his company? Rock wrote a letter to the warden and soon a dozen inmates arrived at Rock Communications for work. It was an extreme solution to Rock's labor problems, but it is one that has worked out well. In the five years that Rock has been hiring workers from the prison, he has seen dozens of men cycle through his business. Most stayed only a few months, but 13 former prisoners are now full-time employees. Rock also has a team of 60 part-time senior adults who assemble advertising inserts the company prints every week.

Like Tim Rock, Jerry Strahan is always in desperate need of employees. Strahan, general manager of Lucky Dogs, Inc., a 52-year-old hot dog vending company in New Orleans, is constantly looking for vendors to take the company's 22 pushcarts out into the streets of the French Quarter. Although the work requires no special skills other than the ability to make change, finding workers in New Orleans willing to push 650-pound carts shaped like a giant hot dog is tougher than it sounds. "We've tried ads and employment agencies," says Strahan, "but most people can't take the streets." Lucky Dogs now recruits at mission centers for the homeless and at the Salvation Army. "We've tried to get better people," Strahan says, "but with no success." Many show up on Lucky Dogs' doorstep after hearing about the opportunity for work from current employees.

The result is a rather motley workforce made up of drifters, alcoholics, petty thieves, and brawlers that is, at best, a challenge to manage and to motivate. "I tell the vendors, 'You need to be neat, you need to be clean, you need to be on time, you need to be polite, and you need to be conscientious,'" says Strahan. "But the vendors say to me, 'Jerry, if I could be all those things, I'd be working in an office on Poydras Street. Can we go for three out of five?'" One off-and-on employee has stayed with the company for 14 years, despite his occasional tendency to show up for work dressed like Doris Day or John Wayne.

Strahan is willing to go for three out of five and, frankly, is happy when he gets it. Erratic behavior and actions that would get workers fired on the spot in most companies are acceptable at Lucky Dogs. "We make a set of rules, and they're good for about 10 minutes," says Strahan, only half joking. "You have to be very forgiving when they're not followed; otherwise, you don't have the carts out. You can't eliminate the madness. Sometimes you can control it." At Lucky Dogs, for instance, it's not unusual for employees to scream at their supervisors, to show up drunk, or to fail to show up for work altogether. "Most companies will say, 'If you show up for work drunk, you're fired,'" says Strahan. "Here, if you show up for work drunk, I've got to give you a C-minus because you showed up."

With the pool of potential workers so small, Lucky Dogs does not turn away many applicants. Those who are clean, able to make change, and have an ID get a chance to work. Strahan does not bother to check references on applicants, either. In an attempt to keep employee theft to a minimum, Lucky Dogs requires vendors to turn in their receipts often during a shift. Strahan does have one rule that, if broken, results in immediate dismissal: Any vendor caught stealing from another vendor will be fired.

To manage (if you can call it that) this rather unruly crew of workers, a Strahan admits that he breaks almost every conventional rule in the field of human resources management. Yet, he somehow manages to pull it off. He's been involved in shouting matches with employees and then a few minutes later ends up lending them money. When one worker showed up for his shift so intoxicated that he could barely stand, Strahan asked him to explain. "I thought I was pregnant," said the man. Without missing a beat, Strahan deadpanned, "In your condition, you probably shouldn't be working. Why don't you go home and we'll talk about it tomorrow?" Perhaps Strahan's style is best described as management by looking the other way. Although he has worked in his current job at Lucky Dogs for more than 28 years, he doubts that he could succeed at another company. "I don't think my skills would translate to a normal company," he says.

1. Why must employers such as Tim Rock and Jerry Strahan resort to such extreme measures to find workers?

2. What techniques would you recommend for motivating workers such as those described in this feature?

3. Are there other options for recruiting employees that you might suggest Rock and Strahan explore?

Source: Adapted from Ann Harrington, "Does Anybody Here Want a Job?" *Fortune*, May 15, 2000, pp. 489–498. Leigh Buchanan, "The Taming of the Crew," *Inc.*, August 1999, pp. 27–40.

and socially responsible. They expect their companies to communicate with them openly and honestly about issues that matter to them.

PARTICIPATIVE MANAGEMENT. Company owners and managers must trust and empower employees at all levels of the organization to make decisions and to take the actions they need to do their jobs well. As a firm grows, management must empower employees to act

SOURCE: REPRINTED BY PERMISSION
OF RANDY GLASBERGEN

"We need to focus on diversity. Your goal is to hire people who all look different, but think just like me."

without direct supervision. For instance, at Nantucket Nectars, a small juice company, the management style is so participative that there is no established organizational hierarchy and no secretaries.

LEARNING ENVIRONMENT. Today companies encourage and support lifelong learning among their employees. Every day is an opportunity to learn and improve the ability to contribute to the firm and to grow as a person. That attitude is a strong magnet for the best and the brightest young workers, who know that to stay at the top of their fields, they must always be learning.

Managing Growth and a Changing Culture

As companies grow from start-up businesses, going through the growth phase and beyond, they often experience dramatic changes in their cultures. Procedures become more formal, operations grow more widespread, jobs take on more structure, communication becomes more difficult, and the company's personality begins to change. As more workers come on board, employees find it more difficult to know everyone in the company and what their jobs are. Unless an entrepreneur works hard to maintain her company's unique culture, she may wake up one day to find that she has sacrificed that culture—and the competitive edge that goes with it—in the name of growth.

Ironically, growth can sometimes be a small company's biggest enemy, causing a once successful business to spiral out of control into oblivion. The problem stems from the fact that the organizational structure (or lack of it!) and the style of management that make an entrepreneurial start-up so successful often cannot support the business as it grows into adolescence and maturity. As a company grows, not only does its culture tend to change but so does its need for a management infrastructure capable of supporting that growth. Compounding the problem is the entrepreneur's tendency to see all growth as good. After all, who wouldn't want to be the founder of a small company whose rapid growth makes it destined to become the next rising star in the industry? Yet, achieving rapid growth and managing it are two distinct challenges. Entrepreneurs must be aware of the challenges rapid growth brings with it; otherwise they may find their companies crumbling around them as they reach warp speed.

In many cases, small companies achieve impressive growth because they bypass the traditional organizational structures, forgo rigid policies and procedures, and maintain maximum flexibility. One study of business growth found that small companies have the edge over their larger rivals:[21]

- Large companies' inability to react quickly is a major barrier to their growth. Small companies are naturally quick to respond.
- Rigid internal structures keep big companies from growing rapidly. Small companies typically bypass traditional structures.
- Large companies focus on expanding existing product and service lines, whereas small businesses concentrate more on creating new ones.
- Large companies are concerned with minimizing risks and defending their market share. Small companies are more willing to takes the risks necessary to conquer new markets.
- Large companies are reluctant to eradicate market research and technology that have worked in the past. Entrepreneurial companies have more of a "clean slate" approach to research and technology.

But growth brings with it change: changes in management style, organizational strategy, and methods of operations. Growth produces organizational complexity. In this period of transition, the entrepreneur's challenge is to walk a fine line between retaining the small-company traits that are the seeds of the business's success and incorporating the elements of the infrastructure essential to supporting and sustaining the company's growth.

Structure

Entrepreneurs rely on six different management styles to guide their companies as they grow. The first three (craftsman, classic, and coordinator) involve running a company without any management assistance and are best suited for small companies in the early stages of growth; the last three (entrepreneur-plus-employee team, small partnership, big-team venture) rely on a team approach to run the company as its growth rate heats up.[22]

THE CRAFTSMAN. One of the earliest management styles to emerge was the craftsman. These entrepreneurs literally run a one-man (or one-woman) show; they do everything themselves because their primary concern is with the quality of the products or services they produce. Woodworkers, cabinetmakers, glassblowers, and other craftsmen rely on this style of management. The benefits of this style include minimal operating expenses (no employees to pay), very simple operations (no workers' compensation, incentive plans, or organizational charts), no supervision problems, and the entrepreneur's total control over both the business and its quality.

Of course, one disadvantage of the craftsman management style is that the entrepreneur must do everything in the business, including those tasks that she does not enjoy. The biggest disadvantage of this style, however, is the limitations it puts on a company's ability to grow. A business can grow only so big without the craftsman taking on other workers and delegating authority to them. Before choosing this management style, a craftsman must decide: "How large do I want my business to become?"

THE CLASSIC. As business opportunities arise, a craftsman quickly realizes that she could magnify the company's capacity to grow by hiring other people to work. The classic entrepreneur brings in other people but does not delegate any significant authority to them, choosing instead to "watch over everything" herself. She insists on tight supervision, constantly monitors employees' work, and performs all of the critical tasks herself. Classic entrepreneurs do not feel comfortable delegating the power and the authority for making decisions to anyone else; they prefer to keep a tight rein on the business and on everyone who works there.

Even though this management style gives a business more growth potential than the craftsman style, there is a limit to how much an entrepreneur can accomplish. Therefore, entrepreneurs who choose to operate this way must limit the complexity of their businesses if they are to grow at all. An inherent danger of this style is the entrepreneur's tendency to "micromanage" every aspect of the business rather than spend her time focusing on those tasks that are most important and most productive for the company.

THE COORDINATOR. The coordinator style of management gives an entrepreneur the ability to create a fairly large company with very few employees. In this type of business (often called a virtual corporation because the company is actually quite "hollow"), the entrepreneur farms out a large portion of the work to other companies and then coordinates all of the activities from "headquarters." By hiring out at least some of the work (in some cases, most of the work), the entrepreneur is free to focus on pumping up sales and pushing the business to higher levels. Some coordinators hire someone to manufacture their products, pay brokers to sell them, and arrange for someone to collect their accounts receivable! With the help of just a few workers, a coordinator can build a multimillion-dollar business!

Although the coordinator style sounds like an easy way to build a business, it can be very challenging to implement. The business's success is highly dependent on its suppliers and their ability to produce quality products and services in a timely fashion. Getting suppliers to perform on time is one of the hardest tasks. Plus, if the entrepreneur hires someone else to manufacture the product, she loses control over its quality.

THE ENTREPRENEUR-PLUS-EMPLOYEE TEAM. As their companies grow, many entrepreneurs see the need to shift to a team-based management style. The entrepreneur-plus-employee team gives an entrepreneur the power to grow the business beyond the scope of the manager-only styles. In this style, the entrepreneur delegates authority to key employees, but she retains the final decision-making authority in the company. Of course, the transition from a management style in which the entrepreneur retains almost total authority to one based on delegation requires some adjustments for employees and especially for the entrepreneur! Employees have to learn to make decisions on their own, and the manager must learn to give workers the authority, the responsibility, and the information to make them. Delegating requires a manager to realize that there are several ways to accomplish a task and that sometimes employees will make mistakes. Still, delegation allows a manager to get the maximum benefit from each employee while freeing herself up to focus on the most important tasks in the business.

A Company Example

Many executives believe that their leadership style is the product of a major life experience. Jack Kahl, founder of ***Manco****, says that his mother's leadership when he was seven and his father was diagnosed with tuberculosis, formed the model he follows in business. His mother pulled the children together into a team to cope with the family's financial difficulties. All the children worked to support the needs of the family. Jack Kahl learned consensual leadership from his mother and built a successful business based on its application.*[23]

THE SMALL PARTNERSHIP. As the business world grows more complex and interrelated, many entrepreneurs find that there is strength in numbers. Rather than manage a company alone, they choose to share the managerial responsibilities with one or more partners (or shareholders). As we saw in Chapter 3 concerning forms of ownership, the benefits are many. Perhaps the biggest advantage is the ability to share responsibility for the company with others who have a real stake in the company and are willing to work hard to make it a success. Some of the most effective partnerships are those in which the owners' skills complement one another, creating natural "fault lines" for dividing responsibilities. Of course, the downside to this management style includes the necessity of giving up total control over the business and the potential for personality conflicts and disputes over the company's direction.

