SELECTION & SUCCESS

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HOW TO USE THIS GUIDE

This guide is set up in sections relevant to small businesses and human resource practices. In the print version, there are no interactive elements.

HYPERLINKS
In the interactive PDF version, **dashed, underlined, and bolded text** will hyperlink to a website or another source.

QUICK START
Every chapter will begin with an introduction page followed by a Quick Start page. This will give a brief overview of the most important aspects of each section. For example, Staffing Management will hit the most important points of acquiring, recruiting, selection, and retaining applicants for a position.

RESOURCE
The information presented in this guide is not intended to be used as legal advice. This information is to be used as a resource for small business owners and employees to quickly review and understand information relevant to their business and industry.
INTRODUCTION

The Outlook of Human Resources
Employees in small businesses tend to wear several hats in the company that would be separated out if the company were larger. While large businesses generally have specialized departments in charge of human resources functions, many small businesses tend to not have the luxury of a specialized staff. My initial research is answering the questions of to what extent do companies perform human resources functions, who handles these functions, and how they are qualified. Many executives and business owners use their work experience and what they have learned through experience for functions such as recruiting and selecting new employees, but “human resources plays an essential role in developing a company’s strategy as well as handling the employee-centered activities of an organization” (Mayhew, Ten Reasons). This guide offers an overview of Small Businesses and HR, Staffing Management, Benefits, Compensation, Labor Relations, Organizational and Employee Development, Safety and Security, Diversity, Ethics and Corporate Social Responsibility, Technology, and other topics in HR.

While not all small businesses need to worry about all human resources functions, such as laws that may not apply to them, it is important for business owners to understand what could apply to them as their businesses evolve in the future. People’s lives are becoming more and more interconnected with the integration of technology into every moment of a person’s life. This interconnectivity especially applies to the workforce, and the connections will continue to grow. According to Deloitte’s Global Human capital Trends 2014 report, “Millennials are expected to make up 75 percent of the global workforce by 2020;” this means that businesses are going to have to work with their employees and retain their talent differently than they have in the past since this generation thrives on technology and interconnectivity (Bersin). Understanding employees is important to every business, whether small or large, and human resources provide a basic source to understand and protect employees. According to Bersin, past trends have predicted that companies will face a variety of new experiences in 2015, such as the following:

1. **Culture, diversity, engagement and retention will be front-burner issues.** As employee engagement continues to grow, a focus on enhancing a strong culture through diversity management and training will be essential to maintaining a strong workforce. Employees will be looking for companies that provide a developed culture that gives them professional opportunities as well as personal development through social circles and networking.

2. **Performance management will continue to be redesigned.** Employees expect to be developed or they will not stick around with an employer. If they are not receiving affirmations, constructive criticisms, and development to help them reach their goals, they will find another company who will fill this need. Performance evaluations will continue to be important, and employers will need to create methods to accurately evaluate performance or enhance their current processes.

3. **More companies will deal with overwhelmed employees.** College students are an excellent example of overwhelmed students who will turn into overwhelmed employees. With societal pressure mounting to multitask and be able to juggle several projects at once, companies...
have to be aware of employees' stress levels. It will be important to focus development and programming on creating work-life balance to help minimize extra stress.

4. **Corporate learning will be transformed and will take on more importance.** Learning should be a life-long process, and many companies are deciding to enhance their employee experiences and development by adding in opportunities for further growth and learning. By creating a culture that respects learning, executives will be able to bring new innovations and ideas to their companies through ideas from their employees.

5. **Companies will redesign talent acquisition, leveraging network recruiting, brand reach and new technologies.** Executives are starting to see the importance of strong recruiting and talent acquisition processes through the use of technology and branding. They are realizing that by having advanced recruiting processes that work well with the company brand, they are able to reach a wide audience of qualified employees who fit in with their culture. However, human resources is not always a field that advances quickly through technology. By investing in their employees or future employees by using new technologies to create relationships, companies are more likely to see less turnover and happier employees. Filtering human resources through every department, such as Marketing and Brand Management, will bring a comprehensive approach to retaining employees and new talent that fit with the culture and can further the brand.

6. **Talent mobility and career management strategies will become necessary to compete.** Companies tend to see more success when they have invested in their employees through succession planning because it makes employees feel valued when their employer is helping them plan their future at the company. Not only does it enhance a longer relationship, but it helps employees think through their future goals. It will be extremely necessary for companies to give employees the space to manage their career paths.

7. **Leaders will invest in talent analytics and workforce planning.** While many employees who choose to get into human resources do so because they “like people” or are a “people person,” interacting with employees face-to-face is only one way that human resources functions with the company. With more data being collected on employees and people every day, even through the means of Smart phones and other devices, executives will need to understand their employees as much as they way to understand their customers. The best way to understand employees is to analyze the data collected and bring it together to understand how they can make better strategic decisions for future planning and succession. Talent analytics or people analytics is bringing in a new statistical edge to the human resources world, and it is a lucrative position for employees as many employers are on the lookout for someone to analyze their data on things such as why are employees choosing to leave, or what characteristics and experiences does a person have or go through before becoming a top leader in the company? Utilizing talent analytics and workforce planning will contribute to a stronger company that is well informed on the habits and trends of their employees.

8. **Companies will take advantage of new tools in HR technology.** Human resources, though a vital function for companies to be successful, tends be a little slower in developing through new technological advances in comparison to other departments. Now that Human Resources Information Systems (HRIS) are gaining popularity as well as Applicant Tracking
Systems (ATS), companies are using technology to their advantage to keep records on their employees for succession planning and record-keeping. HR is also seeing new technologies such as video conferencing and video interviewing systems to conduct interviews around the world. As technology advances, HR departments will need to find the most effective tools to handle and organize their employees.

9. **HR teams will get a new design and a new focus on professional development.**

Human Resources has gone through many makeovers in its time. Once, HR managers were known as Personnel, taking a more passive and administrative approach to human resources (Nayab). A traditional understanding of human resource management has added in further development of employees, especially through training and development functions. Instead of just filling out paperwork, Human Resource Managers are more hands-on in obtaining, developing, and retaining employees (Nayab). Now, human resources is seen as a strategic position; not only does the position require recruitment, development, and retention of employees, but now it involves contributing to the company’s overall bottom line and strategic position. Companies are even creating completely new titles for the human resources department, such as People Management and Talent Management, to invoke a new connotation for a department that has evolved into so much more than hiring, firing, and filing paperwork.

These new predictions will be important for all businesses to take into account as they review their workforce and consider adding new talent. Employees are looking for development. If they cannot find the proper development and opportunities, they will move to another employer who will provide their basic needs up to their self-actualization needs where they feel as if they are making a positive impact in their work.

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**Purpose**

The purpose of this guide is to inform small businesses of the impact human resources has on their employees and their business’s bottom line, whether or not they have an actual HR department. Human resources is essential to every company, and by having an easy guide to access, small businesses can check for advice or information on a particular human resources area when they need assistance. This guide is created as a useful starting point; it is not a fully comprehensive guide to all aspects of human resources. The best way to keep up with the constantly changing trends, laws, and other aspects of business that impact human resources and employees is to follow national organizations, such as the Society for Human Resource Management, National Human Resources Association, and HR Certification Institute. Also, keeping up with human resources trends in the news through outlets such as Bloomberg and the Wall Street Journal are great ways to continue learning about HR practices in other companies. This guide is also not intended to be used on the basis of legal arguments or matters or to give legal advice.
What are small businesses and why are they important?
Small businesses must focus on 5 main pillars to be successful:

- **People.** Hire and retain productive employees that fit the company. Treat them well.
- **Plan.** Understand the company’s purpose, mission, values, and reason for existence.
- **Process.** Create a consistent, organized system or process to overcome challenges.
- **Product.** Understand demand for the product and why it is unique to the company.
- **Profit.** Interpret finances, make fiscally responsible decisions, and hire trustworthy employees.

10 Steps to Starting a Business.

1. **Write a business plan.**
2. **Get business assistance and training.**
3. **Choose a business location.**
4. **Finance your business.**
5. **Determine the legal structure of your business.**
6. **Register a business name.**
7. **Get a tax identification number.**
8. **Register for state and local taxes.**
9. **Obtain business licenses and permits.**
10. **Understand employer responsibilities.**

Starting a small business is rewarding. Over 80 percent of 600 small business owners say they would choose the same career path (Entis).

Small businesses must understand HR functions such as:

- Recruiting
- Selection
- Labor relations
- Compensation
- Benefits
- Organizational Development
- Safety
- Diversity
- Ethics
- Technology
Small businesses are found virtually everywhere. In local communities, small businesses are the gems that make cities unique and help towns thrive as they give back to their communities. All businesses have to start out as a small business at some point, and whether or not they become incorporated and public, they all go through the challenges that small businesses may endure as a start-up. The US Small Business Administration defines a small business as the following:

- "Is organized for profit
- Has a place of business in the US
- Operates primarily within the US or makes a significant contribution to the US economy through payment of taxes or use of American products, materials, or labor
- Is independently owned and operated
- Is not dominant in its field on a national basis." (Am I A Small Business?)

Small businesses are important on more days than just "Small Business Saturday" after the notorious big business shopping day of Black Friday. They give back to their communities by employing local citizens, fueling the economy, and participating in local events such as charities and other events to show their support. An influx of new small businesses shows strength in the economy, as "The National Federation of Independent Business said the Small Business Optimism Index increased 2.3 points to 100.4 in [December 2014], the highest reading since October 2006," (Mutikani). This indicates that small businesses have continued to see great success since the last recession with the housing bubble of 2008 by contributing to their communities and by opening more jobs and opportunities for laborers. Small business success is not a fad; as the economy continues to improve, consumers are more willing to spend their money. Americans in particular are becoming more conscious of what they are buying, such as the health content or the location that their products were made. Consumers are also seeing more options for buying from small businesses and/merchants through e-commerce website, such as Etsy, where entrepreneurs can make and sell handcrafted items all around the world.

The Small Business Association outlines 10 steps to starting a business, including crucial financial, legal, and planning activities for anyone interested in what it takes to start a company.

1. Write a business plan.
2. Get business assistance and training.
3. Choose a business location.
4. Finance your business.
5. Determine the legal structure of your business.
6. Register a business name.
7. Get a tax identification number.
8. Register for state and local taxes.
10. Understand employer responsibilities.
Small business owners have seen great success through the challenges of creating start-up companies; “more than 80 percent of 600 small-business owners surveyed said...they would choose the same career path...a percentage that hasn’t changed much over the past 11 years,” (Entis). Some of the benefits of starting a business include flexible hours, job satisfaction due to entrepreneurs creating the environment in which they work best, and creating personalized relationships with their customers and the community. Small businesses do not see success without their fair share of challenges and setbacks though. As the name indicates, small businesses are small. They tend to not always have the luxury of billion dollar revenue years, global importing and exporting, reaching a large customer base, and smaller “day-to-day stressors” (Entis). Creating and maintaining a small business is an overall rewarding experience, but as with any venture, there are challenges and obstacles that all companies must go through to find success.

Approximately “40 million businesses are started each year, [and] a paltry 350,000 break out of the pack and begin growing and making money, (Carbajo). There are many important aspects to consider when starting a business, but as long as they focus their energy and entrepreneurial efforts on five things, they will be on a path for success. The five pillars include People, Plan, Process, Product, and Profit.

The first “pillar” of small business success is People. Employees carry out the function of the company, sell the product, engage in the service, and help expand the culture. Hiring the right kind of employees for the company and treating them well will take any kind of business far, so it is essential to focus on the employees and the people. As Russell Simmons of Def Jam Recordings says, “Surround yourself with people that are smarter than you,” (Carbajo). The next pillar is Plan. Creating a thorough strategic plan with mission, values, goals, and target audience must be done well to see any sort of longevity in a business. If the company does not have a plan or a purpose for existence, they will quickly become nonexistent. Process, or an organizational system is crucial to consistency in a small business. Consistency in processes will help the company thrive through challenges, whether they are legal, financial, or other challenges. Product and the demand for the product is necessary for small business owners to understand inside and out. If there is no demand for the product, there will be very little to no success, but even if there is a demand for the product, companies cannot be successful if they do not understand what their product is, how and why it is in demand, and what makes their product special, be it through a differentiation strategy or cost-leadership strategy in the market. Finally, small businesses must see Profit. As one of the most obvious pillars, profit is necessary to keep a company in business. Find the right employees who can be trusted to handle finances responsibly. Owners must be able to interpret their financial statements and review profits to analyze trends for the company and to assess historical data. By focusing on these five broad aspects, small businesses will see great success and longevity in a competitive economy.

The pillars that keep businesses alive and successful correlate directly with human resources functions. Human resources is the core of many business transactions, from hiring the right people to strategic planning. Though many small businesses may not have a specific department, or even a person, dedicated to human resources, all employees and executives must be thinking about the implications of human resources and talent management on their bottom line.

Small businesses can learn more about utilizing their human resources through a variety of sources. For example, ADP offers services directly related to small business HR to help protect them from legal issues, penalties, maximize time keeping, and organize other human resources information systems (ADP Small Business HR). Small businesses can utilize these services to enhance their current
capabilities and even free up time for other employees, such as the owner or manager. Some of the HR functions that will be covered in this guide are recruiting, selection, labor relations, compensation, benefits, organizational development, safety, diversity, ethics, and technology.

**Small Business HR Online Resources**

**Small Business HR**

**SHRM Small Business Guide to HR**

**Essential HR Resources for Small Businesses**

**Managing HR without a Department**

**Indy Small Biz**
STAFFING MANAGEMENT

Making smart hiring decisions for long-term retention
Write an ad that attracts the candidate
Use information that will attract the right kind of candidate. Collect the knowledge, skills, attributes, and other information (KSAOs) that are required for an employee to be successful in this position. Use resources, such as O*Net, past employees, or employees in other companies who fill a similar position to create the ad. For example, if the candidate needs to have excellent organizational skills, begin the ad with a statement similar to the following:

"Are you a highly organized individual? Do you have excellent attention to detail? If you meet these criteria, we are looking for someone like you!"

Choose the best recruiting source(s)
Choose the best recruiting source(s) that will fit the candidate pool, demographics, and budget for recruiting. For example, using the newspaper may not be the best recruiting source to attract a college intern. On the other hand, social media and online advertisements through colleges may be a better source to find the appropriate candidate.

Figure out the distance
The complexity of the position determines the distance needed to search for a candidate. If the available position is an office assistant with little required experience or skills, it will likely be easier to find a candidate in the local area. If the available position is for a solutions architect for a technology business, the search may need to be geographically expanded because there is less supply of eligible candidates.

Screen candidates
Implement screening methods to dismiss candidates from the applicant pool who are not eligible or who do not fit the job criteria. Screening methods can include resumes, applications, phone interviews, and more. Screening should be used to verify information about the employee (i.e., comparing the application information to the candidate’s answers on the phone screen). Employees who are not screened out can move on to the next stage.

Interview candidates
Candidates who have made it through the screening should be interviewed or tested in the appropriate ways. For example, a group interview may be appropriate if the candidates will have to work specifically well in a team. A one-on-one interview is a good way to gauge a candidate’s fit with the organization and culture. Use several interviewers (if possible) to minimize biases against candidates. Use behavioral interview questions (questions that ask about a person’s past experiences) to predict how they likely will act in the future.

Choose a candidate & hire!
Choose the best candidate that is most qualified for the position and who fits the company culture. Be respectful to all candidates, and extend an offer for employment!
Staffing management is one of the most critical aspects of a successful company because it deals with acquisition, recruitment, selection, and retention. Staffing management also deals with careers in recruitment and staffing management, communications, metrics and measurement, and technologies used in the staffing process (Bliss). This section will go through the different aspects of staffing management and how to apply it to small businesses to successfully obtain and retain effective employees.

**Job Analysis**
Before looking for an employee to fill a position, a position must be created. The job analysis process includes gathering and analyzing information that pertains to the specific functions and tasks required of a position. The best way to analyze a job is through **job requirements** job analysis.

**Job requirements** job analysis uses job tasks and knowledge, skills, abilities, and other characteristics (KSAOs) to figure out the requirements an eligible applicant must have. This method is used for one specific job at a time, and it works best by using past and present employees who have held the position.

**Tips for job analysis**
- Utilize websites such as O*Net ([www.onetonline.org](http://www.onetonline.org)). O*Net is a website that holds thousands of job tasks and KSAOS for occupations around the country. This website is sponsored by the U.S. Department of Labor, and the Employment & Training Administration, and it is frequently updated to reflect the common tasks required of different positions.
- Observe current employees in the position. For example, if you are looking to hire a cashier, observe a current cashier for a few hours to see the tasks they perform.
- Interview managers that directly oversee the position, or a similar position, you are analyzing. Managers have great insight into what their employees do on a daily basis as well as what they expect from their employees.
- Use employee surveys to gauge what employees do in their daily activities as well as what they think should be added to their job description through the job analysis.

Job analysis can take a significant amount of time; however, it is important that all companies, especially small businesses, understand how to plan and organize to create employee positions. A full job analysis is not always required when looking to create or enhance the duties required of a position. Knowing what your company needs and what qualities will fill those needs will be most important in the job analysis part of staffing management for small businesses.
Abstract

Employees in small businesses tend to share several roles that would be separated if the company were larger. Small businesses usually do not have a specific department or person in charge of human resources functions, such as talent acquisition, benefits, and training and development. The purpose of this project is to provide a guide for small businesses, especially those who do not have a specific person in charge of human resource functions, to maximize their human resource practices. This guide offers a brief yet comprehensive overview of human resource practices so small businesses can refer to them as necessary.

Acknowledgements

I would like to thank Mrs. Carla Flores for her assistance in advising me through this project. Her insight and ideas were invaluable in helping me further my understanding of human resources and the workings of small businesses.

I would also like to thank Muncie Civic Theatre, Thomas Business Center, Inc., Delaware County Historical Society, eKeeper Systems Inc., Fickle Peach Inc., Ball State Federal Credit Union, Phoenix Theatre, Meridian Health Services, Indy Fringe, Ontario Systems, Spherion Staffing, Nestle Inn, and Americana Bank for their assistance to better understand how human resource practices are conducted in small businesses.

Finally, thank you to my family and friends who have encouraged me throughout this process.
Job Descriptions

Creating and updating job descriptions is essential to every position in a company. Important aspects to add in each job description are outlined by Bliss as follows:

- **Job Identification** – title, department, location, pay grade, exempt/nonexempt status under FLSA, and other identifying information
- **Job Summary** – Statement of general job duties, working conditions,
- **Duties and responsibilities** – essential and nonessential job functions
- **Job Specifications** – knowledge, skills, abilities, and other information essential to the position

The Society of Human Resource Management offers the following Job Description template for use within an organization:

**JOB DESCRIPTION TEMPLATE**

Date completed ________ Work location _____________
Job title ________________ Department _____________
Exempt status ____________ Position status _____________

**Company Conformance Standards**
[Note about standards that all employees are expected to conform or adhere to]

**Position purpose**
[Overall objective of the position]

**Responsibilities/Duties/Functions/Tasks**
[Essential duties that must be completed to achieve the objectives of the position]

**Qualifications**
[Minimum education and experience, required proficiency, specialized knowledge, computer proficiency, etc.]