THE BIG-TEAM VENTURE. The broadest-based management style is the big-team venture, which typically emerges over time as a company grows. The workload demands on a small number of partners can quickly outstrip the time and energy they can devote to them, even if they are effective delegators. Once a company reaches this point, managers must expand the breadth of the management team's experience to handle the increasing level of responsibility that results from the sheer size of the company. If the company's operations have become global in scope as it has grown, the need for such a management team is even more pronounced. For entrepreneurial ventures that have grown to this size, the big-team venture is almost a necessity.

Any of these management styles can be successful for an entrepreneur if it matches her personality and the company's goals. The key is to plan for the company's growth and to lay out a strategy for managing the changes the company will experience as it grows. Entrepreneurs should annually evaluate their companies and themselves and ask if change is needed.

Making Teams Work

Large companies have been using self-directed work teams for years to improve quality, increase productivity, raise morale, lower costs, and boost motivation; yet, team-based management only recently began to catch on in small firms. In fact, a team approach may be best suited to small companies. Even though converting a traditional company to teams requires a major change in management style, it is usually easier to implement with a small number of workers. A **self-directed work team** is a group of workers from different functional areas of a company who work together as a unit largely without supervision, making decisions and performing tasks that once belonged only to managers. Some teams may be temporary, attacking and solving a specific problem, but many are permanent components of an organization's structure. As their name implies, these teams manage themselves, performing such functions as setting work schedules, ordering raw materials, evaluating and purchasing equipment, developing budgets, hiring and firing team members, solving problems, and a host of other activities. The goal is to get people working together to serve customers better.

self-directed work team—*a group of workers from different functional areas of a company who work together as a unit largely without supervision, making decisions and performing tasks that once belonged only to managers.*

Managers in companies using teams don't just sit around drinking coffee, however. In fact, they work just as hard as before, but the nature of their work changes dramatically. Before teams, managers were "bosses" who made most of the decisions affecting their subordinates alone and hoarded information and power for themselves. In a team environment, managers take on the role of "coaches" who empower those around them to make decisions affecting their work and share information with workers. As facilitators, their job is to support and to serve the teams functioning in the organization and to make sure they produce results. Not every entrepreneur feels comfortable in the roles of facilitator and coach, but for a team-based approach to succeed, an entrepreneur must learn to adapt.

Companies have strong competitive reasons for using team-based management. Companies that use teams effectively report significant gains in quality, reductions in cycle time, lower costs, increased customer satisfaction, and improved employee motivation and morale. A team-based approach is not for every organization, however. Teams are not easy to start, and switching from a traditional organizational structure to a team-based one is filled with potential pitfalls. Teams work best in environments where the work is interdependent and people must interact with one another to accomplish their goals. Although a team approach might succeed in a small plant making gas grills, it would most likely fail miserably in a real estate office, where salespeople work independently of one another with little interaction required to make a sale.

In some cases, teams have been a company's salvation from failure and extinction; in others, the team approach has flopped. What's the difference? What causes teams to fail? The following errors are common:[24]

- *Assigning teams inappropriate tasks.* One of the biggest mistakes managers make with teams is assigning them to tasks that individuals ought to be performing.
- *Creating "make-nice" teams.* For a team to perform effectively it must have a clear purpose, and every team member must understand it. Unfortunately, managers sometimes create a team but fail to give it any meaningful work assignments other than to "make nice with one another."
- *Failing to provide adequate training for team members and team leaders.* Some organizations form teams and then expect employees, long accustomed to individual responsibilities, to magically become team players and contributors. Teams are very complex social systems influenced by pressures from within and buffeted by forces from without, and workers need training to become effective team players.
- *Sabotaging teams with underperformers.* Rather than fire poor performers (always an unpleasant task), some managers put them on teams, hoping that the members will either discipline them or get rid of them. It never works. Underperfomers undermine team performance.
- *Switching to team responsibilities but keeping pay individually oriented.* One of the quickest ways to destroy a team system is to pay team members based on their individual performances.

Teams work best in creative environments, and entrepreneurs who use them must establish an organizational structure that supports them. Teams do not fit naturally into a company's layers of hierarchy, and managers must adjust appraisal, compensation, and motivation systems to suit a team-based approach. Employees serving on teams also need support in the form of training in the team process. Successful teams do not just happen; they require planning, adequate resources, and managerial support. In essence, building a successful team-based structure requires some effort on an entrepreneur's part. To ensure teams' success, managers must:

- *Make sure that teams are appropriate for the company and the nature of its work.* A good starting point is to create a "map" of the company's work flow that shows how workers build a product or deliver a service. Is the work interdependent, complex, and interactive? Would teamwork improve the company's performance?
- *Make sure that teams are appropriate for the task to be accomplished.* Nothing ensures the failure of a team faster than assigning it a task that individuals should be performing.
- *Form teams around the natural work flow and give them specific tasks to accomplish.* Teams can be effective only if managers challenge them to accomplish specific, measurable objectives.
- *Provide adequate support and training for team members and leaders.* Team success requires a new set of skills. Workers must learn how to communicate, resolve conflict, support one another, and solve problems as a team. Smart managers see that workers get the training they need.
- *Involve team members in determining how their performances will be measured, what will be measured, and when it will be measured.* Doing so gives team members a sense of ownership and pride about what they are accomplishing.
- *Make at least part of team members' pay dependent on team performance.* Companies that have used teams successfully still pay members individually, but they make successful team work a major part of an individual's performance review. For teams to succeed, at least part of team members' compensation must be based on the team's performance.

A Company Example

Whole Foods*, a natural foods supermarket founded in 1978, relies on employees' participation in self-directed work teams to run its more than 200 stores. Company founders John Mackey, Craig Weller, and Mark Skiles decided to use a highly decentralized management structure built around self-directed teams early in the life of the business, creating the team structure when they opened their second store. Their goal was to allow decisions to be made at the level closest to customers and to help workers feel connected to the company. Whole Food's growth has been phenomenal over the years, but the company still uses the team concept; in fact, its workers are known as "team members," not "employees." Stores have an average of 10 teams, and every employee, including part-time workers, is a member of a team. Teams handle their own hiring, firing, training, purchasing, and scheduling. Management shares extensive financial information with teams, and a part of every team member's compensation is based on the team's performance. Managers at Whole Foods credit the team structure with maintaining an innovative atmosphere, with keeping team members highly motivated, and with sustaining the company's growth and above-average profitability.*[25]

motivation—*the degree of effort an employee exerts to accomplish a task; it shows up as excitement about work.*

Table 15.9 shows the four stages that teams go through on their way to performing effectively and accomplishing results.

THE CHALLENGE OF MOTIVATING WORKERS

4. Discuss the ways in which entrepreneurs can motivate their workers to higher levels of performance.

Motivation is the degree of effort an employee exerts to accomplish a task; it shows up as excitement about work. Motivating workers to higher levels of performance is one of the most difficult and challenging tasks facing a small business manager. Few things are more frustrating to a business owner than an employee with a tremendous amount of talent who lacks the desire to use it. Employees who consistently display a lack of excitement about work and never seem to "live up" to their potential stand out in small firms. Nonmotivated workers create friction because entrepreneurs are themselves almost always highly motivated overachievers. This section discusses four aspects of motivation: empowerment, job design, rewards and compensation, and feedback.

TABLE 15.9

The Stages of Team Development

Source: Mark Frohman, "Do Teams . . . But Do Them Right," *Industry Week*, April 3, 1995, p. 22.

Stage	Description	Leader Focus
1. Start-up	High expectations Unclear goals and roles	Task focus Provide goals and structure Supervise start-up and define accountability
2. Reality strikes	Recognition of time and effort required Roadblocks Frustration	Task and process emphasis Clarify expectations and roles Encourage open discussions and address concerns Ensure proper skills and resource
3. Realigning expectations	Goals and roles reset Cooperation and trust begin to produce progress	Process focus Promote participation and team decision making Encourage peer support Provide feedback
4. Performance	Involvement, openness, and teamwork Commitment to process and task achievement	Monitoring and feedback focus Let team take responsibility for solving problems and making decisions Monitor progress and supply feedback

Empowerment

One of the principles underlying the team-based management style discussed in the previous section is empowerment. **Empowerment** involves giving workers at every level of the organization the power, the freedom, and the responsibility to control their own work, to make decisions, and to take action to meet the company's objectives. Competitive forces and a more demanding workforce challenge business owners and managers to share power with everyone in the organization, whether they use a team-based approach or not.

empowerment—*the process of giving workers at every level of the organization the power, the freedom, and the responsibility to control their own work, to make decisions, and to take action to meet the company's objectives.*

Empowering employees requires a different style of management and leadership from that of the traditional manager. Many old-style managers are unwilling to share power with anyone because they fear doing so weakens their authority and reduces their influence. In fact, exactly the opposite is true! Business owners who share information, responsibility, authority, and power soon discover that their success (and their companies' success, too) is magnified many times over. Empowered workers become more successful on the job, which means the entrepreneur also becomes more successful.

Empowerment builds on what real business leaders already know: that the people in their organizations bring with them to work an amazing array of talents, skills, knowledge, and abilities. Workers are willing—even anxious—to put these to use; unfortunately, in too many small businesses, suffocating management styles and poorly designed jobs quash workers' enthusiasm and motivation. Enlightened business owners recognize their workers' abilities, develop them, and then give workers the freedom and the power to use those abilities. Motivated and trained employees work best when given the opportunity to use their own creativity and imagination.

When implemented properly, empowerment can produce impressive results, not only for the small business but also for newly empowered employees. For the business, benefits typically include significant productivity gains, quality improvements, more satisfied customers, improved morale, and increased employee motivation. When one manufacturing plant switched to empowered process improvement teams, workers used their newfound freedom to unleash a torrent of new ideas aimed at improving the company's performance. The teams were able to reduce cycle time for several key products by as much as 33 percent to 60 percent, producing huge savings and improving customer satisfaction. Other suggestions by the teams enabled the materials storage department to triple its productivity![26]

For workers, empowerment offers the chance to do a greater variety of work that is more interesting and challenging. Empowerment challenges workers to make the most of their creativity, imagination, knowledge, and skills. This method of management encourages them to take the initiative to identify and solve problems on their own and as part of a team. As empowered workers see how the various parts of a company's manufacturing or service systems fit together, they realize their need to acquire more skills and knowledge to do their jobs well. Entrepreneurs must realize that empowerment and training go hand in hand.