**Special Position Requirements**
[Optional section for any travel, security, risk, hazard, safety, or other special conditions that apply to the position]

**Preferences**
[Preferred attributes that are not required but recommended, such as certain certifications, software experience, etc.]

**Work Requirements**
[Work requirements that are physical, mental, or otherwise important for the job]
Small businesses should periodically review their employees and positions to make sure they fit with the vision of the company and fulfill the requirements of the position. To figure out if job descriptions still match an employee's tasks, ask the employee or group of employees who complete the tasks to update their job description as if they were to write their tasks and duties performed. This is a good way to see if their job descriptions match what the company advertises or if they need to be updated with new tasks and responsibilities.

**Recruitment Methods**

In order to attract and retain talent, a company must understand their strategic goals during the process. In order to attract employees, a company or recruiter must ask the following questions:

**Attraction**
- What kind of applicants is the company looking for?
- What kind of person fits with our organization and values?
- What kind of background should this person have?

By answering these questions specifically, the company will have a strong picture of the type of applicant, applicant characteristics, and knowledge they are looking for within a new employee. This can also help weed other people out and be a deciding factor between two close candidates.

**Speed**
- How quickly does the position need to be filled?
- Is there time to look around at different markets?
- What methods are the fastest and most efficient for our needs?

Typically, quicker hires will have similar characteristics to what employees currently work at the company. Finding people who are qualified and experienced who are doing similar work already will be easier to hire quickly as opposed to entry-level candidates who have little experience (Heneman).

**Time frame**
- How long should the position be advertised?
- When will the candidate(s) be notified of moving on the process?
- When and how will the chosen candidate(s) be given an offer?

Establishing a time frame helps to keep recruitment on track. With many employees and several job openings at once, a company must establish a strong pipeline of candidates for each position while closing positions that have already been filled.

**Types of recruitment**

*Closed Recruitment* refers to employers looking within the company for employees without
advertising the job opening. This is useful because it is very efficient, timely, and cost-effective; however, this does not necessarily open up the best pool of qualified candidates, and there needs to be a detailed record of employee KSAOs to ensure all qualified candidates are considered (Heneman).

**Open Recruitment**, whether internal or external, publicizes the opening to a wide variety of potential applicants. This type of recruitment allows any potential employee to apply and be considered for the position. The challenge with open recruitment is it makes the applicant pool much larger than closed recruitment, so it takes more time to go through the screening process.

**Targeted Recruitment** pinpoints a specific segment in the labor market that is needed to fill a gap in the company’s workforce (Heneman). This specific segment could be based on diversity, passive job seekers, former employees, employees with specific in-demand skills, long-term employed workers, and “reluctant” applicants. By sending recruitment materials to a targeted group of people, recruitment may be more effectively focused on whom they want to hire.

**Hybrid Recruitment** may occur when combining aspects of open recruitment and closed recruitment to find the most qualified candidates. By using two recruitment styles, this casts a large net to find the most potential employees, but it still takes a significant amount of time to screen the applicants once the application has closed.

**Communicating the message**

Once a company has chosen the proper method for recruitment, it is important to gauge what the message will be to the applicants. Creating a recruitment guide with policies and procedures for employees to follow during recruitment helps to streamline the process in the current time as well as in the future when other employees will be hired. A recruitment guide can be in the format of a physical copy, such as within the employee handbook or as a training manual for the recruiter(s), or it can be within an information system that helps manage data about employees and potential candidate who apply through the system.

Understanding the recruitment message and the applicant reactions is essential to finding the right applicants who fit with the organization and who meet or exceed the job requirements. The recruiter is looking to further the company’s brand, and that can be done in the ways shown in the chart below.

What message the company chooses to portray is up to management and recruiter. Typically, a branded and targeted message tends to be the most effective as it helps the potential candidates with name recognition and it reaches out specifically to a smaller group of people, making the

<table>
<thead>
<tr>
<th>RECRUITMENT MESSAGES</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REALISTIC</strong></td>
<td>Portraying the job as it really is, including positives and negatives. Creating a Realistic Job Preview can be useful to help show external employees what the position will look like for the candidate.</td>
</tr>
<tr>
<td><strong>BRANDED</strong></td>
<td>Using the values, culture, and identity of the company as its main selling point to attract applicants who fit the brand.</td>
</tr>
<tr>
<td><strong>TARGETED</strong></td>
<td>Attracting experienced employees who specifically fit the job needs. This kind of message states how the job is best for the applicant and involves a mix of position information and rewards.</td>
</tr>
</tbody>
</table>
EXTERNAL RECRUITMENT SOURCES

**Applicant Initiated**
Most traditional technique for recruiting. Applicants actively seek a position within the company.

**General, niche, or other online recruiting and screening centers (i.e. indeed.com, careerbuilder.com, monster.com).**

**Employment Websites**
Employees can post resumes to websites, & employers search with criteria, job skills, experience, etc. (i.e. USAjobs.gov).

**Website Databases**
Employees are encouraged to source potential candidates from their personal networks. Referral programs offer bonuses for successfully hired recruits.

**Employee referrals**

**Social Networking**
Advertise open positions through social media, let followers know when recruiters will be at campus fairs, and promote the business’s brand.

**Professional Associations & Meetings**
Attend meetings and networking opportunities to meet qualified potential candidates.

**Colleges**
Attend college fairs and visits to network with young future professionals. This helps promote company brand awareness and can serve as screening tools for potential recruits.

**Employment Agencies**
Firms hired by companies to help find suitable candidates. These can range across a variety of industries or positions, from part-time to full-time.

**Executive Search Firms**
Successful co-op/interns likely will turn into successful full-time candidates. Great way to measure an employee’s performance for a short amount of time.

INTERNAL RECRUITMENT SOURCES

**Job Postings**
Posting positions available for employees through an online portal or on information boards.

**Talent Management System**
Tracks and monitors skills and abilities throughout the organization. This must constantly be updated to be useful.

**Supervisor Referrals**
Asking supervisors and managers to refer an employee for an open position. This is an excellent way to source internally, but be sure managers understand eligibility criteria.

**Replacement & Selection Plans**
Future-oriented planning & charting to create career paths and replacement plans, especially for higher positions. Must understand the characteristics of a successful CEO.

**Co-ops/Internships**

process seem more intimate for each candidate.

**Recruitment Measurement**

Using metrics to keep track of recruitment practices, hires, offers, and other information is important to maintaining an efficient and effective system.

An applicant tracking system (ATS) can be connected to applications to load information from candidates as well as current employees. This system can help to maintain employees and potential candidates for succession planning and building a maintained and detailed record of employees' skills and competencies.

Measurement also helps in the selection process, such as scoring applicants during interviews and other screening processes. The most important aspects of measurement are the following:

- Choose an attribute to measure
- Create a definition of the attribute
- Construct a way to measure the attribute
- Use the measure to gauge attribute among candidates (Heneman)

**Example: An employer wants to measure the experience of retail applicants through a job application**

**Attribute:** candidate experience

**Definition of Attribute:** a candidate’s direct retail management experience, including positions and years

**Measurement:**

- 0-1 years of experience in retail (no management experience) – 0 points
- 0-1 years of experience in retail (management experience) – 1 point
- 1-3 years of experience in retail (no management experience) – 0 points
- 1-3 years of experience in retail (management experience) – 2 points
- 3-5 years of experience in retail (no management experience) – 1 point
- 3-5 years of experience in retail (management experience) – 3 points

**Gauge attribute:**

**Candidate 1:** 5 years of experience in retail (2 management) – 3 points
Candidate 2: 1 year of experience in retail (no management) – 0 points
Candidate 3: 2 years of experience in retail (no management) – 0 points

**Candidate 4:** 4 years of experience in retail (1 management) – 3 points
Candidate 5: 2.5 years of experience in retail (1 management) – 2 points

The best candidates in this situation through this screening detail for a retail manager would be candidate 1 or candidate 4.

Time permitting, advanced metrics to consider calculating include offer-acceptance rates, turnover rates (voluntary and involuntary), and new hire rates per recruitment method. These help the company discover recruitment trends to find the best outlets for attracting and retaining talent.
Creating a Selection Plan
Every time a company is recruiting for a new position, they should develop a selection plan that outlines the process, methods, and time of the assessment process. A selection plan can be completed by choosing the methods, such as initial assessment, substantive assessments, and discretionary assessments that will be appropriate, cost-efficient, and effective in finding employees who fit the company and the position.

- Initial assessments choose which candidates are accepted or rejected
- Substantive assessments help choose candidate finalists
- Discretionary assessments help choose which finalist(s) receives the job offer

Methods

Initial assessments
Initial assessments are often used as screening measures for employees. Not all initial assessments are best to use for every screening situation, so specific assessments should be chosen to screen applicants in the selection plan.

Resumes & Cover Letters – Resumes and cover letters are common in the application process for new positions. Every candidate who is looking for a position should be able to submit a resume with their education, experience, and other related activities

Reviewing Resumes
Companies use a variety of ways to screen and review resumes. For small businesses, it is likely that individual employees or the person who typically handles human resources functions will review resumes. For larger companies, there may be an online screening process through the applicant tracking system. These electronic systems use key words, created by the company or employer, and weeds out resumes and/or applications that have a lack of these words. Resumes are best used to evaluate higher level positions because it offers more personalization as well as an element of creativity

Potential Issues
Applicants control the information on resumes, so this can cause a potential issue for fabrication or tweaking of information that is not factual. The volume of resumes can be a lot for employers to go through. There is no standardized version of a resume, so it will take time to go through each one to find specific information.

Tips on Reviewing Resumes
- Look for figures. If there are percentages, cost savings, or any other important number associated with the applicant's performance, this is a strong indicator that their resume is truthful.
• Re-review. Look for mistakes that indicate the candidate did not proofread, such as typos.
• Review relevant experiences. Resumes should be tailored to fit the position and company. If the candidate does not have relevant experience, they may not be appropriate for the position.
• Gauge truthfulness. Truthfulness is difficult to pick out in a resume, but look for consistency among the candidate’s achievements and compare them to the initial screening processes and interviews.

Applications
Applications, whether online or in print, are one of the most commonly used initial interviewing tools as they offer a significant amount of control to the employer as to what information they will receive from an employee. Information, such as education, training, job experiences, major/field of study, and other required information can be easily obtained through an application blank.

Educational requirements, such as degree, grade point average, quality of the school, major/field of study, and extracurricular information can also be evaluated through application blanks, as well as training and experience requirements.

Application blanks can also be weighted; for example, a company may decide the major is more important in choosing a candidate than the school that the employee attended. Or, a company may decide working experience is more important than education, so that may be weighted more highly. Employers who use weighted application blanks need to have a standardized way of reviewing the applications though to keep review fair and consistent.

Potential Issues
Application information should be relevant to the job
Information asked of employees should be relevant to the job
Limited flexibility for the applicant to discuss skills or experiences they find to be relevant to the position

Reference and background checks
Letters of recommendation, references, and background checks can be useful for initial assessment methods, but it is important to keep in mind that there is no standardization or structure for references or letters of recommendation.

Letters of recommendation can be more about the writer than the person written about; for example, if the recommender has strong writing skills, they will likely portray the person in a better light than another person who is lacking in writing skills. In order to use letters of recommendation, a scoring rubric or key should be developed to highlight specific characteristics that the company is looking for in a candidate and in a recommendation.

Reference checks
While reference checks are not as commonly required for employees to submit with their resume and/or application, there are some industries and companies who still utilize reference checks to validate information on these tools. Survey results reveal that 96 percent of organizations use reference checks, but 93 percent of employers refuse to
give a reference statement due to potential legal repercussions (Heneman 391-394). Reference checks can be useful, but typically they take more time than they are worth to contact references and inquire about past candidates.

For small businesses, reference checks may be a little easier if they do not have a significant amount of candidates to check. Fraudulent information or references though are easy for candidates to provide, so be aware of the validity of the references.

**Initial Interview**

Initial interviews are commonly used as an initial assessment tool so employers can interact with the candidate via video, phone, or in person. These should be conducted early on in the screening process as it can help to screen candidates out who do not meet the job minimum requirements. The initial interview is not a time to learn in depth information about how an employee behaves in different situations. However, this is a time to get to know the employee and figure out if they meet the minimum requirements to move on in the process to more substantive assessment options.

Phone screening is a common initial interview tactic because it gives the employer the chance to interview an employee at a distance, which saves time and money. Phone screening may last 15-30 minutes, but any amount of time over 30 minutes likely will not be as useful for the employer to figure out if the candidate has the minimum requirements.

Video and computer interviews are gaining popularity as they save time and money for the recruiter. However, this may not be the best use of funds for small businesses because the software needed to complete recorded video interviews or assessments is expensive. Utilizing applications and software such as Skype, FaceTime, or other Video Conferencing software that is free could be a good middle-ground between phone screening and computer-based screening.

**Background Checks**

Many companies perform background checks on which an extended offer is contingent. However, there are a lot of legalities to take into consideration when using background checks, especially in that their results often cannot be the sole reason why a candidate does not make it through the screening process.

It may be useful to continually rescreen employees as well throughout their tenure. HireRight conducted a survey in 2014 that showed 27 percent of employers rescreen their existing employees to help maintain a safe environment for all employees and customers (Maurer). Employers who conduct background checks are also responsible for defense against claims of negligent hiring, or employers who know or should have the knowledge of hiring a person who could potentially cause danger in the work environment.

Small businesses may specifically struggle with background checks and the new “Ban-the-Box laws, which protect ex-offenders from an early knock-out punch in the hiring process based solely on the early disclosure of a criminal record,” (Maurer). This typically applies to public companies, private companies should be aware of this because different regulations across cities and countries exist as far as the felony/criminal conviction text box.
Social media screening, or reviewing applicant information on social media in the screening process, has become a common screening process because it is free and easy to access; however, this has proven to be risky among employers due to potential adverse impact or discrimination against the candidate based on protected characteristics, such as race, sex, national origin, and religion. CareerBuilder’s 2012 survey stated “37 percent of hiring managers use social networking sites to research job applicants, with over 65 percent of that group using Facebook as their primary resource,” (Richard). If your company uses social media to screen applicants, just remember that it is easy for opinions to be biased or swayed once something is seen, and it is challenging to be impartial to a candidate after viewing their social media sites.

**Substantive assessment methods**
Substantive assessment methods are selection methods that help select finalist candidates out of the initial candidate pool. These assessments dig deeper a candidate’s skill set to see if they are high performers and if they may benefit the company.

**Personality tests**
A company’s employees make up its culture, and using personality tests can be a measure of how well an employee may fit with the company or how much they may clash with other employees based on current personality types. The “Big Five” personal traits that are measured in these tests are extroversion, agreeableness, conscientiousness, emotional stability (neuroticism), and openness to experience. These can be administered online through tests such as International Personality Item Pool, Personal Characteristics Inventory, and Hogan Personality Inventory.

Personality tests can be challenging to use for evaluation, but conscientiousness and emotional stability seem to be useful across many different jobs while extroversion, agreeableness, and openness tend to have the largest correlation with job performance (Heneman).

**Potential issues**
Applicants could cheat or answer in the way they believe the company wants them to. Applicants may not appreciate long personality tests.

**Ability tests**
Aptitude and achievement tests are used to measure a candidate’s capacity for certain performance. This can be cognitive, psychomotor, physical, sensory, or job knowledge tests.

Ability test outcomes tend to have stronger correlations as job increasingly become more complex. This is one of the best assessments for predicting the future performance of an employee.

**Potential issues**
There is the potential for adverse impact with cognitive ability tests particularly, as minorities may not score as high as majority candidates. Many companies have moved away from cognitive ability tests so as to avoid any potential discrimination or adverse impact against someone who does not perform well on a cognitive ability test.
Emotional Intelligence
Commonly abbreviated to EQ, emotional intelligence is a broad topic that encompasses the ability to monitor one's own emotions as well as understand the emotional spectrum of other peoples' emotions. Daniel Goleman authored a book in the 1990s that brought popularity to the concept of emotional intelligence, covering self-awareness, self-regulation, motivation, empathy, and social skills as essential components of a person's EQ.

Potential Issues
As a tool for assessing candidates, emotional intelligence varies on its usefulness. Some professionals who do not believe in its ability to last as a significant predictor have called it a fad. However, it has shown to be moderately successful in predicting performance and leadership potential.

Performance tests and work samples
One of the best ways to predict a candidate's future performance is to have them complete a work sample or performance test based on the type of work they may be hired to complete. For example, firefighters go through demanding physical and situational tests to see how they react in crisis situations, as this is a critical component to the job.

This is one of the most preferred methods of assessment if the company has the means to set it up. Performance tests and work samples are good at predicting future performance because however candidates perform on the test is likely how they will on the job.

Probationary periods or even internships can be other forms of work samples or performance tests. Since they only last for a specified amount of time, the company is not required to hire the employee full-time; however, if the employee is successful and the company sees potential in them as a full-time employee, internships and probationary hires are good ways to test a candidate.

Potential Issues
Performance tests can be expensive. For the firefighters example, setting up a controlled burn area or using a simulation to test candidates costs more time and money than a cognitive ability test. On the other hand, employers have the chance to actually see a candidate's performance under pressure.

Situational judgment test
Situational judgment tests how a candidate reacts, thinks on their feet, and judges certain situations. Examples of a situational judgment test include written scenarios with a scoring rubric attached to measure the candidate’s answers.

Situational judgment is a good predictor of performance as well as a strong test to assess
decision-making. This makes it a strong test for management-level hires, as it is somewhat cheap and easy to administer with a small amount of adverse impact.

**Potential issues**
These tests have a low to moderate amount of validity, so employers must take into consideration that candidates may be judging a situation based on what they think the employer wants to hear.

**Integrity tests**
While they are not commonly used, integrity tests can be performed to measure a person’s level of honesty. When safety or theft is a concern, this can help to weed out employees. While this is good at predicting counterproductive or bad behaviors, it may not be the best way to test employers for every position.

**Potential issues**
Dishonesty is hard to detect. This makes integrity tests unreliable because we cannot fully understand a person and when they are being honest. People generally understand what integrity means; therefore, it can be easy to answer “correctly” even if that is not how a candidate truly would react.

**Interviews**
One of the most common substantive assessments is the interview. Employers like to know who they are hiring so they can get a good sense of the candidate before extending an offer. While it is expensive to bring several candidates on-site, interviewing gives employers the opportunity to meet the candidates that qualify for the position. They can see if there is a good fit between the candidate and the culture of the company, and interviews can offer many opportunities to get to know a candidate’s behavior.

**Group**
When candidates think of interviews, they tend to think of a one-on-one situation, with a potential employer asking the candidate questions and vice-versa. Group interviews are gaining popularity though as many industries focus on the importance of communication and teamwork.