Not every worker wants to be empowered, however. Some will resist, wanting only to "put in their eight hours and go home." One expert estimates that companies moving to empowerment can expect to lose about 5 percent of their workforce. "Out of every 100 employees, five are diehards who will be impossible to change," he says. Another 75 percent will accept empowerment and thrive under it, if it is done properly. The remaining 20 percent will pounce eagerly on empowerment because it is something they "have been waiting to do . . . their whole [work] lives," he says.[27] Empowerment works best when a business owner:

- *Is confident enough to give workers all of the authority and responsibility they can handle.* Early on, this may mean giving workers the power to tackle relatively simple assignments. But, as their confidence and ability grow, most workers are eager to take on more responsibility.
- *Plays the role of coach and facilitator, not the role of meddlesome boss.* One surefire way to make empowerment fail is to give associates the power to attack a problem and then to hover over them, criticizing every move they make. Smart owners empower their workers and then get out of the way so they can do their jobs!
- *Recognizes that empowered employees will make mistakes.* The worst thing an owner can do when empowered employees make mistakes is to hunt them down and punish them. That teaches everyone in the company to avoid taking risks and to always play it safe—something no innovative small business can afford.
- *Hires people who can blossom in an empowered environment.* Empowerment is not for everyone. Owners quickly learn that as costly as hiring mistakes are, such errors are even more costly in an empowered environment. Ideal candidates are high-energy self-starters who enjoy the opportunity to grow and to enhance their skills.
- *Trains workers continuously to upgrade their skills.* Empowerment demands more of workers than traditional work methods. Managers are asking workers to solve problems and make decisions they have never made before. To handle these problems well, workers need training, especially in effective problem-solving techniques, communication, teamwork, and technical skills. Investing in employee training also improves employee retention.
- *Trusts workers to do their jobs.* Once workers are trained to do their jobs, owners must learn to trust them to assume responsibility for their jobs. After all, they are the *real* experts; they face the problems and challenges every day. One Japanese study found that workers "in the trenches" knew 100 percent of the problems in a company; supervisors knew 74 percent; and top managers knew just 4 percent![28]
- *Listens to workers when they have ideas, solutions, or suggestions.* Because they are the experts on the job, employees often come up with incredibly insightful, innovative ideas for improving them—if business owners give them the chance. Failing to acknowledge or to act on employees' ideas sends them a clear message: Their ideas really don't count.
- *Shares information with workers.* For empowerment to succeed, business owners must make sure workers get adequate information, the raw material for good decision making. Some companies have gone beyond sharing information to embrace **open-book management**, in which employees have access to all of a company's records, including its financial statements. The goal of open-book management is to enable employees to understand why they need to raise productivity, improve quality, cut costs, and improve customer service. Open-book management becomes the ultimate form of employee involvement. Under open-book management, employees (1) see and learn to understand the company's financial statements and other critical numbers in measuring its performance; (2) learn that a significant part of their jobs is making sure those critical numbers move in the right direction; and (3) have a direct stake in the company's success through profit sharing, ESOPs, or performance-based bonuses. To work, open-book management must not only make sure that workers understand how their company makes a profit but also how they can influence its financial results. One expert writes, "Instead of telling employees how to cut defects, [open-book management] asks them to boosts profits—and lets them figure out how. Instead of giving them a reengineered job, it turns them into businesspeople. They experience the

open-book management—*the process of giving employees access to all of a company's records, including its financial statements, so they can understand why they need to raise productivity, improve quality, cut costs, and improve customer service.*

challenge—and the sheer fun and excitement—of matching wits with the marketplace, toting up the score, and sharing in the proceeds. . . . There's no better motivation."[29]

- *Recognizes workers' contributions.* One of the most important tasks a business owner has is to recognize jobs well done. Some businesses reward workers with monetary awards; others rely on recognition and praise; still others use a combination of money and praise. Whatever system an owner chooses, the key to keeping a steady flow of ideas, improvements, suggestions, and solutions is to recognize the people who supply them.

A Company Example

The ***Great Harvest Bread Company*** *was founded in 1976 by Pete and Laura Wakeman in Dillon, Montana and has grown through franchising to 137 stores. The business does $60 million a year in sales systemwide and has become an example of a firm that learns from listening to its franchisees. One new franchisee came up with an idea for how she could implement the Great Harvest Bread Company's corporate value of "giving back generously to the local community." Her idea for a "Baker for the Day" program allowed each store to work in its community with local community groups to make and sell bread on Sunday (a day when the store is normally closed), with all of the profits on that day contributed to the community project. The program was a success and has been implemented by many other franchisees.*[30]

Job Design

Over the years, managers have learned that the job itself and the way it is designed can be a source of motivation (or demotivation!) for workers. In some companies, work is organized on the principle of **job simplification**, breaking the work down into its simplest form and standardizing each task, as in some assembly-line operations. The scope of jobs organized in such a way is extremely narrow, resulting in impersonal, monotonous, and boring work that creates little challenge or motivation for workers. Job simplification invites workers to "check their brains at the door" and offers them little opportunity for excitement, enthusiasm, or pride in their work. The result can be apathetic, unmotivated workers who don't care about quality, customers, or costs.

job simplification—*the type of job design that breaks work down into its simplest form and standardizes each task.*

To break this destructive cycle, some companies have redesigned jobs so that they offer workers intrinsic rewards and motivation. Three strategies are common: job enlargement, job rotation, and job enrichment.

Job enlargement (or horizontal job loading) adds more tasks to a job to broaden its scope. For instance, rather than an employee simply mounting four screws in computers coming down an assembly line, a worker might assemble, install, and test the entire motherboard (perhaps as part of a team). The idea is to make the job more varied and to allow employees to perform a more complete unit of work.

job enlargement—*the type of job design that adds more tasks to a job to broaden its scope.*

Job rotation involves cross-training employees so they can move from one job in the company to others, giving them a greater number and variety of tasks to perform. As employees learn other jobs within an organization, both their skills and their understanding of the company's purpose and processes improve. Cross-trained workers are more valuable because they give a company the flexibility to shift workers from low-demand jobs to those where they are most needed. As an incentive for workers to learn to perform other jobs within an operation, some companies offer skill-based pay, a system under which the more skills workers acquire, the more they earn.

job rotation—*the type of job design that involves cross-training employees so they can move from one job in the company to others, giving them a greater number and variety of tasks to perform.*

Job enrichment (or vertical job loading) involves building motivators into a job by increasing the planning, decision-making, organizing, and controlling functions—traditional managerial tasks—workers perform. The idea is to make every employee a manager—at least a manager of his own job. Notice that empowerment, the management technique discussed in the previous section, is based on the principle of job enrichment.

job enrichment—*the type of job design that involves building motivators into a job by increasing the planning, decision-making, organizing, and controlling functions workers perform.*

To enrich employees' jobs, a business owner must build five core characteristics into them:

- *Skill variety* is the degree to which a job requires a variety of different skills, talents, and activities from the worker. Does the job require the worker to perform a variety of tasks that demand a variety of skills and abilities or does it force him to perform the same task repeatedly?
- *Task identity* is the degree to which a job allows the worker to complete a whole or identifiable piece of work. Does the employee build an entire piece of furniture (perhaps as part of a team) or does he merely attach four screws?

- *Task significance* is the degree to which a job substantially influences the lives or work of others—employees or final customers. Does the employee get to deal with customers, either internal or external? One effective way to establish task significance is to put employees in touch with customers so they can see how customers use the product or service they make.
- *Autonomy* is the degree to which a job gives a worker the freedom, independence, and discretion in planning and performing tasks. Does the employee make decisions affecting his work or must he rely on someone else (e.g., the owner, a manager, or a supervisor) to "call the shots?"
- *Feedback* is the degree to which a job gives the worker direct, timely information about the quality of his performance. Does the job give employees feedback about the quality of their work or does the product (and all information about it) simply disappear after it leaves the worker's station?

Some organizational design questions do not have simple-to-apply textbook answers.

A Company Example

Consider the struggles of Douglas Green, founder of ***Green Design Furniture Company*** *of Portland, Maine. Green struggled to design an operating system that minimizes labor and material cost while ensuring exceptionally high-quality products. In search of this outcome, he invested in sophisticated furniture-making equipment he hoped would reduce his cost of production. Labor cost with the new equipment was approximately $50 per hour. Then, after an attempt to involve employees in the design of the production, scheduling, and workplace environment, Green discovered that labor cost rose from $50 to $70. The new employee-designed system was creating a bottleneck in production. The result was that production declined and orders were shipping late. In response, Green began to build furniture "to stock" in hopes that he would have the necessary inventory to meet demand. Inventory increased by more than 2000 percent and cost of goods sold increased dramatically. Green and his employees redesigned the production system once again, and costs fell. The average time between receiving an order and shipping is also improving. Job design and production layout are not "cookie-cutter" problems. Even experienced entrepreneurs like Douglas Green must constantly struggle to fine-tune a model that can result in a fair return on their invested capital.*[31]

As the nation's workers and the companies employing them continue to change, business is changing the way people work, moving away from a legion of full-time employees in traditional 8-to-5, full-time, on-site jobs. Significant changes in the demographic profile of the nation's workforce are requiring employers to change the way they organize jobs. By 2010, workers will be older, more racially and culturally diverse, and less loyal to any individual employer. In addition, the shortage of workers will worsen. The effect of these changes on business owners will be significant. Companies will be required to offer an ever broader array of work schedules and structures, including flextime, job sharing, flexplace, and telecommuting.

flextime—*an arrangement under which employees work a normal number of hours but have flexibility about when they start and stop work.*

Flextime is an arrangement under which employees work a normal number of hours but have flexibility about when they start and stop work. Most flextime arrangements require employees to build their work schedules around a set of "core hours," such as 11 A.M. to 2 P.M., but give them the freedom to set their schedules outside of those core hours. For instance, one worker might choose to come in at 7 A.M. and leave at 3 P.M. to attend her son's soccer game, whereas another may work from 11 A.M. to 7 P.M. Flextime not only raises worker morale, but it also makes it easier for companies to attract high-quality young workers who want rewarding careers without sacrificing their lifestyles. In addition, companies using flextime schedules often experience lower levels of tardiness, turnover, and absenteeism. Linda Field, founder of Field & Associates, a marketing and public relations firm in Houston, Texas, says that offering flextime helps her employees keep their work and their lives in balance and brings her company a larger pool of more qualified applicants.[32]

Flextime is becoming a popular job design strategy. A recent survey by the Society for Human Resource Management found that 55 percent of the nation's workers have flexible schedules, up from just 15 percent in 1991.[33] That percentage will grow because flextime is an important job design strategy for some companies that find it difficult to recruit capable, qualified full-time workers. Research shows that when considering job offers candidates weigh heavily the flexibility of the work schedule companies offer.

Job sharing is a work arrangement in which two or more people share a single full-time job. For instance, two college students might share the same 40-hour-a-week job, one working mornings and the other working afternoons. Salary and benefits are prorated between the workers sharing a job. Because job sharing is a simple solution to the growing challenge of life-and-work balance, it will become more popular in the future. A recent study by the Society of Human Resource Management found that 22 percent of companies in the United States currently offer job sharing.[34] Companies already using it are finding it easier to recruit and retain qualified workers. "Employers get the combined strengths of two people, but they only have to pay for one," says one hotel sales manager, herself a job sharer.[35]

job sharing—*a work arrangement in which two or more people share a single full-time job.*

Flexplace is a work arrangement in which employees work at a place other than the traditional office, such as a satellite branch closer to their homes or, in many cases, at home. Flexplace is an easy job design strategy for companies to use because of **telecommuting**. Using modern communication technology such as e-mail, voice mail, fax machines, and portable computers, employees have more flexibility in choosing where they work. Today, it is quite simple for workers to hook up electronically to their workplaces (and to all of the people and the information there) from practically anywhere on the planet. Telecommuting employees get the flexibility they seek, and they also benefit from reduced commuting times and expenses, not to mention a less expensive wardrobe (bathrobes and bunny slippers compared to business suits and wingtips). Companies reap many benefits as well, including improved employee morale, less absenteeism, lower turnover, and higher productivity. One study of companies using telecommuting found that employee turnover fell by 20 percent and that productivity climbed between 15 percent and 20 percent.[36]

flexplace—*a work arrangement in which employees work at a place other than the traditional office, such as a satellite branch closer to their homes or at home.*

telecommuting—*an arrangement under which employees working from their homes use modern communications equipment to hook up electronically to their workplaces.*

Despite the many benefits that telecommuting offers both employers and employees, small companies are less likely to use it as a job design strategy than large businesses. Although 90 percent of companies with more than 5,000 employees use telecommuting; only 40 percent of small businesses do.[37]

A Company Example

Iris Feinberg, president of ***Trillium Group*** *of Decatur, Georgia, has 45 of her 65 employees telecommuting, but this work option is only available once employees have proven themselves in the office setting. No employee is guaranteed the opportunity to telecommute. Trillium Group requires employees to work in-house full time for the first 90 days before they become eligible, and employees who do work from home are required to report to the office one day a week. Their experience has been that success in telecommuting results when all work expectations have been spelled out and both parties agree to them and to keeping the lines of communication open. Supervisors visit employees who are telecommuting to ensure that the agreement is being met. Trillium Group has found that the opportunity to telecommute has helped to reduce employee turnover by retaining good employees. Feinberg believes that, "With the right people in place, the right system to accommodate work-at-home employees, and the right policies to manage them, telecommuting can strengthen staff members' ties to the company, even while they work from a distance."*[38]

Before implementing telecommuting, entrepreneurs must address the following important issues:

- Does the nature of the work fit telecommuting? Obviously, some jobs are better suited to telecommuting than others.
- Have you selected the right employees for telecommuting? Telecommuting is not suitable for every job or for every worker. Experienced managers say that employees who handle it best are experienced workers who know their jobs well, are self-disciplined, and are good communicators.
- Can you monitor compliance with federal wage and hour laws for telecommuters? Generally, employers must keep the same employment records for telecommuters that they do for traditional office workers.
- Are you adequately insured? Employers should be sure that the telecommuting equipment employees use in their homes is covered under their insurance policies.
- Can you keep in touch? Telecommuting works well as long as long-distance employees stay in touch with headquarters.
- Have you created an equitable telecommuting policy? One danger of telecommuting is that it can create resentment among employees who remain office-bound.

hoteling—*an arrangement in which employees who spend most of their time away from the office use the same office space at different times.*

A variation of telecommuting that is growing in popularity is **hoteling**, in which employees who spend most of their time away from the office use the same office space at different times, just as travelers use the same hotel room on different days. Hoteling requires advance planning and coordination, but businesses that use it have been able to reduce the cost of leasing office space, sometimes by as much as 50 percent. Flexible office designs and furnishings allow workers to configure these "hot offices" (so called because they usually turn over so quickly that the seats are still hot from the previous user) to suit their particular needs.

A Company Example

When Lou Hoffman, founder of a professional services firm in San Jose, California, realized that employees were using only 45 percent of the company's existing office space regularly, he implemented hoteling. One-third of the company's 65 employees began sharing office space on a rotating basis, and Hoffman added temporary workstations to handle the occasional overflows and schedule conflicts. Hoffman estimates that hoteling saved his company $130,000 in less than one year![39]

Rewards and Compensation

The rewards an employee gets from the job itself are intrinsic rewards, but managers have at their disposal a wide variety of extrinsic rewards (those outside the job itself) to motivate workers. The key to using rewards to motivate involves tailoring them to the needs and characteristics of the workers. Rewards and compensation must be based on offering incentives that are really important to people. Consequently, it is critical to take the time to find out what those are and structure recognition around those in the context of the job. For instance, to a technician making $25,000 a chance to earn a $3,000 performance bonus would most likely be a powerful motivator. To an executive earning $175,000 a year, it may not be.

pay-for-performance compensation system—*a compensation system in which employees' pay depends on how well they perform their jobs.*

One of the most popular rewards is money. Cash is an effective motivator—up to a point. Over the last 20 years, many companies have moved to **pay-for-performance compensation systems**, in which employees' pay depends on how well they perform their jobs. In other words, extra productivity equals extra pay. By linking employees' compensation directly to the company's financial performance, a business owner increases the likelihood that workers will achieve performance targets that are in their best interest and in the company's best interest. These systems work only when employees see a clear connection between their performances and their pay, however. That's where small businesses have an advantage over large businesses. Because they work for small companies, employees can see more clearly the impact their performances have on the company's profitability and ultimate success than their counterparts at large corporations.

To make sure that the salaries they pay are competitive, entrepreneurs can consult a variety of sources. The Bureau of Labor Statistics publishes the *Occupational Outlook Handbook*, which provides pay rates and job forecasts for hundreds of occupations. The Bureau of Labor Statistics Web site (www.bls.gov) contains wage and salary data by region. Other useful sources are the *American Wages and Salary Survey* published by Gale Research, the *American Almanac of Jobs and Salaries*, JobStar (www.jobsmart.org), and Wageweb (www.wageweb.com).

stock options—*a plan under which employees can purchase shares of a company's stock at a fixed price.*

Money isn't the only motivator business owners have at their disposal, of course. In fact, money tends to be only a short-term motivator. In addition to the financial compensation they provide, most companies offer their employees a wide array of benefits, ranging from stock options and medical insurance to retirement plans and tuition reimbursement. **Stock options**, a plan under which the employees can purchase shares of a company's stock at a fixed price, have become a popular benefit for employees, especially in the new economy. Stock options take on real value once the fair market price of a company's stock exceeds the exercise price, the price at which employees can purchase stock. (Note that if the fair market price of a stock never exceeds the exercise price, the stock option is useless.) When trying to attract and retain quality employees, many small companies rely on stock options to gain an edge over larger companies offering bigger salaries.

A Company Example

For example, Dick Plodzien, CEO of ***Spencer Reed Group, Inc.****, a privately owned executive search and staffing company in Overland Park, Kansas, uses stock options to attract and retain quality employees. Not only has the stock option plan slowed the number of employees defecting to larger companies offering bigger salaries, but it also has enabled Plodzien to entice several executives to leave billion-dollar companies to join Spencer Reed.*[40]

Sometimes stock options produce a huge payoff for employees. Workers at highly successful companies such as Microsoft and Dell have retired early as multimillionaires thanks to stock options.

In an economy where they must compete aggressively for employees, entrepreneurs must recognize that compensation and benefits are no longer "one-size-fits-all" issues. The diversity of today's workforce requires employers to be highly flexible and innovative in the compensation and benefits they provide. To attract and retain quality workers, creative entrepreneurs offer employees a set of benefits designed to appeal to their individual needs and preferences. This diversity has led to the popularity of cafeteria benefit plans, in which employers provide certain base benefits and then allocate a specific dollar amount for employees to select the benefits that suit their needs best. Beyond flexible benefits plans, many small companies are setting themselves apart from others by offering unique benefits such as the following:[41]

- Clothing retailer Eddie Bauer offers employees on-site massages to ease tension and to enhance creativity.
- Starbucks, a chain of coffee shops, provides its employees with a personal concierge service that handles employees' errands. Need to make reservations at a restaurant and to order flowers for your friend's birthday celebration? The concierge will take care of it for you!
- Numerous Silicon Valley companies provide catered meals, on-site kitchens filled with fruit and snacks, and gymnasiums and athletic fields for employees. At Clif Bar, a 65-employee company that makes energy bars, employees on breaks can scale the 22-foot-high climbing wall located in the company gym. Clif Bar also hires trainers to conduct classes in aerobics, weight lifting, and other workouts on company time.
- At its San Jose, California headquarters, Cisco Systems Inc. operates a child care center for its employees' children, complete with Internet cameras so parents can connect to the Internet and check on their kids.
- One company that writes software for the insurance industry has an ultramodern exercise facility open 24 hours a day for its employees. Not only does the facility help recruit and retain workers, but the company's health insurance costs also have declined since it opened.
- Employees at Adobe Systems Inc. get a three-week paid sabbatical leave every five years to pursue some topic of interest to them.
- When workers at Gould Evans Goodman Associates, a Kansas City architectural firm, need a break, they can retreat to one of the company's "spent tents," camping tents set up in a corner complete with pillows, sleeping bags, soothing music, and alarm clocks (of course!).

Besides the wages, salaries, and attractive benefits they use as motivators, creative entrepreneurs have discovered that intangible incentives can be more important sources of employee motivation. After its initial impact, money does not have a lasting motivational effect (which for small businesses, with their limited resources, is a plus). Often for workers the most meaningful motivational factors are the simplest ones—praise, recognition, feedback, job security, promotions, and others—things that any small business, no matter how limited its budget, can do. When the economy is in a downturn, a business that can display its commitment to employees through a record of job security has a powerful tool to recruit good employees.

Entrepreneurs find that younger workers, especially "Generation Xers," respond best to intangible rewards and not to monetary rewards. Wanting more balance in their work and personal lives than their baby boomer parents, Generation X workers are looking for workplaces that offer challenging assignments coupled with a sense of fun. They respond best to constant feedback that is specific and accurate and to managers who take the time to celebrate their successes. The following suggestions will help entrepreneurs motivate and reward their Generation X employees:

- Give them challenging assignments that allow them to learn more skills. Generation X workers value education and want to upgrade their knowledge continuously.
- Give them jobs that require diverse skills and have an observable impact on the company's mission.
- Treat them as individuals and allow them to express their individuality at work.
- Avoid an authoritarian approach. They thrive in a participative work environment.

YOU Be the Consultant . . .

The New Company Town

The company office complex in the new economy looks very different from the nondescript, open offices so popular in the 1980s and 1990s with their walls painted institutional tan and lined with the cubicles that cartoon character Dilbert toils in every day. With a war raging among companies to attract the most qualified workers, many businesses are using their offices and a host of unique perks as recruiting and retention tools. Some companies provide their employees with in-house or take-home meals to free them from the drudgery of cooking for themselves. Others offer concierge services to help employees take care of the thousands of details that make up everyday life such as buying gifts, picking up laundry, or making reservations. Some offer on-site child care facilities and classes on gardening, sculpting, public speaking, karate, or scuba diving. The goal of these benefits is not only to attract and retain quality workers but also to free them up to focus on doing their jobs. Companies know that many workers will be on site from dawn to dusk and are doing everything they can to make employees' lives easier and more manageable. "Companies are taking the best aspects of home and incorporating them into work," says one expert.

What's behind these companies' efforts? Workers in the United States seem to be busier than ever, leaving little time for fun activities. Taking up that precious time with mundane tasks makes no sense, and that is the appeal of on-site services at work. "Time is a commodity I don't have a lot of," says Sheila Childs, a product manager in BMC software's research and development department and the mother of four children. "The amenities definitely make it comfortable for you to be [at work]." Childs's story is echoed in millions of homes across the United States. A study by the International Labor Organization found that the typical worker in the United States works 1,966 hours per year, even more than the 1,889 hours the legendary workaholic Japanese employee does!

BMC Software in Houston, Texas, has created a unique company campus designed to appeal to every aspect of its high-tech workers' busy lives. BMC has built what comes close to being a self-contained community so complete that one worker says. "You never have to leave the place." When employees are not in their offices, they can lounge on hammocks strung between trees on the company's grounds, lift weights in the gym, play a pickup game on the basketball court, practice their putting on the green, play horseshoes, or get in a friendly game of beach volleyball. Walking past the herb garden, employees might see cooks busily gathering fresh oregano to use in a company-provided lunch. On each floor of BMC's two glass towers is a large kitchen well stocked with fruit, popcorn, soft drinks, and coffee. Employees can dine in spacious booths and watch television on the big-screen TV. A sign in a hallway says "Massage Therapy This Way." In the lobby, a Steinway player piano plays a repertoire of both snappy tunes and relaxing minuets as employees and guests move about. A company valet picks up employees' cars scheduled for washes and oil changes. Also within the office complex are a bank, a store, a dry cleaner, a hairdresser, and a nail salon.

1. What are the benefits to companies and to workers of the services and facilities such as the one at BMC Software? What potential disadvantages do you see with companies offering these services and facilities?