Group interviews may be structured as a panel or a project. In a panel interview, several people from the company with different backgrounds will ask questions to see how the applicant reacts in a meeting situation with people from many departments (Ramesha). Project interviews provide a hands-on experience in which candidates work together to complete a short project or presentation. This can measure teamwork, leadership, communication, and project management skills among the candidates (Ramesha). The point of both of these types of group interviews is to see how an applicant reacts in a setting with many people and how they are able to get their voice heard while conscientiously avoiding dominating the conversation.

**Behavioral Interviews**
Behavioral interviewing is one of the most accurate predictors of future performance
because candidates answer questions based on experiences they have had in the past (Hansen). This forces the candidate to think more about their answers and it allows for less opportunity to falsify information. Behavioral interviews usually involve probing questions from the interviewer, especially when the candidate has not provided information to fully answer the interviewer's question. Behavioral questions typically begin with “Tell me about a time when...” and allow the employer to probe, “What was the result?” or “How did you feel about that situation?”

**Examples of Behavioral interview questions:**
- Tell me about a time when someone pushed you to the limit.
- Tell me about a time when you planned and pulled off a complex assignment.
- Give an example of how you set goals and achieve them.
- Tell me about a time when you had to stand up for something you believed in.
- Tell me about a time when you were angry or upset with someone.
- Tell me about a time when you and a coworker or peer disagreed on a project.
- Tell me about a project that you completed successfully.
- Tell me about a time when you had to redirect your energy to a new project after focusing on another for a long time.
- Tell me about a time when your time management skills helped you finish several projects on time.
- Tell me about a time when you struggled to complete a project.

**STAR & PAR Methods**
These two methods are ways to analyze how a candidate answers behavioral questions in an interview.

By using one of these methods, candidates can easily structure their answers, and employers can analyze their answers by measuring how well they stated the situation, task, action, and result, or the problem, action, and result.
Situational Interviews
Situational Interviews focus more on what the candidate or employee says they would do or say if a certain situation came about (R. Hansen). These questions could refer to how a candidate may react in a situation or how they analytically problem solve to handle issues. While situational interviews are not that different from behavioral interviews, they do focus on the hypothetical instead of past experiences (R. Hansen).

Examples of Situational Interview Questions
• Tell me how you would react in a crisis situation.
• How would you react if someone on your team was not pulling their weight?
• How would you handle a team’s resistance to a new rule or policy?
• What does your organizational system look like?
• How would you work with someone on our team who you did not get along well with?
• If your supervisor handles a situation in a way that you would not agree, how would you handle this situation?
• Describe a work environment that would be most ideal for you.
• If you could have any career in the world, what would you choose and why?
• What would you do if you were working on an important project and the priorities or the focus changed without warning?
• Tell me about your problem solving process.

Behavioral vs. Situational
Often, people confuse situational interviews and behavioral interviews. However, situational refer to hypothetical situations and behavioral refer to past experiences and how the candidate has worked through those experiences. While situational interviews are useful, behavioral interviews are the best way to gauge how an employee may perform in the future based on their past work.

Structured vs. Unstructured
Interviews that are prepared in advance with standard questions based on the job analysis are considered structured interviews. Unstructured interviews, as the name implies, are those that are not planned in advance and are “off the cuff.”

Structured interviews require careful and thorough creation to provide validity. The questions should be based on the job analysis and the requirements necessary to complete the position. Responses should be anticipated through a structured interview and they should be scored accordingly for evaluation. A simple way to anticipate what responses an interviewer is looking for is to defer to the job description, the needs in the job analysis, and the company’s vision, mission, and goals. These will help to construct what may be considered an outstanding response, a moderate response, and a poor response from a candidate. Interviewers should take detailed notes throughout the interview to document and review what the candidate said after.

Applicants tend to like structured interviews, and they are more effective than unstructured interviews. Unstructured interviews do not offer valid results because it is hard to measure a process without a structure. There is also the potential for more biases and legal
implications if the interviewer asks anything related to the candidate’s sex, race, marital status, national origin, and other protected personal characteristics that could cause bias.

While organizations may think they have strong interviewing practices, many of them do not have a structured plan for interviewing candidates. In order to revive relevant metrics from interviews, they must be carefully planned and quantifiable. Interviews should be structured to create a fair process and ensure as little personal bias as possible.

**Contingent Assessment Methods**

Contingent assessments are those tests that are typically performed in which an employment offer is contingent. For example, three main contingent assessments are drug testing, tobacco and alcohol testing, and medical exams.

These assessments are not always used, and they recently are less frequently used due to the legalities employers must deal with as well as they are not necessary to completing the job. However, some employers must use them due to the nature of the position to ensure employers are properly protecting all of their employees from any potential problems related to impairment.

**Drug testing**

Drug tests can be administered in many different ways, such as taking blood or hair samples, and pupillary reaction. However, this is not always a necessary test to administer for employees and many employers choose to use this when they have a reason to believe an employee’s work is impeding by drug use.

Though it can be useful, drug testing is not always effective in catching employees who are using drugs. Also, it does not always pinpoint the time that the drug was used as well as where (on or off office property). Some recommendations for administering drug testing are to only use it when there is a need, such as in a safety-sensitive position or when there sufficient belief that it may be hindering an employee’s performance. Use reputable testing labs and always ask for consent from employees. Offer employees the test results, ensure their privacy rights, and allow retesting to occur when there is a positive sample.

**Other Contingent Methods**

Alcohol and tobacco testing as well as medical exams are not as commonly used in the workplace unless an employee is injured on the job. Employees who are injured on the job usually are required to be tested for substance abuse immediately following the incident. If an employee seems to be impaired while at work, reaction/performance tests can be used. These can also help to see how quickly a person reacts and if they are sleep deprived, causing an issue in their performance. Unless it is influencing the company or the employee’s performance, it may not be necessary to use contingent assessment methods on employees. When contingent methods are used, employers must practice extra caution in using the same guidelines for all employees being testing and to keep records of testing results.
**Internal Assessments**

The methods used for external and internal assessments do not need to be the same, as many of the external assessments are used to get to know outside candidates. Internal assessments are more focused on how well the employee has performed during their time at the company and how prepared they may be for a change in positions.

**Peer Assessments**

These assessments help to understand the promotability of an internal applicant. By using peer ratings/rankings and peer nominations, employers can see how well respected and prepared for a new position another employee may be. This is often used in the military, but this can also encourage a friendship bias or the opposite. This should not be used by itself for promotions or job changes, but it can be a useful tool in assessing appropriate promotions and job changes.

**Self-Assessment**

Self-assessments may be best used for performance evaluations and occasionally when employers are looking to move other employees around in the organization. This also cannot be used as the sole assessment for moving an employee, because when most people self-assess, they are either too hard or too easy on themselves.

**Managerial Sponsorship**

Sponsorship can help employees get to know other higher up people in the organization, or it can give them a mentor to go to when they need further assistance outside of speaking to their manager. These can include mentors, coaches, and sponsors, and typically these relationships are mutually beneficial. These sponsorships can help to analyze how a person may be eligible for a promotion or a shift in job responsibilities.

**Informal Discussions and Recommendations**

Informal discussions with employees, such as over lunch or coffee, as well as recommendations from other employees can be useful for internal recruiting. Though these are not standardized methods, they can help to gauge employee interest in moving to a new area or considering a potential future promotion.

**Substantive Internal Assessments**

Substantive internal selection methods are those used to choose finalist candidates from the initial pool of candidates. After using an initial internal method, substantive internal methods should be used to make decisions on what employees may be eligible for promotions and movement into other job positions.

**Seniority and experience**

Companies commonly use seniority and experience in choosing employees to promote internally. Employees who have more tenure at the company should have more knowledge on the company practices as well as experience. However, this can lead to a high amount of adverse impact against protected classes. This impact goes back to the diversity and recruitment practices of the workforce.

**Performance appraisal**

Performance appraisals are the most widely used for internal selection after seniority and
experience. This typically encompasses multiple aspects the employee’s position and time with the company. While bias can occur in performance appraisals, setting a clear scale to review performance makes it easier to avoid bias.

Other methods of internal substantive tests include Job knowledge tests, Promotability ratings, Assessment centers, In-basket exercise, Leaderless group discussion, Case analysis, Global assignments, interview simulations, and Promotion panels and review boards. Most of these assessments have low usage though, so it is recommended to research a variety of internal movement assessments if the company is interested in promoting employees.

**How to Choose the Best Assessment Methods**

What is the best assessment method to use? That is a very objective question, and the answer is, it depends. It is important for businesses to figure out what is most important to them when reviewing applicants for hires or promotions. Small businesses should be focused on low cost methods with high validity and reliability. However, larger companies may be okay with moderate-to-high pricing if it yields a lower adverse impact, high validity and reliability, and positive applicant reactions.

The best possible assessment method would be low cost, high use, high reliability, high validity, high utility, positive applicant reactions, and low adverse impact. Finding methods that are as close as possible to these levels would be the best way to find useful assessments for viable candidates.