2. Would *you* want to work at a company such as BMC Software? Explain.

Source: Jerry Useem, "Welcome to the New Company Store," *Fortune*, January 10, 2000, pp. 62–70.

- Trust them. One of the biggest turnoffs for Generation X employees is a manager who constantly checks up on them, indicating a lack of trust.
- Offer them varied assignments and frequent rewards (not necessarily money). Generation X workers want to be challenged by a variety of tasks, and they expect frequent feedback on their performance.

Praise is another simple yet powerful motivational tool. People enjoy getting praise, especially from a manager or business owner; it's just human nature. As Mark Twain once said, "I can live for two months on a good compliment." Praise is an easy and inexpensive reward for employees producing extraordinary work. A short note to an employee for a job well done costs practically nothing; yet it can be a potent source of motivation. How often have you had an employer say "thank-you" when you performed well?

A Company Example

*At **Mary Kay Cosmetics'** annual meeting, praise and saying "thank-you" are the watchwords. Indeed, they are the main reasons more than 36,000 beauty consultants from around the world gather in Dallas every year. At the meeting, superstar saleswomen receive praise and recognition from their peers and from top managers in sessions that resemble a cross between an awards banquet and a tent revival. Women come away with crowns, sashes, pins, bracelets, and, of course, those coveted pink Cadillacs—and a zealous fervor to go out and sell lots of makeup! "This is a company that understands that positive emotions can be good for the soul," says Gloria Mayfield Hayes, senior sales director.*[42]

One of the surest ways to kill high performance is simply to fail to recognize it and the employees responsible for it. Failing to praise good work eventually conveys the message that an entrepreneur either doesn't care about exceptional performance or cannot distinguish between good work and poor work. In either case, through inaction, the business owner destroys employees' motivation to excel.

Because they lack the financial resources of bigger companies, small business owners must be more creative when it comes to giving rewards that motivate workers. In many cases, however, using rewards other than money gives small businesses an advantage because they usually have more impact on employee performance over time. Rewards do not have to be expensive to be effective.

The late Mary Kay Ash, founder of Mary Kay Cosmetics, believed that praise is a powerful motivator. Every year, more than 36,000 beauty consultants gather in Dallas to receive rewards for a job well done, a tradition that Mary Kay herself started.

Courtesy of Corbis Bettmann, © Douglas Kirkland/Corbis.

A Company Example

*At **Mackay Envelope Corporation**, managers "go around and try to catch people in the act of doing something right," says owner Harvey Mackay. "Managers have a fistful of tickets to Vikings and Timberwolves games, to the opera and to Broadway shows, and we reward them right on the spot. We praise them in front of mother, God, and country!" he says.*[43]

In the future, managers will rely more on nonmonetary rewards such as praise, recognition, game tickets, dinners, letters of commendation, and others to create a work environment where employees take pride in their work, enjoy it, are challenged by it, and get excited about it: in other words, act like owners of the business themselves. The goal is to let employees know that "every person is important" (see Table 15.10).

Table 15.11 offers the "20 Top Ways to Motivate Employees," which is based on the results of a survey of some of the nation's leading motivational experts.

Feedback

Business owners not only must motivate employees to excel in their jobs, but they must also focus their efforts on the right targets. Providing feedback on progress toward those targets can be a powerful motivating force in a company. To ensure that the link between her vision for the company and its operations is strong, an entrepreneur must build a series of specific performance measures that serve as periodic monitoring points. For each critical element of the organization's performance (e.g., product or service quality, financial performance, market position, productivity, employee development, etc.), the owner should develop specific measures that connect daily operational responsibilities with the company's overall strategic direction. These measures become the benchmarks for measuring employees' performances and the company's progress. The adage "what gets measured and monitored gets done" is true for most organizations. By connecting the company's long-term strategy to its daily operations and measuring performance, an entrepreneur makes it clear to everyone in the company what is most important. Jack Stack,

TABLE 15.10

Xvxry Pxrson Is Important

One business owner let employees know how valuable they are with the following memo:

You Arx a Kxy Pxrson

Xvxn though my typxwritxr is an old modxl, it works vxry wxll—xxcxpt for onx kxy. You would not think that with all thx othxr kxys functioning propxrly, onx kxy not working would hardly bx noticxd; but just onx kxy out of whack sxxms to ruin thx wholx xffort.

You may say to yoursxlf—"Wxll, I'm only onx pxrson. No onx will noticx if I don't do my bxst." But it doxs makx a diffxrxnce bxcausx to bx xffxctivx, an organization nxxds activx participation by xvxry onx to thx bxst of his or hxr ability.

So thx nxxt timx you think you arx not important, rxmxbxr my old typxwritxr. You arx a kxy pxrson.

Source: "You Arx a Kxy Pxrson," *Pasadena Weekly Journal of Business*, 155 S. El Molino Avenue, Suite 101, Pasadena, California 91101.

TABLE 15.11

The Top 20 Ways to Motivate Employees

Source: Shari Caudron, "The Top 20 Ways to Motivate Employees," *Industry Week*, April 3, 1995, pp. 12–18.

1. **Give employees the information they need to do a good job.** Employees need timely information to do their jobs, starting with the company's mission and goals and moving on to information on their specific job responsibilities.
2. **Provide regular feedback.** Communication should be an ongoing event, giving employees the opportunity to measure and improve their performances.
3. **Ask employees for their input and involve them in the decisions that affect their jobs.** The people who are performing a job are the real experts, so why not involve them in the decision-making process? At one manufacturing plant, workers, not managers, made all of the decisions relating to the purchase of a $3 million piece of equipment. After all, they were the ones who would be using it.
4. **Establish easy-to-use channels of communication.** Managers should give employees the opportunity to express their ideas and suggestions on workplace issues. Effective managers learn to become good listeners.
5. **Learn from employees themselves what motivates them.** Because what motivates each employee is different, managers must customize the rewards they offer. The best way to find out what employees want is to get to know them and then ask them.
6. **Learn what on-the-job activities employees choose to do when they have free time and then create opportunities for them to perform those activities on a more regular basis.** Employees do well at those tasks they enjoy most.
7. **Personally congratulate employees for jobs well done.** A survey of 1,500 employees from a variety of work settings found that the most powerful motivator was recognition. Not only is it powerful, but it also doesn't cost anything.
8. **Recognize the power of a manager's presence.** Employees like frequent contact with their managers, however brief, because it indicates that the manager recognizes the importance of their work.
9. **Write personal notes to employees about their performances.** Such tangible recognition is a powerful motivator. These notes often make it to the home hall of fame—the refrigerator door.
10. **Publicly recognize employees for good work.** Given that one-on-one recognition is such an important motivator, consider the power of public recognition to accelerate an employee's performance.
11. **Include morale-building meetings that celebrate team success.** Although they don't have to be elaborate, team success celebrations help employees build camaraderie and a sense of togetherness.
12. **Give employees good jobs to do.** Boring, routine, unchallenging work saps employee motivation faster than anything. Proper job design is an important part of effective motivation.
13. **Make sure employees have the tools available to do their best work.** Like good mechanics, smart managers know that doing a job well requires the right tools. Plus, when managers provide good equipment, employees see it as an investment in their abilities.
14. **Recognize employees' personal needs.** With so many dual-career families in our society, workers appreciate companies that acknowledge and care for their personal needs by offering flextime, on-site day care, personal time allowances, and other conveniences.
15. **Use performance as the basis for promotions.** Although it makes sense to promote those employees who are the best and the most productive, too many companies continue to use seniority or politics to determine who gets promoted.
16. **Establish a comprehensive promote-from-within policy.** One of the best ways to spur employees to higher levels of performance is to show them that doing so leads to promotions within the company.
17. **Emphasize the company's commitment to long-term employment.** Although no company can offer a blanket "no-layoff" guarantee in this age, managers can communicate a "lifetime employment without guarantees" attitude. Job security for top performers is an important source of motivation.
18. **Foster a sense of community.** Forming a company around teams is a great way to start, but encouraging employees to recognize fellow workers for top performances can do wonders.
19. **Pay people competitively based on what they are worth.** If employees believe they are compensated fairly, they won't be preoccupied with their paychecks, and a company can get the most from its nonfinancial awards.
20. **Give employees a financial reason to excel by offering them a share of the profits or a share of the company.** Employees begin to act like owners when they are owners. Sharing ownership—or at least profits—gives them a major incentive to do everything they can to see that the company prospers.

the father of "open-book" management and CEO of Springfield Remanufacturing Corporation, explains the importance of focusing every employee's attention on key performance targets:

> To be successful in business, you have to be going somewhere, and everyone involved in getting you there has to know where it is. That's a basic rule, a higher law, but most companies miss . . . the fact that you have a much better chance of winning if everyone knows what it takes to win.[44]

Getting or giving feedback implies that a business owner has established meaningful targets that serve as standards of performance for her, her employees, and the company as a whole. One characteristic successful people have in common is that they set goals and objectives—usually challenging ones—for themselves. Business owners are no different. Successful entrepreneurs usually set targets for performance that make them stretch to achieve, and then they encourage their employees to do the same. The result is that they keep their companies constantly moving forward.

For feedback to have impact as a motivating force in a business requires business owners to follow the procedure illustrated in Figure 15.2.

DECIDING WHAT TO MEASURE. The first step in the feedback loop is deciding what to measure. Every business is characterized by a set of numbers that are critical to its success, and these critical numbers are what the entrepreneur should focus on. Obvious critical numbers include sales, profits, profit margins, cash flow, and other standard financial measures. However, running beneath these standard and somewhat universal measures of performance is an undercurrent of critical numbers that are unique to a company's operations. In most cases, these are the numbers that actually drive profits, cash flow, and other financial measures and are the company's real critical numbers.

A Company Example

For instance, in a conversation with another business owner, a hotel franchisee said that his company's critical number was profit and that the way to earn a profit was to control costs. His managerial efforts focused on making sure that his employees knew exactly what to do, how to do it, and how much they could spend doing it. The only problem was that the hotel was losing money.

"Tell me," said his friend, "how do you make money in this business?"

"We fill rooms," said the hotelier.

"How many rooms do you have to fill to break even?"

"Seventy-one percent," came the reply, "but we're only running at 67 percent."

"How many people know that?" asked his friend?

"Two," he said.

"Maybe that's your problem," observed his friend.

The hotel owner quickly realized that one of his company's most critical numbers was occupancy rate; that's what drove profits! His managerial focus had been misguided, and he had failed to get his employees involved in solving the problem. The hotel owner put together an incentive plan for

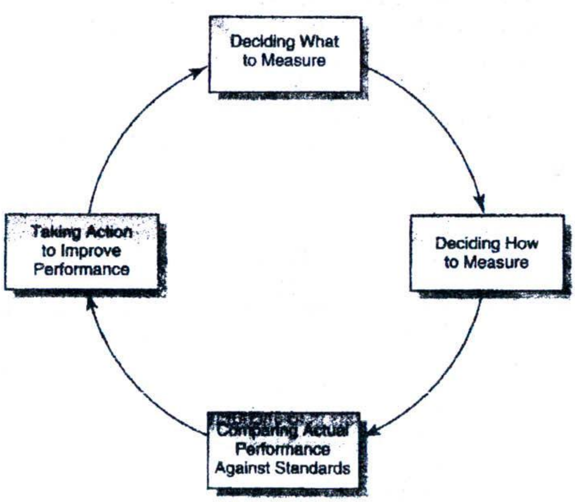

FIGURE 15.2 The Feedback Loop

employees based on occupancy rate. Once the rate surpassed 71 percent, employees qualified for bonuses; the higher the occupancy rate, the bigger the bonuses. He also involved employees in identifying other critical numbers, such as customer retention rates and customer satisfaction levels, and began tracking results and posting them for everyone to see. Before long, every employee in the hotel was involved in and excited about exceeding their targets. The occupancy rate, customer retention rate, and customer satisfaction scores all shot up. The hotel owner had learned not only what his company's critical number was but also how to use it to motivate employees![45]

DECIDING HOW TO MEASURE. Once a business owner identifies his company's critical numbers, the issue of how to best measure them arises. In some cases, identifying the critical numbers defines the measurements the owner must make (e.g., the occupancy rate at the hotel just mentioned) and measuring them simply becomes a matter of collecting and analyzing data. In other cases, the method of measurement is not as obvious or as tangible. For instance, in some businesses, social responsibility is a key factor, but how should a manager measure his company's performance on such an intangible concept? One of the best ways to develop methods for measuring such factors is to use brainstorming sessions involving employees, customers, and even outsiders. For example, one company used this technique to develop a "fun index," which used the results of an employee survey to measure how much fun employees had at work (and, by extension, how satisfied they were with their work, the company, and their managers).

validity—*the extent to which a measuring device or technique actually measures what it is intended to measure and how well it measures that factor.*

reliability—*the extent to which a measurement device or technique produces consistent measurements of a factor over time.*

Whatever method a business owner designs to measure a company's critical numbers, it must meet two criteria: validity and reliability. **Validity** is the extent to which a measuring device or technique actually measures what it is intended to measure and how well it measures that factor. **Reliability** is the extent to which a measurement device or technique produces consistent measurements of a factor over time. To be reliable, a measurement technique must be stable. Without measurements that are both valid and reliable, a company could be chasing after solutions to performance gaps that do not really exist! The performance gap appears only because the measurements are faulty or misleading. To avoid this problem, managers and employees should carefully define the measurements they will use to track performance and determine the procedure used to collect and to analyze the data.

COMPARING ACTUAL RESULTS WITH STANDARDS. In this stage of the feedback loop, the idea is to look for deviations in either direction from the performance standards the company has set for itself. In other words, opportunities to improve performance arise when there is a gap between "what should be" and "what is." The most serious deviations usually are those where actual performance falls far below the standard. Managers and employees must focus their efforts on figuring out why actual performance is substandard. The goal is not to hunt down the guilty party (or parties) for punishment but to discover the cause of the subpar performance and fix it. Managers should not ignore deviations in the other direction, however. When actual performance consistently exceeds the company's standards, it is an indication that the standards are set too low. The company should look closely at "raising the bar another notch" to spur motivation.

TAKING ACTION TO IMPROVE PERFORMANCE. When managers or employees detect a performance gap, their next challenge is to decide on which course of action will eliminate it most effectively. Typically, several suitable alternatives to solving a performance problem exist; the key is finding an acceptable solution that solves the problem quickly, efficiently, and effectively.

Performance Appraisal

performance appraisal—*the process of evaluating an employee's performance against desired performance standards.*

One of the most common methods of providing feedback on employee performance is through **performance appraisal**, the process of evaluating an employee's actual performance against desired performance standards. Most performance appraisal programs strive to accomplish three goals: (1) to give employees feedback about how they are doing their jobs, which can be an important source of motivation; (2) to provide a business owner and an employee the opportunity to develop a plan for developing the employee's skills and abilities and for improving his performance; and (3) to establish a basis for determining promotions and salary increases. Although the primary purpose of performance appraisals is to encourage and to help employees improve their performances, too often they turn into uncomfortable confrontations that do nothing more than upset the employee, aggravate the business owner, and destroy trust and morale. Why? Because most business owners don't understand how to conduct an effective performance appraisal.

Although American business owners have been conducting performance appraisals for more than 90 years, most companies, their managers, and their employees are dissatisfied with the entire process. Common complaints include unclear standards and objectives; managers who lack information about employees' performances; managers who are unprepared or who lack honesty and sincerity; and managers who use general, ambiguous terms to describe employees' performances. Perhaps the biggest complaint concerning appraisals is that they happen only periodically—most often just once a year. Employees do not have the opportunity to receive any ongoing feedback on a regular basis. All too often, a manager saves up all of the negative feedback to give an employee and then dumps it on him in the annual performance review. Not only does it destroy the employee's motivation, but it also does nothing to improve the employee's performance. What good does it do to tell an employee that six months before he botched an assignment that caused the company to lose a customer? The lack of ongoing feedback is like asking employees to bowl in the dark. They can hear some pins falling, but they have no idea which ones are left standing for the next frame. Without detailed feedback, how motivated would you be to keep bowling? Managers should address problems when they occur rather than wait until the performance appraisal session. Continuous feedback, both positive and negative, is a much more effective way to improve employees' performances and to increase their motivation to produce.

MAKING PERFORMANCE APPRAISALS WORK. If done properly, performance appraisals can be effective ways to provide employee feedback and to improve workers' performances. However, it takes planning and preparation on the business owner's part. The following guidelines can help a business owner create a performance appraisal system that actually works:

- *Link the employee's performance criteria to the job description discussed earlier in this chapter.* To evaluate an employee's performance effectively, a manager must understand very well the job the employee performs.
- *Establish meaningful, job-related, observable, measurable, and fair performance criteria.* The criteria should describe behaviors and actions, not traits and characteristics. What kind of behavior constitutes a solid performance in this job?
- *Prepare for the appraisal session by outlining the key points you want to cover with the employee.* Important points to include are the employee's strengths and weaknesses and developing a plan for improving his performance.
- *Invite the employee to provide an evaluation of his own job performance based on the performance criteria.* In one small company, workers rate themselves on a one-to-five scale in categories of job-related behavior and skills as part of the performance appraisal system. Then they meet with their supervisors to compare their evaluations with those of their supervisors and discuss them. Workers also evaluate their bosses as part of the review process.
- *Be specific.* One of the most common complaints employees have about the appraisal process is that managers' comments are too general to be of any value. Offer the employee specific examples of his desirable or undesirable behavior.
- *Keep a record of employees' critical incidents—both positive and negative.* The most productive evaluations are those based on a manager's direct observation of their employees' on-the-job performances. Such records also can be vital in case legal problems arise.
- *Discuss an employee's strengths and weaknesses.* An appraisal session is not the time to "unload" about everything an employee has done wrong over the past year. Use it as an opportunity to design a plan for improvement and to recognize employees' strengths, efforts, and achievements.
- *Incorporate employees' goals into the appraisal.* Ideally, the standard against which to measure an employee's performance is against the goals he has played a role in setting. Workers are more likely to be motivated to achieve goals that they have helped establish.
- *Keep the evaluation constructive.* Avoid the tendency to belittle employees. Do not dwell on past failures. Instead, point out specific things they should do better and help them develop meaningful goals for the future and a strategy for getting there.
- *Focus on behaviors, actions, and results.* Problems arise when managers move away from tangible results and actions and begin to critique employees' abilities and attitudes. Such criticism creates a negative tone for the appraisal session and undercuts its primary purpose.
- *No surprises.* If a business owner is doing her job well, performance appraisals should contain no surprises for employees or the business owner. The ideal time to correct improper behavior or

slumping performance is when it happens, not months later. Managers should provide employees with continuous feedback on their performances and use the appraisal session to keep employees on the right track.

- *Plan for the future.* Smart business owners use appraisal sessions as gateways to workers' future success. They spend only about 20 percent of the time discussing past performance; they use the remaining 80 percent of the time to develop goals, objectives and a plan for the future.

peer reviews—*an appraisal technique in which an employee's co-workers evaluate his job performance.*

upward feedback—*an appraisal technique in which employees evaluate their manager's job performance.*

Many companies are encouraging employees to evaluate each other in **peer reviews** or to evaluate their bosses in **upward feedback**, both part of a technique called 360-degree feedback in which employees get feedback from above, from below, and from all around. An increasing number of U.S. companies now use 360-degree evaluations as part of their performance appraisal systems. For instance, at W.L. Gore and Associates, the maker of Gore-Tex fabric, employees' pay increases depend on biannual peer reviews.[46] Peer appraisals such as those at W.L. Gore can be especially useful because an employee's co-workers see his on-the-job performance every day. As a result, peer evaluations tend to be more accurate and more valid than those of some managers. Plus, they may capture behavior that managers might miss. Disadvantages of peer appraisals include potential retaliation against co-workers who criticize, the possibility that appraisals will be reduced to "popularity contests," and workers who refuse to offer any criticism because they feel uncomfortable evaluating others. Some bosses using upward feedback report similar problems, including personal attacks and extreme evaluations by vengeful subordinates.

5. Describe the steps in developing a management succession plan for a growing business that will allow a smooth transition of leadership to the next generation.

MANAGEMENT SUCCESSION: PASSING THE TORCH OF LEADERSHIP

More than 90 percent of all companies in the United States are family owned. Not all family-owned businesses are small, however; one-third of the *Fortune* 500 companies are family businesses. Unfortunately, 70 percent of first-generation businesses fail to survive into the second generation; of those that do survive, only 12 percent make it to the third generation, and just 3 percent make it to the fourth generation and beyond.[47] Sibling rivalries, fights over control of the business, and personality conflicts often lead to nasty battles that can tear families apart and destroy once-thriving businesses.

The best way to avoid deadly turf battles and conflicts is to develop a succession plan for the company. Although business founders inevitably want their businesses to survive them and almost 81 percent intend to pass them on to their children, they seldom support their intentions with a plan to accomplish that goal. About 25 percent of all family business owners do *not* have a formal management succession plan![48] These owners dream of their businesses continuing in the family but take no significant steps to make their dreams a reality. In many situations the reason for failing to develop a succession plan is that the entrepreneur is unwilling to make tough, and potentially, disruptive decisions that require selecting a succcessor. It is not uncommon for family feuds to erupt over who is (and is not) selected as successor in the family business.

Most of the family businesses in existence today were started after World War II, and their founders are ready to pass the torch of leadership on to the next generation. Experts estimate that between 1993 and 2013, $4.8 trillion in wealth will be transferred from one generation to the next, much of it through family businesses.[49] For a smooth transition from one generation to the next, these companies need a succession plan. Without a succession plan, family businesses face an increased risk of faltering or failing in the next generation. Those businesses with the greatest probability of surviving are the ones whose owners prepare a succession plan well before it is time to "pass the torch of leadership" to the next generation. Succession planning also allows business owners to minimize the impact of taxes on their businesses, their estates, and their successors' wealth as well.

Succession planning reduces the tension and stress created by these conflicts by gradually "changing the guard." A well-developed succession plan is like the smooth, graceful exchange of a baton between runners in a relay race. The new runner still has maximum energy; the concluding runner has already spent her energy by running at maximum speed. The athletes never come to a stop to exchange the baton; instead, the handoff takes place on the move. The race is a skillful blend of the talents of all team members—an exchange of leadership is so smooth and powerful that the business never falters, but accelerates, fueled by a new source of energy at each leg of the race.

How to Develop a Management Succession Plan

Creating a succession plan involves the following steps:

Step 1. *Select the successor.* Entrepreneurs should never assume that their children want to take control of the family business. Above all, they should not be afraid to ask the question: "Do you really want to take over the family business?" Too often, children in this situation tell Mom and Dad what they want to hear out of loyalty, pressure, or guilt. It is critical to remember at this juncture in the life of a business that children do not necessarily inherit their parents' entrepreneurial skills and desires. By leveling with the children about the business and their options regarding a family succession, the owner will know which heirs, if any, are willing to assume leadership of the business. When naming a successor, merit is a better standard to use than birth order. When considering a successor, an entrepreneur should take the following actions:

- Make it clear to all involved that they are not required to join the business on a full-time basis. Family members' goals, ambitions, and talents should be foremost in their career decisions.
- Do not assume that a successor must always come from within the family. Simply being born into a family does *not* guarantee that a person will make a good business leader.
- Give family members the opportunity to work outside the business first to learn for themselves how others conduct business. Working for others will allow them to develop knowledge, confidence, and credibility before stepping back into the family business.