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**EVALUATION OF INITIAL ASSESSMENT METHODS**

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<tr>
<th>Applications</th>
<th>Use</th>
<th>Cost</th>
<th>Reliability</th>
<th>Validity</th>
<th>Utility</th>
<th>Applicant Reactions</th>
<th>Adverse Impact</th>
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<td>Structured Interviews</td>
<td>Moderate</td>
<td>High</td>
<td>Moderate</td>
<td>High</td>
<td>?</td>
<td>Positive</td>
<td>Mixed</td>
</tr>
<tr>
<td>Seniority</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>?</td>
<td>?</td>
<td>Moderate</td>
</tr>
<tr>
<td>Experience</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
<td>High</td>
<td>Positive</td>
<td>Mixed</td>
</tr>
<tr>
<td>Job Knowledge Tests</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
<td>High</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td>Moderate</td>
<td>Moderate</td>
<td>?</td>
<td>Moderate</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

(Adapted from Heneman, page 400, 468, 527)
Selection and Success:

An Honors Thesis (HONR 499)

by

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Expected Date of Graduation

May 2015
Companies have offered benefits to their employees as incentives for working hard and for attracting employees since around the 19th century (Kilgour). After World War II, it became more important to employees to have some security and assistance in certain areas, especially their future retirement and health insurance. By 1960, benefits provided by employers became a "major component in the compensation package," (Kilgour). Employee benefits are a time consuming part of human resources because when governmental regulations change benefits must be re-analyzed. Typically, companies review their benefits yearly to ensure they are legal, compliant, and fair.

Resources for Small Businesses

Society of Human Resource Management
Small Business Health Care Tax Credit for Small Employers
Automatic Enrollment 401(k) Plans
www.choosingaretirementsolution.org
Payroll Deduction IRAs for Small Businesses
Profit Sharing Plans for Small Businesses
Simple IRA Plans for Small Businesses
Small Business Retirement Savings Advisor

Required Benefits

Social Security
Social Security involves the Old Age Survivor and Disability Insurance, which is funded through a payroll tax by the employee and employer. The Social Security Administration allows people to apply for retirement benefits three months before they would like payments to begin, and they offer an online application for easy access. Employees have reached "full retirement age," or the age that retirement benefits will not be reduced, at 67 if they were born in 1938 or after. People can begin receiving benefits at 62 or as late as 70; however, there are rates of reduction for taking retirement money early (Social Security). Payment ends up evening out for the most part, so the Social Security Administration recommends consulting with one of their experts before retiring to figure out when the best choice for a person's lifestyle.

Medicare, often grouped with Social Security, provides protection against the cost of healthcare, and people are eligible for Medicare at age 65 (Armstrong, 78). Learn more about Social Security through http://www.ssa.gov.

Unemployment Insurance
Insurance is available for workers who have been involuntarily displaced from their jobs, and it is administered through a state agency or insurance company. The federal government heavily monitors this insurance, as the Federal Unemployment Tax Act taxes approximately $7000 of wages paid to each former employee (Armstrong, 78).

**Worker’s Compensation**
Compensation is required for any employees who have been injured on the job or in a job-related function. This compensation is offered to make up for any lost wages the employee could have made while on the job, but could not due to injury. It is extremely important for employers to keep good records of any injury or medical actions necessary for the employees so liability on the employer’s part is lessened.

Keep in mind that worker’s compensation is required but it is **not** automatically provided. Employers must actively apply for a worker’s compensation policy through a provider in order to cover their employees.

**COBRA**
COBRA, or the Consolidated Omnibus Budget Reconciliation Act, requires companies with 20 or more employees to provide healthcare coverage after termination of employment. COBRA helps to avoid employees and their dependents losing their health insurance when they involuntary leave a position to avoid issues with obtaining health coverage due to waiting periods and pre-existing conditions.

This also includes coverage for qualified beneficiaries of the terminated employee. This is very important for small businesses to keep in mind as they look at their employment numbers, as this coverage lasts for 18-36 months by the former employer. It is also required that employers let their terminated employees know that they have COBRA coverage, but “at least 100 percent of the premium must be paid by the former employee” (Armstrong 85).

**Family and Medical Leave Act**
Small businesses that are under 50 employees do not have to worry as much about regulations regarding the Family and Medical Leave Act (FMLA), but it is still important for all employers to be aware of the employment laws and regulations that could potentially affect their employees as the company grows. FMLA requires employers to allow employees who have been employed for at least 12 months or worked for 1250 hours to have 12 weeks of time off for child birth, child care, adoption, foster care, or to take care of an immediate family member with a severe illness. Typically, FMLA is enforced differently by the states, so it is important to check which state regulations apply to businesses.

Some employers may require their employees to use their paid leave before using unpaid leave, so employees should be checking this regulation with their employers, and employers should be prepared to let their employees know what they would like to use for their time off (Graves). Paid leave does not count against the 12 unpaid weeks that the employee is entitled to though, so that may even allow more time for the employee off if it is necessary.

Employers are required to still have a job available for their employees when they return from FMLA leave. However, employers are not required to keep the exact same job; as the Department of Labor

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states, "an employee must be restored to the employee’s original job, or to an equivalent job with equivalent pay, benefits, and other terms and conditions of employment," so not to discriminate against the employee for their time away (Graves).

**Affordable Care Act: Health Care Reform**

In 2010, the Patient Protection and Affordable Care Act (also called Obamacare and shortened as Affordable Care Act) was created. The point of the Affordable Care Act is to reduce the amount of uninsured people, to decrease health care costs, and to change the scope of health care form in America.

The PPACA requires employers with 50 or more full-time employees to provide essential health care benefits up to government standards or pay $2000 each year for every employee that worked 30 or more hours a week (Kilgour). Through the Affordable Care Act, the government subsidized tax credits to families and employees who meet certain criteria and have purchased insurance.

This has been a controversial plan as it requires more employers to provide health care to their employees or they are financially penalized. It also increases the excise tax on “Cadillac” health plans that will begin in 2018 if the individual employee health coverage is more than $10,200 or over $27,500 for dependent coverage (Kilgour). Adults can also claim their children up until age 26 as their dependents on their health care coverage.

Small businesses must take this health care reform law into consideration if they have at least 50 employers or are nearing that amount of full-time employees. There is also a tax credit allotment for small businesses. To qualify for this tax credit, the business must meet the following criteria:

- Offers health insurance to employees
- Covers at least 50 percent of the health care cost for employees
- Pays average and annual wages below $50,000
- Has less than 25 full-time workers

The credit depends average employee wages and the number of people employed by the company. For 2010-2013, the maximum credit is 35 percent of the employer’s premium expenses (Patient Protection and Affordable Care Act (PPACA)).

If a small business does not previously offer insurance but then decides to offer insurance, they are eligible for the tax credit once they begin offering employee coverage through an exchange. For more information on the Affordable Care Act, visit the website [PPACA.com](http://PPACA.com) or the [Department of Labor’s Affordable Care Act website](http://www.dol.gov/ahca).

**Core Benefits**

Many employers offer benefits that are considered core benefits; though they are not legally required, few employees would be interested in taking a position without having some of these core benefits.

**Paid Time Off**

Employers understand the importance of taking a vacation or taking some time away from work because it is helpful to allow employees the chance to relax away from their duties and come back to
work with a fresh and relaxed mind. While Paid Time Off is not a required benefit, most employers
do offer it because it helps to “foster a mentally healthy workforce,” (Armstrong 80). Typically, PTO is administered in-house, and a simple worksheet can be created to request and approve time off.

TIME OFF REQUEST FORM

*This time off request must be submitted at least 7 days in advance of the desired leave date. It must be approved through your supervisor.*

<table>
<thead>
<tr>
<th>Name:</th>
<th>Today’s Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position:</td>
<td>Department:</td>
</tr>
<tr>
<td>Date(s) requested off:</td>
<td>Date I will return to work:</td>
</tr>
</tbody>
</table>

**Reason:**
- [ ] Vacation
- [ ] Sick time
- [ ] Personal Leave
- [ ] Bereavement Leave
- [ ] Family and Medical Leave
- [ ] Jury Duty
- [ ] Military Service
- [ ] Other (please explain)

Comments:

______________________________
Signature

______________________________
Date

______________________________
Printed Name

**Supervisor use only:**

- [ ] Approved
- [ ] Unapproved
  - [ ] Reason ____________________________

______________________________
Signature

______________________________
Date
Holidays
Spending holidays with family members and friends is important to many employees, and many businesses can survive by not being open during the few holidays in the year. Typically, companies give employees paid holidays for New Year’s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day (Armstrong 80). Some employers offer a “floating holiday” option, in which employees can choose one other holiday, like Martin Luther King Jr. Day, President’s Day, Columbus Day, and other holidays that people typically work through to receive paid time off. Private companies are not required to pay for holidays or vacation due to the Fair Labor Standards Act, but many companies choose to reward their employees for their hard work in this manner anyway.

Vacation
Vacation, similar to paid time off, is not required but is often offered to employees. Typically, vacation time grows as an employee’s tenure grows. This can be a different situation for small businesses though, especially those who employ more part-time than full-time employees, like in the restaurant or retail industries. Creating policies for vacation, time off, and approval of time is essential to keeping procedural consistency among all employees.

An example of vacation time accrual is as follows:

- 0-1.5 years: 10 vacation days
- 1.5-5 years: 12 vacation days
- 5-7 years: 14 vacation days
- 7-10 years: 20 vacation days
- 10+ years: 24 vacation days

As tenure increases, vacation time is given as a perk of staying with the company. Employees, especially younger generations, tend to move companies more often, so this can be a great incentive to keep employees around longer.

Vacation can be “use-or-lose” or may even carry over to the next year. Businesses should take into consideration the kind of policy that works best for the employees and their company as far as how long vacation time can accrue. Vacation time is not usually allotted to people who are part-time or working approximately 20 hours a week, so small businesses may not need to take this aspect into consideration as often depending on the employee type. In companies that have seasonal or peak busy times during the year, they may have blackout dates where no vacation is allowed.