One of the worst mistakes entrepreneurs can make is to postpone naming a successor until just before they are ready to step down. The problem is especially acute when more than one family member works for the company and is interested in assuming leadership of it. Sometimes founders avoid naming successors because they don't want to hurt the family members who are not chosen to succeed them. However, both the business and the family will be better off if, after observing the family members as they work in the business, the founder picks a successor based on that person's skills and abilities.

Step 2. *Create a survival kit for the successor.* Once he identifies a successor, an entrepreneur should prepare a survival kit and then brief the future leader on its contents, which should include all of the company's critical documents (wills, trusts, insurance policies, financial statements, bank accounts, key contracts, corporate bylaws, and so forth). The founder should be sure that the successor reads and understands all the relevant documents in the kit. Other important steps the owner should take to prepare the successor to take over leadership of the business include:

- Create a strategic analysis for the future. Working with the successor, entrepreneurs should identify the primary opportunities and the challenges facing the company and the requirements for meeting them.
- On a regular basis, share with the successor their vision of the business's future direction, describing key factors that have led to its success and those that will bring future success.
- Be open and listen to the successor's views and concerns.
- Teach and learn at the same time.
- Relate specifically how the firm's key success factors have produced tangible results.
- Tie the key success factors to performance and profitability.
- Explain the strategies of the business and the operational key success factors.
- Discuss the values and philosophy of the business and how they have inspired and influenced past actions.
- Discuss the people in the business and their strengths and weaknesses.
- Discuss the philosophy underlying the firm's compensation policy and explain why employees are paid what they are.
- Make a list of the firm's most important customers and its key suppliers or vendors and review the history of all dealings with the parties on both lists.
- Discuss how to treat these key players to ensure the company's continued success and its smooth and error-free ownership transition.
- Develop a job analysis by taking an inventory of the activities involved in leading the company. This analysis can show successors those activities on which they should be spending most of their time.

- Document as much process knowledge—"how we do things"—as possible. After many years in their jobs, business owners are not even aware of their vast reservoirs of knowledge. For them, making decisions is a natural part of their business lives. They do it effortlessly because they have so much knowledge and experience. It is easy to forget that a successor will not have the benefit of those years of experience unless the founder communicates it.

A Company Example

Morry Stein, the head of ***Camp Echo Lake****, a family-run youth camp, took the time to develop a successor's survival kit in case something happened to him. When he was killed tragically in an airplane crash, Stein's sons, Tony and George, and his wife were able to use the written instructions to help make the difficult transition. In the kit he left behind, Stein included the names of his most trusted advisors, advice for handling different employees, where to find important company documents, and a touching pep talk for his family. The transition went smoothly not only because of the survival kit Stein had prepared but also because he had taken the time to sit down regularly with both of his sons to discuss "the state of the camp" as he called it. "About ten years ago, we started having business meetings around the dining room table at my parents' house," explains Tony. "We talked about new program ideas, the future of camping, how we could raise tuition, when we would enter the business, what our strengths were, and what we liked to do."*[50]

Step 3. *Groom the successor.* The discussions that set the stage for the transition of leadership are time-consuming and require openness by both parties. This is the process by which business founders transfer their knowledge to the next generation. In fact, grooming the successor is the founder's greatest teaching and development responsibility, and it takes time. To implement the succession plan, the founder must be:

- Patient, realizing that the transfer of power is gradual and evolutionary and that the successor should earn responsibility and authority one step at a time until the final transfer of power takes place.
- Willing to accept that the successor will make mistakes.
- Skillful at using the successor's mistakes as a teaching tool.
- An effective communicator and an especially tolerant listener.
- Capable of establishing reasonable expectations for the successor's performance.
- Able to articulate the keys to the successor's performance.

Grooming a successor can begin at an early age simply by involving children in the family business and observing which ones have the greatest ability and interest in the company.

A Company Example

At age 9, Jay Alexander started going to work with his father at the family business, ***Alexander Machinery****, a maker of textile and road construction equipment. At 11, Jay approached his father and asked for a job in the company, beginning a long succession of jobs over the next 12 years. "I've worked practically every job in the company," says Jay. "I've never worked anywhere else." When Jay's father, Bill, decided to step away from the business he founded, Jay was the natural choice as his successor, although Jay's sister also works for the company. "This business has come naturally to him," says Bill.*[51]

Step 4. *Promote an environment of trust and respect.* Another priceless gift a founder can leave a successor is an environment of trust and respect. Trust and respect on the part of the founder and others fuel the successor's desire to learn and excel and build the successor's confidence in making decisions. Developing a competent successor over a five- to ten-year period is realistic. Empowering the successor by gradually delegating responsibilities creates an environment in which all parties can objectively view the growth and development of the successor. Customers, creditors, suppliers, and staff members can gradually develop confidence in the successor. The final transfer of power is not a dramatic, wrenching change but a smooth, coordinated passage.

Step 5. *Cope with the financial realities of estate and gift taxes.* The final step in developing a workable management succession plan involves structuring the transition so as to minimize the impact of estate, gift, and inheritance taxes on family members and the business. Entrepreneurs who fail to consider the impact of these taxes may force their heirs to sell a successful business just to pay the estate's tax bill. Recent tax legislation reduces the impact of taxes on transferring family businesses from one generation to the next. However, without proper estate planning, an entrepreneur's family members will incur a painful tax bite when they inherit the business. According to the Arthur Andersen/MassMutual Survey of American Family Businesses, only 25 percent of all small business owners have completed an estate plan, even though they have 70 to 80 percent of their net worth tied up in their businesses![52] Entrepreneurs should be actively engaged in estate planning no later than age 45; those who start businesses early in their lives or whose businesses grow rapidly may need to begin as early as age 30. A variety of options exist that may prove to be helpful in reducing the estate tax liability. Each operates in a different fashion, but their objective remains the same: to remove a portion of business owners' assets out of their estates so that when they die, those assets will not be subject to estate taxes. Many of these estate planning tools need time to work their magic, so the key is to put them in place early on in the life of the business.

BUY/SELL AGREEMENT. One of the most popular estate planning techniques is the buy/sell agreement. A survey by the Chartered Life Underwriters and the Chartered Life Financial Consultants found that 76 percent of small business owners who have estate plans have created buy/sell agreements.[53] A **buy/sell agreement** is a contract that co-owners often rely on to ensure the continuity of a business. In a typical arrangement, the co-owners create a contract stating that each agrees to buy the others out in case of the death or disability of one. That way, the heirs of the deceased or disabled owner can "cash out" of the business while leaving control of the business in the hands of the remaining owners. The buy/sell agreement specifies a formula for determining the value of the business at the time the agreement is to be executed. One problem with buy/sell agreements is that the remaining co-owners may not have the cash available to buy out the disabled or deceased owner. To resolve this issue, many businesses buy life and disability insurance for each of the owners in amounts large enough to cover the purchase price of their respective shares of the business.

buy/sell agreement—*a contract among co-owners of a business stating that each agrees to buy out the others in case of the death or disability of one.*

LIFETIME GIFTING. The owners of a successful business may transfer money to their children (or other recipients) from their estate throughout the parents' lives. Current federal tax regulations allow individuals to make gifts of $10,000 per year, per parent, per recipient, that are exempt from federal gift taxes. Each child would be required to pay income taxes on the $10,000 gift they receive, but the children are usually in lower tax brackets than those of the giver. For instance, husband-and-wife business owners could give $1.2 million worth of stock to their three children and their spouses over a period of 10 years without incurring any estate or gift taxes at all.

SETTING UP A TRUST. A **trust** is a contract between a grantor (the company founder) and a trustee (generally a bank officer or an attorney) in which the grantor gives to the trustee legal title to assets (e.g., stock in the company), which the trustee agrees to hold for the beneficiaries (children). The beneficiaries can receive income from the trust, or they can receive the property in the trust, or both, at some specified time. Trusts can take a wide variety of forms, but two broad categories of trusts are available: revocable trusts and irrevocable trusts. A **revocable trust** is one which a grantor can change or revoke during his lifetime. Under present tax laws, however, the only trust that provides a tax benefit is an **irrevocable trust**, in which the grantor cannot require the trustee to return the assets held in trust. The value of the grantor's estate is lowered because the assets in an irrevocable trust are excluded from the value of the estate. However, an irrevocable trust places severe restrictions on the grantor's control of the property placed in the trust. Business owners use several types of irrevocable trusts to lower their estate tax liabilities:

trust—*a contract between a grantor (the company founder) and a trustee in which the grantor gives the trustee assets (e.g., company stock), which the trustee holds for the trust's beneficiaries (e.g., the grantor's heirs).*

revocable trust—*a trust which a grantor can change or revoke during his lifetime.*

irrevocable trust—*a trust in which a grantor cannot require the trustee to return the assets held in trust.*

- *Bypass trust.* The most basic type of trust is the bypass trust, which allows a business owner to put $1.3 million into trust naming his spouse as the beneficiary upon his death. The spouse receives the income from the trust throughout her life, but the principal in the trust goes to the couple's heirs free of estate taxes upon the spouse's death.
- *Irrevocable life insurance trust.* This type of trust allows a business owner to keep the proceeds of a life insurance policy out of his estate and away from estate taxes, freeing up that money to pay the taxes on the remainder of the estate. To get the tax benefit, business owners must be sure that the business or the trust (rather than themselves) own the insurance policy. The disadvantage of an irrevocable life insurance trust is that if the owner dies within three years of establishing it, the insurance proceeds do become part of his estate and are subject to estate taxes.
- *Irrevocable asset trust.* An irrevocable asset trust is similar to a life insurance trust except that it is designed to pass the assets in the parents' estate on to their children. The children do not have control of the assets while the parents are still living, but they do receive the income from those assets. Upon the parents' death, the assets in the trust go to the children without being subjected to the estate tax.
- *Grantor retained annuity trust (GRAT).* A grantor retained annuity trust (GRAT) is a special type of irrevocable trust and has become one of the most popular tools for entrepreneurs to transfer

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Who's Next?

Dick Strossner wants the family business to continue into the next generation, but so far, none of the younger members in the family have shown much interest in taking over the bakery started by his father in 1947. Strossner, 57, owns 80 percent of the bakery's stock. His sister, who manages the business's financial affairs, owns 10 percent, and Strossner's son, Richard, owns the remaining 10 percent. Both Dick and his sister have worked in Strossner's Bakery since they were teenagers.

When Strossner's parents decided to gradually get out of the business in 1976, Dick was the natural choice to take over management of the bakery because he had been working in the family business for nearly two decades. "Dad taught me almost everything I know about baking," he says. "He did a lot of things I didn't respect and understand until I took over." Although Dick took control of the company, his father continued to work in the family business until he died at the age of 82. The transition from one generation of leadership to the next was not always smooth. Strossner began to experiment with the business, trying new products and different approaches, some of which his father said would never work. He introduced computers to the bakery (an idea Dad was against) and shifted its product mix from bread and Danish pastries to cakes and Danish pastries. Although his father disagreed with some of the experiments a Strossner says, he never interfered, allowing Dick to try whatever he wanted. In most cases, Strossner recalls, his father was right about which ideas would work and which ones would not. "Dad was a major asset for the business," says Strossner, "I really needed him." Under Dick's leadership, the bakery has grown and now includes both a catering business and a florist operation.