Sick Leave
Employees are usually paid for their time off due to personal medical needs, family care, care of a family member with a serious health condition, or adoption-related purposes (Fact Sheet: Sick Leave). Bereavement can also be added into this category, depending on the company’s policies for time away. The United States Office of Personnel Management allows sick leave accrual in the following increments:

<table>
<thead>
<tr>
<th>Employee Type</th>
<th>Sick Time Accrued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time</td>
<td>½ day (4 hours) for each biweekly pay period</td>
</tr>
<tr>
<td>Part-time</td>
<td>1 hour for each 20 hours in a pay status/period</td>
</tr>
</tbody>
</table>
Adapted from the U.S. Office of Personnel Management Fact Sheet.

There are technically no limitations from the government on the amount of sick leave that an employee can accumulate, so that must be put in place by the employer, especially if they are finding an issue with many employees taking sick leave when it is not necessary.

**Personal Leave**

Not all employees observe certain holidays, so personal leave can be used to allow employees time off for other holidays they observe or for days that sick leave and vacation do not include. This can also be paid, but usually it only amounts to a few days a year on a “use-it-or-lose-it basis,” (Armstrong 83).

For employees with extenuating family health circumstances, employers should look into different options for the employees to continue working when it is possible. It may be possible for an employee to work part-time or through an alternative work schedule, such as job sharing or flexible work schedules. It is important for all businesses to take family illnesses and alternative work options into consideration in case their employees encounter this in the future.

**Bereavement Leave**

Paid leave is offered to allow an employee to attend a funeral for family members or to help settle the affairs of a family member’s estate. Companies offer bereavement for a certain amount of days, such as three days, and sometimes limit the relationships that bereavement allows, such as “immediate family, children, spouses, and parents,” (Armstrong 83). Bereavement can be lumped in with sick leave and in caring for seriously ill family members. Most of the discretionary or core benefits offered to employees are based on what kind of policies the company works by and how much they feel they can afford to offer their employees while maintaining productivity.

**Summary of the paid time off & leave**

Many employers find the best way to offer time off and leave policies is to combine them into a one thorough policy. Offering a “paid-time-off model” that gives employees paid time off and unpaid time off based on tenure keeps the process more organized and easier for employees to understand (Kilgour). Paid time off encompasses sick, bereavement, and personal time off. This removes the need for the employees to classify their time off and lump it all into paid time off.

**Health Insurance**

Controversy regarding new regulation with health insurance has been prevalent in the Obama administration, as it affects many employers and the benefits they offer and are required to offer their employees.

The three main types of health insurance plans are as follows:

- **Indemnity or traditional plans.** This plan allows employees to see any physician, and the physicians receive a fee for their services. Annual deductibles are usually included, the premium for these plans are usually more expensive than other healthcare plans.

- **HMO.** Health Maintenance Organizations require employees to choose physicians located in the specific HMO group used by the employer. This provides a fixed fee for physicians, and it is often that costs are controlled by not always meeting directly with a physician. An example is meeting with a nurse practitioner for a patient screening or using preventative programs.
BENEFITS

Incentives to keep employees motivated, healthy, and happy.
Understanding benefits
Benefits are usually categorized into required benefits, core benefits, and discretionary benefits, which vary across businesses. Small businesses must determine which legally required benefits apply to them (see chart below) according to the amount of employees at the company. In addition, most employees look for extra benefits, such as insurance, health coverage, and perks that come along with the position to help maintain their health and wellbeing.

Creating a benefits plan
Figure out the best benefits plan for the business by creating a budget and surveying employees to see what benefits would entice them. Benchmarking with other companies can help to see what industry standards are offered to attract employees.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Legally Mandated</th>
<th>Type</th>
<th>Employees Required</th>
<th>Further Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>Yes</td>
<td>Required</td>
<td>2 or more</td>
<td>File employer W-2 forms, pay social security taxes at the same rate paid by employees</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>Yes</td>
<td>Required</td>
<td>2 or more</td>
<td>Mandated at the state level</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>Yes</td>
<td>Required</td>
<td>2 or more</td>
<td>Benefits to workers disabled by occupational illness or injury. Employers must purchase this for their employees.</td>
</tr>
<tr>
<td>COBRA</td>
<td>Yes</td>
<td>Required</td>
<td>20 or more</td>
<td>Must provide healthcare coverage after termination of employment</td>
</tr>
<tr>
<td>Family and Medical Leave</td>
<td>Required</td>
<td>50 or more</td>
<td></td>
<td>12 weeks of job-protected, unpaid leave during any 12-month period to eligible, covered employees</td>
</tr>
<tr>
<td>Affordable Care Act</td>
<td>Yes</td>
<td>Required</td>
<td>50 or more</td>
<td>Provide essential healthcare to employees</td>
</tr>
<tr>
<td>Paid Time Off</td>
<td>No</td>
<td>Core</td>
<td>No requirement</td>
<td>Includes holidays, vacation, sick leave, personal leave, and bereavement leave.</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>No</td>
<td>Core</td>
<td>No requirement</td>
<td>Any additional options for healthcare that are not legally mandated.</td>
</tr>
<tr>
<td>Retirement</td>
<td>No</td>
<td>Core</td>
<td>No requirement</td>
<td>Employer-sponsored plans, Individual savings, social security</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>No</td>
<td>Core</td>
<td>No requirement</td>
<td>Permanent and term insurance offered to cover entire life or specific amount of time</td>
</tr>
<tr>
<td>Disability Insurance</td>
<td>No</td>
<td>Core</td>
<td>No requirement</td>
<td>Coverage when employee cannot work due to a disability or illness not obtained on the job</td>
</tr>
<tr>
<td>Education Assistance</td>
<td>No</td>
<td>Discretionary</td>
<td>No requirement</td>
<td>Providing reimbursement for education.</td>
</tr>
<tr>
<td>Transportation Coverage</td>
<td>No</td>
<td>Discretionary</td>
<td>No requirement</td>
<td>Covering parking, gas, bus pass, or other fees associated to transportation.</td>
</tr>
<tr>
<td>Add-on Healthcare Benefits</td>
<td>No</td>
<td>Discretionary</td>
<td>No requirement</td>
<td>Extra dental coverage, orthodontic procedures, surgeries, extra vision plans, etc.</td>
</tr>
</tbody>
</table>
• **PPO.** Preferred Provider Organizations combine traditional plans and HMO plans by having contracts with specific physicians. Employees have more physician options through PPO plans, but they are not unlimited options as the traditional plans offer. This plan can also allow employees to see physicians outside of the PPO networks by paying copays or other deductibles. (Armstrong 84).

Consumer-driven healthcare plans, such as **Flexible Spending Accounts (FSA), Health Reimbursement Accounts (HRA), and Health Savings Accounts (HSA),** are becoming more prevalent to offset health insurance costs. These plans have high-deductibles that do not cover health costs until the deductible is met (i.e. $2,000 deductible for individual or $4,000 deductible for family). Employers also contribute to these accounts to help meet healthcare costs after the deductible is met. The consumer-driven healthcare options are about the same cost to the employer as the traditional, HMO, and PPO plans. With these plans, employers tend to build up funds from year to year, as employees tend to not often meet these high deductibles (Armstrong 85).

**Retirement**

When employees think of their benefits, retirement is probably one of the first types of benefits they look for from an employer. Retirement has become a challenging benefit to understand, so many employers offer assistance to their employees so they can make the best decisions for their future through retirement planning (Kilgour). Retirement is often called a “three-legged stool” of assistance.

**Employer-sponsored retirement plans**

Another aspect of retirement is provided by the employer and regulated through the U.S. Department of Labor, the Internal Revenue Service, and ERISA preemption. The ERISA preemption is more important for “multi-state employers with corporate pension plans” (Kilgour). Included in employer-sponsored retirement plans are defined benefit plans and defined contribution plans.

Defined benefit plans are traditional pension plans, which are funded by the employer (Kilgour). Defined contribution plans have taken the place of most defined benefit plans since the 1980s. Private companies utilize 401(k)s to allow employees to hold their pretax income in a personal account for their future retirement. Many employers also offer the benefit of matching or contributing to the employee 401(k) accounts, and employees who leave the company do not lose this benefit when they move to another company.

Public sector and other sectors use the 403(b) plan, which is commonly used in public education and nonprofits. 457(b) plans are also available in some government and nonprofit organizations for retirement purposes. Typically, public sector employees do not utilize the matching system for contributions, but they help to supplement the defined benefit or traditional pension plans (Kilgour).

Small businesses may want to look into using 401(k) plans for their employees because it helps them contribute to their own retirement. In recent trends, small businesses have shifted completely to a
Cash balance and other hybrid plans are more often utilized instead of defined balance because they are cheaper for employers to implement. There are also "more visible benefits for employees than traditional DB plans" as employees can see their pension accounts continue to grow, even in financial crisis (Miller).

The Society of Human Resource Management offers best practices for making retirement information available to employees. This resource can be found on the SHRM website and Slideshare for further use.

**Individual savings**
Employee individual savings is the last component of the retirement "three-legged stool." Employers can best assist their employees in their individual savings plan by educating them on their finances and needs after retirement. Teaching professional and personal development sessions on retirement, budgeting, savings, college funds, and other savings options will help increase their knowledge.

**Life Insurance**
More recently, employers are choosing to offer life insurance benefits to their employees. Life insurance tends to be grouped in with health insurance, disability insurance, or another similar plan (Armstrong 86). Employers can provide group insurance for up to $50,000, a number set by the IRS so not to discriminate toward differing employee wages.

Life insurance is offered as Permanent Life and Term Insurance.

- **Permanent life insurance** is very expensive; therefore, many employers choose not to offer it. It provides whole life, universal life, index-universal life, variable life, or variable-universal life death benefits and cash savings to the beneficiary (Solin). It can provide protection for an employee's entire life, and it can be a great choice if an employee is looking for asset protection from creditors.
- **Term Insurance** covers a specific amount of time, and the employer often purchases this for employees during the time they are employed. Term insurance is preferable for younger
families and individuals who need extra help in case a primary income earner passes away. Unlike permanent life, term insurance does not build cash value, but it can be converted into permanent insurance at the end of the term to create more value (Solin).

Disability Insurance
Disability insurance provides pay when an employee is not able to work due to a disability or illness. This is usually administered through a third-party company or representative who evaluates the amount of payment (Armstrong 87). Employees who qualify for disability insurance will typically receive 2/3 of their salary, or 66 percent, which is paid out monthly.

Disability insurance is either short-term (2-4 weeks) or long-term (3-6 months). Employers who choose not to offer short-term disability insurance sometimes extend their sick leave policies until long-term disability begins, while other employers allow their employees to purchase short-term disability plans through payroll deduction (Armstrong 88).

Long-term disability eventually provides regular income for employees after getting through the elimination period. This is usually only offered fully if employees cannot work at any other occupation due to disability or illness; if an employee begins working at an occupation again, any disability insurance benefits will likely stop (Armstrong 83).

Discretionary Benefits

The last allocation of benefits is typically called discretionary benefits. These are also optional benefits, but many employers offer benefits to make their company more attractive to their employees. Investing in employees and their wellbeing can make a huge difference in creating a strong, happy, and healthy culture, so it is important to take some of these discretionary benefits into account when creating a company benefits plan.

Education Assistance
Many companies offer some kind of tuition reimbursement or funding for further their employee’s development and education. Many companies will pay thousands of dollars per year for employees as long as they are taking classes that will further their working experience as well as if they are in good standing.

One of the concerns with offering this benefit is employers are afraid that their top employees will receive a higher degree and then move to another company after their former company has invested so much money into their education (Landes). This is also not a benefit that every company is suited to handle; for example, small businesses may not be able to handle this large of monetary assistance for their employees, but they could offer incentives for certifications, further education, or other personal development.

Transportation Subsidies
As companies are looking into their carbon footprint more with environmental concerns rising, some choose to offer transportation benefits to their employees. Some transportation benefits may
include coverage of public transportation cost, a carpooling system, or a coverage of a parking pass (Armstrong, 91). This could be a great benefit to add, especially if the business is in an urban area where driving is challenging or finding reasonable parking is not easy.

Add-on healthcare benefits
Healthcare extends to more than just primary physician care, and as the costs of healthcare continue to fluctuate, many employers want to keep their employees happy and healthy by providing additional healthcare benefits. Some of these may include extra dental coverage, such as orthodontic procedures, root canals, or other surgeries. Employee assistance programs may exist, helping the family through confidential counseling services, as well as extra vision plans with glasses and/or contact lens coverage. Flexible benefit plans
Flexible benefit plans are sometimes referred to as “cafeteria plans” as they allow employees to pick and choose what suits their healthcare needs most (Armstrong 91-92). Some of those options are Premium-Only Plans (POPs), Flexible Spending Accounts (FSA), or Full Cafeteria Plans.

• Premium-Only Plans are the simplest plan type, and it allows employees to pay for health and dental coverage with some of their pre-taxed income (Armstrong 92). This could be a cheaper option for small businesses to offer their employees as opposed to some of the larger plans that encompass more money and coverage.

• Flexible Spending Accounts are similar to Premium-Only Plans in that they allow employees to use pre-tax money to pay for healthcare expenses. These are typically expenses that are not covered by insurance, so typically they are used for prescription drugs, eyeglasses, and child care (Armstrong 92).

• Full Cafeteria Plans typically are used in larger companies that can offer a “menu” or wide variety of benefit options. Employees can cater these plans more to what they need, so if they would like more health care insurance than disability insurance, they can allocate more money to health care (Armstrong 92). These are a little more challenging to explain to employees, and it takes a great deal of care and detail to set cafeteria plans up. Even though these are not the best benefit options for small businesses to utilize, it is important to be aware of the concept.

Work-life benefits
New initiatives are taking hold in companies to really help employees achieve balance in their work and personal lives. Some of these may include “childcare and elder care assistance, counseling programs, legal insurance, casual dress, flexible work options, personal services on-site (fitness centers, medical facility, banking, etc.), and discounted entertainment (Armstrong 93). These perks are great for employers to look into as they help round out an attractive benefits package.

Benefits have become essential to employees as they help keep employees healthy and happy in their work lives. Small businesses may offer benefits, or may want to consider offering benefits because they can really impact the culture of a company. Even benefits such as wellness benefits can help improve the quality of life for employees and maintain a satisfying culture.
COMPENSATION

Monetary pay provided in exchange for an employee’s hard work
**Quick Start: Compensation**

**Changing compensation rates**
Compensation changes usually occur as the result of a performance review, a promotion, or a company-wide salary adjustment. When compensation is created or changed, it is important for employers to research and clearly communicate the changes to the employees to avoid rumors and confusion.

**Research similar positions**
Use websites such as O*Net, Glassdoor, and PayScale to see wages for different industries and positions. Keep in mind that O*Net is a government-run website while the other two websites provide information through user submissions. Compare these numbers to the current position’s salary or wages.

**Use respect and clarity**
During discussions with employees, use discretion, respect, and clarity. Do not promise employees they will get a raise if you cannot follow through. Do not avoid the conversation, and be thorough to help employees understand new terms of payment.

**Common employer compensation errors**
- Denying or delaying overtime pay
- Allowing employees to work off the clock without compensation
- Not understanding the Fair Labor Standards Act regulations
- Not discussing compensation changes with employees
- Not creating a clear policies and procedures for compensation and changes

**Benefits of outsourcing compensation**
- Saves time and money
- Avoids IRS issues and penalties
- Allows direct deposit
- Outsources the headaches
- Regulation changes
- Offers support
Compensation refers to the monetary pay and incentives employees receive for their work. While money is not the most important part about a position, it is valuable to an employee. Defining fair compensation packages is essential to helping maintain a steady workforce while balancing income and revenue for the company.

**How to Create a Pay Range**
Employers must figure out the worth of each position relative to one another to create a pay range for hiring. The job analysis process used in creating a position is also used to create a pay scale for each position. Benchmarking the positions against other similar positions in similar companies will help determine what the overall fair compensation package may look like, including base pay, bonuses, benefits, and stock options.

In conjunction with job analysis, job evaluation helps to see the ranking of jobs against one another in a company. After benchmarking outside companies, ranking positions against each other within the company will help determine what ranges will be higher or lower per position.

After analysis, employers must determine how competitive their compensation offerings are for potential employees through their pay policies. They can choose to offer strong compensation packages, with higher base pays, good benefits and incentives, and stock options to be a leader in the market or industry. Companies can also choose to offer medium compensation packages, in which they are mostly aligned with the middle-players in the industry, or they can offer lower compensation packages, in which they are paying less than others in the industry. This is a company choice as to what policy they want to enact, but it is important to keep in mind that money can cause workplace behavioral issues among employees, so fairness is essential to success.

Pay survey analysis is conducted by gathering relevant labor and compensation data from the industry. By keeping up-to-date with competitor’s compensation offerings, employers can stay competitive in attracting and retaining employees. Many of the resources (below) can help in the process of analyzing compensation data.

Finally, the pay structure can be created through regression analysis. A **pay range** is the minimum and maximum that an employer should offer for the work being completed. The pay structure will be created using weights as multipliers to cover the spread of potential pay. Finding the median compensation rate will help employers choose the worth of the work completed for each position in regard to an employee’s direct experience in the position. Typically, the more direct experience a person has, the higher compensation rate they will receive on the pay scale (Armstrong 100).
Resources:
Finding average data for creating a pay scale can be found in a variety of locations;

- O*Net offers median wages in different states as well as the national average for employers to benchmark positions.
- The Society of Human Resource Management also offers statistical information for its members on work surveys and compensation surveys that have been published.
- Any published salary survey will be useful for benchmarking employee pay against the market and other competitors.
- Websites such as PayScale.com and GlassDoor.com can help employers and employees locate average wages for a position as well as for a specific company. However, much of this information is provided via employees or former employees, so it may not be as statistically sound as survey results and research.

Discussing Compensation
Compensation can be the cause of issues among employees; there will be times when employees feel as if they are underpaid or they should be receiving the same or higher compensation than a colleague. Open communication channels among employers and employees will help to lessen that tension when compensation is discussed.

Pay range changes, individual employee pay changes, schedule of payment, and market rates are important to communicate to employees and their supervisors. Typically, schedules of payment are posted publicly to employees, through an intranet or around the office.

Usually, pay changes occur after a performance review, a promotion, or a company-wide salary adjustment. The least common of these is the company-wide salary adjustment, but keep pay changes in mind when reviewing employees’ performance. Since compensation can be a sensitive topic for employees, supervisors should speak with employees in person instead of through email or memo format. Compensation changes or decisions should also accompany the conversations in written format to keep accurate and detailed documentation of changes.

Employees should at the very least be aware of their current rate, new rate, and effective date of the new rate (Armstrong 105). It should also let the employee know why the change is taking place, giving them further information on if it is merit-based, market-based, or otherwise.

Payroll Assistance
Often, payroll and keeping track of work time is outsourced to companies like ADP and Kronos. These companies work with other companies to create the time keeping algorithms and help employees turn in their time sheets, keep track of paid-time-off, and more.

Benefits of outsourcing payroll:
- **Save time and money** – valuable employees can be used elsewhere in the company instead of taking up time processing payroll.
- **Avoid IRS issues and penalties** – 40 percent of small businesses pay an average penalty