With his own retirement not too far away, Strossner is now considering the best way to deal with the issue of management succession. He hopes his son, who currently is not working in the bakery, will take over the leadership reins for the next generation. "I'm thinking he will be back," Strossner says. "He's worked in every single facet of the business." If his son chooses not to return to the bakery, Strossner says his employees are skilled enough and experienced enough to run the business without him. He also wants to start relinquishing control of the family business in time to avoid the bite of heavy estate taxes. Currently, Strossner's estate planning is based on insurance policies. "If I were to go away today, I have enough insurance to cover the taxes," he says.

1. What advice would you offer Dick Strossner concerning a management succession plan?

2. What steps should Strossner take to develop a management succession plan?

3. What tools would you suggest Strossner use for minimizing estate taxes?

Source: Adapted from Jenny Munro, "Bridging the Generation Gap," *Upstate Business*, October 8, 2000, pp. 8–9.

ownership of a business while maintaining control over it and minimizing estate taxes. Under a GRAT, an owner can put property in an irrevocable trust for a maximum of 10 years. While the trust is in effect, the grantor retains the voting power and receives the interest income from the property in the trust. At the end of the trust (not to exceed 10 years), the property passes to the beneficiaries (heirs). The beneficiaries are required to pay a gift tax on the value of the assets placed in the GRAT. However, the IRS taxes GRAT gifts only according to their discounted present value because the heirs did not receive use of the property while it was in trust. The primary disadvantage of using a GRAT in estate planning is that if the grantor dies during the life of the GRAT, its assets pass back into the grantor's estate. These assets then become subject to the full estate tax.

Establishing a trust requires meeting many specific legal requirements and is not something business owners should do on their own. It is much better to hire experienced attorneys, accountants, and financial advisors to assist. Although the cost of establishing a trust can be high, the tax savings they generate are well worth the expense.

estate freeze—*a strategy that minimizes estate taxes by creating two classes of stock for a business: preferred voting stock for the parents and nonvoting common stock for the children.*

ESTATE FREEZE. An **estate freeze** minimizes estate taxes by having family members create two classes of stock for the business: (1) preferred voting stock for the parents and (2) nonvoting common stock for the children. The value of the preferred stock is frozen whereas the common stock reflects the anticipated increased market value of the business. Any appreciation in the value of the business after the transfer is not subject to estate taxes. However, the parent must pay gift taxes on the value of the common stock given to the children. The value of the common stock is the total value of the business less the value of the voting preferred stock retained by the parents. The parents also must accept taxable dividends at the market rate on the preferred stock they own.

FAMILY LIMITED PARTNERSHIP. Creating a **family limited partnership (FLP)** allows business-owning parents to transfer their company to their children (thus lowering their estate taxes) while still retaining control over it for themselves. To create a family limited partnership, the parents (or parent) set up a partnership among themselves and their children. The parents retain the general partnership interest, which can be as low as 1 percent, and the children become the limited partners. As general partners, the parents control both the limited partnership and the family business. In other words, nothing in the way the company operates has to change. Over time, the parents can transfer company stock into the limited partnership, ultimately passing ownership of the company to their children. One of the principal tax benefits of an FLP is that it allows discounts on the value of the shares of company stock the parents transfer into the limited partnership. Because a family business is closely held, shares of ownership in it, especially minority shares, are not as marketable as those of a publicly held company. As a result, company shares transferred into the limited partnership are discounted at 20 to 50 percent of their full market value, producing a large tax savings for everyone involved. The average discount is 40 percent, but that amount varies based on the industry and the individual company involved. An FLP is an ideal part of a succession plan when there has been a buildup of substantial value in a business and the older generation has a substantial amount of liquidity. Because of their ability to reduce estate and gift taxes, family limited partnerships have become one of the most popular estate planning tools in recent years.

family limited partnership—*a strategy that allows business-owning parents to transfer their company to their children (lowering their estate taxes) while still retaining control over it for themselves.*

Developing a succession plan and preparing a successor requires a wide variety of skills, some of which the business founder will not have. That's what it is important to bring experts into the process when necessary. Entrepreneurs often call on their attorneys, accountants, insurance agents, and financial planners to help them build a succession plan that works best for their particular situations. Because the issues involved can be highly complex and charged with emotion, bringing in trusted advisors to help improves the quality of the process and provides an objective perspective.

CHAPTER SUMMARY

1. Explain the challenges involved in the entrepreneur's role as leader and what it takes to be a successful leader.

- Leadership is the process of influencing and inspiring others to work to achieve a common goal and then giving them the power and the freedom to achieve it.
- Management and leadership are not the same, yet both are essential to a small company's success. Leadership without management is unbridled; management without leadership is uninspired. Leadership gets a small business going; management keeps it going.

2. Describe the importance of hiring the right employees and how to avoid making hiring mistakes.

- The decision to hire a new employee is an important one for every business, but its impact is magnified many times in a small company. Every "new hire" a business owner makes determines the heights to which the company can climb—or the depths to which it will plunge.
- To avoid making hiring mistakes, entrepreneurs should develop meaningful job descriptions and job specifications, plan and conduct an effective interview, and check references before hiring any employee.

3. Explain how to build the kind of company culture and structure to support the entrepreneur's mission and goals and to motivate employees to achieve them.

- Company culture is the distinctive, unwritten code of conduct that governs the behavior, attitudes, relationships, and style of an organization. Culture arises from an entrepreneur's consistent and relentless pursuit of a set of core values that everyone in the company can believe in. Small companies' flexible structures can be a major competitive weapon.
- Entrepreneurs rely on six different management styles to guide their companies as they grow. The first three (craftsman, classic, and coordinator) involve running a company without any management assistance and are best suited for small companies in the early stages of growth; the last three (entrepreneur-plus-employee team, small partnership, big-team venture) rely on a team approach to run the company as its growth rate heats up.
- Team-based management is growing in popularity among small firms. Companies that use teams effectively report significant gains in quality, reductions in cycle time, lower costs, increased customer satisfaction, and improved employee motivation and morale.

4. Discuss the ways in which entrepreneurs can motivate their workers to higher levels of performance.

- Motivation is the degree of effort an employee exerts to accomplish a task; it shows up as excitement about work. Four important tools of motivation include empowerment, job design, rewards and compensation, and feedback.
- Empowerment involves giving workers at every level of the organization the power, the freedom, and the responsibility to control their own work, to make decisions, and to take action to meet the company's objectives.
- Job design techniques for enhancing employee motivation include job enlargement, job rotation, job enrichment, flextime, job sharing, and flexplace (which includes telecommuting).
- Money is an important motivator for many workers, but it is not the only one. The key to using rewards such as recognition and praise and to motivate involves tailoring them to the needs and characteristics of the workers.
- Giving employees timely, relevant feedback about their job performances through a performance appraisal system can also be a powerful motivator.

5. Describe the steps in developing a management succession plan for a growing business that will allow a smooth transition of leadership to the next generation.

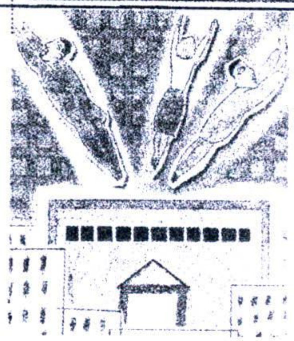
- As their companies grow, entrepreneurs must begin to plan for passing the leadership baton to the next generation well in advance. A succession plan is a crucial element in successfully transferring a company to the next generation. Preparing a succession plan involves five steps: (1) select the successor; (2) create a survival kit for the successor; (3) groom the successor; (4) promote an environment of trust and respect; and (5) cope with the financial realities of estate taxes.

DISCUSSION QUESTIONS

1. What is leadership? What is the difference between leadership and management?
2. What behaviors do effective leaders exhibit?
3. Why is it so important for small companies to hire the right employees? What can small business owners do to avoid making hiring mistakes?
4. What is a job description? A job specification? What functions do they serve in the hiring process?
5. Outline the procedure for conducting an effective interview.
6. What is company culture? What role does it play in a small company's success? What threats does rapid growth pose for a company's culture?
7. Explain the six different management styles entrepreneurs rely on to guide their companies as they grow (craftsman, classic, coordinator, entrepreneur-plus-employee team, small partnership, and big-team venture).
8. What mistakes do companies make when switching to team-based management? What can they do to avoid these mistakes? Explain the four phases teams typically go through.
9. What is empowerment? What benefits does it offer workers? The company? What must a small business manager do to make empowerment work in a company?
10. Explain the differences among job simplification, job enlargement, job rotation, and job enrichment. What impact do these different job designs have on workers?
11. Is money the "best" motivator? How do pay-for-performance compensation systems work? What other rewards are available to small business managers to use as motivators? How effective are they?
12. Suppose that a mail-order catalog company selling environmentally friendly products identifies its performance as a socially responsible company as a "critical number" in its success. Suggest some ways for the owner to measure this company's "social responsibility index."
13. What is performance appraisal? What are the most common mistakes managers make in performance appraisals? What should small business managers do to avoid making these mistakes?
14. Why is it so important for a small business owner to develop a management succession plan? Why is it so difficult for most business owners to develop such a plan? What are the steps that are involved in creating a succession plan?
15. Briefly describe the options a small business owner wanting to pass the family business on to the next generation can take to minimize the impact of estate taxes.

Launch *The Business Disc* and return to the section where Harry talks about hiring employees. From the Go To menu, select "Events from PART 1-A," and click on "Meet with Harry about Hiring Employees." How many employees, if any, did you need to run your business successfully? Develop a list of the employee benefits (both required and optional) your company will offer employees. You may want to review the reference guide "Human Resource Management" (under the "General Information" heading of the "Reference" option in the menu) and the information in Chapter 15. Develop a job description and a job specification for each position you will need to fill in your company.

How much did you pay your employees? What factors influence the wages you decide to pay?



1. Visit a local business that has experienced rapid growth in the past three years and ask the owner about the specific problems he or she had to face due to the organization's growth. How did the owner handle these problems? Looking back, what would he or she do differently?
2. Contact a local small business with at least 20 employees. Does the company have job descriptions and job specifications? What process does the owner use to hire a new employee? What questions does the owner typically ask candidates in an interview?
3. Ask the owner of a small manufacturing operation to give you a tour of his or her operation. During your tour, observe the way jobs are organized. To what extent does the company use the following job design concepts: job simplification? job enlargement? job rotation? job enrichment? flextime? job sharing? Based on your observations, what recommendations would you make to the owner about the company's job design?
4. Contact five small business owners about their plans for passing their businesses on to the next generation. Do they intend to pass the business along to a family member? Do they have a management succession plan? When do they plan to name a successor? Have they developed a plan for minimizing the effects of estate taxes? How many more years do they plan to work before retiring?
5. Entrepreneurs say that they have learned much about leadership from the movies! "Films beg to be interpreted and discussed," says one leadership consultant, "and from those discussions businesspeople come up with principles for their own jobs." A recent survey of small company CEOs by *Inc.* magazine* resulted in the following list of the best movies for leadership lessons: *Apollo 13* (1995), *The Bridge on the River Kwai* (1957), *Dead Poets Society* (1989), *Elizabeth* (1998), *Glengarry Glen Ross* (1992), *It's a Wonderful Life* (1946), *Norma Rae* (1979), *One Flew Over the Cuckoo's Nest* (1975), *Twelve Angry Men* (1957), and *Twelve O'Clock High* (1949). Rent one of these films and watch it with a group of your classmates. After viewing the movie, discuss the leadership lessons you learned from it and report the results to the other members of your class.

*Leigh Buchanan and Mike Hofman, "Everything I Know About Leadership, I Learned from the Movies," *Inc.*, March 2000, pp. 58–70.