Welcome Aboard:
A Guide to Small Business Hiring

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OPEN forum
Small Business Hiring

Companies live and die by their employees, none more so than mom-and-pop retailers, startups and other small and midsize businesses (SMBs).

Businesses with fewer than 500 employees drive the economy, representing more than 99% of all U.S. companies. They account for about half of jobs in the private sector (see Fig. 1), and 55% of all jobs in the country, according to the Small Business Administration (SBA)1.

But finding suitable employees can be tough. SMBs with limited time and resources need to make every new hire count because the actions of every sales associate, customer-service agent or shipping clerk can go straight to the bottom line. On top of that, bringing on the wrong person is expensive: the cost of one bad hire can equal 30% of that person's first-year salary2.

To get the most from their labor investments, SMBs need to hire smart. Today, that means using employee referrals, job boards, social media and other sources to identify promising candidates. It also means vetting prospects using the right interview techniques and following up with appropriate background and work-readiness checks. SMBs also must welcome new hires in a way that introduces them to the company's culture and makes them feel like part of the team while acknowledging their unique skills and abilities.

Effective hiring doesn't end there. To keep employees productive and engaged, savvy SMBs recognize and reward workers' achievements but also take action quickly and efficiently when people aren't meeting expectations.

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1 Frequently Asked Questions, SBA Office of Advocacy, September 2012

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Fig. 1
Small Business Share of Nonfarm U.S. Employment

<table>
<thead>
<tr>
<th>Type and size of business</th>
<th>Small Business</th>
<th>Large Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>Noncorporate (sole proprietors, etc.)</td>
<td>73.3%</td>
<td>26.7%</td>
</tr>
<tr>
<td>Total</td>
<td>48.8%</td>
<td>51.2%</td>
</tr>
</tbody>
</table>

Finding Candidates

When it comes to hiring, small businesses may think they’re at a disadvantage compared with larger companies, but they’re not.

Small employers can use the same types of Internet-based tools larger businesses use to promote themselves as desirable places to work, advertise job openings, find prospective candidates, accept applications and even conduct interviews.

There’s no question that people want to work for small companies. In August, U.S. nonfarm private businesses with fewer than 50 employees were responsible for more than four in 10 new jobs in the country, or an aggregate 74,000 new hires, according to the latest ADP national employment report³.

From 1993 to 2011, employers with fewer than 500 workers accounted for 64 percent of the country’s net new jobs, about 11.8 million of 18.5 million positions, according to the SBA.

A company’s first step in bringing on someone new is determining what work needs to be done. The more specific an SMB can be about a position’s duties and the type of skills and experience they’re looking for in a new hire, the better they can identify top prospects when the time comes to evaluate candidates and set up interviews.

³ Small Business Created 74,000 Jobs in September, ADP National Employment Report, September 2013
Employee Referrals and Other Sources

Business owners may already have the best source of prospective candidates: existing workers. Close to a quarter of new workers come from employee referrals, according to a 2013 source of hire survey by recruiting consultant CareerXroads4. Employees hired based on a referral perform 3% to 15% better than hires from other sources, according to other research on the subject5. Many small employers offer cash or other incentives to encourage employees to participate.

Aside from staff recommendations, the following are other common sources of new hires (see Fig. 2):

- **Career page or career website** — A careers page can list current job openings, requirements of specific positions, and, if relevant, link to online applications.

- **Online job boards** — In addition to general boards such as Monster.com and job board aggregator sites such as SimplyHired and Indeed.com, consider running job openings on local or regional job boards, as well as on niche job boards devoted to specific industries, such as AbsolutelyHealthCare, Dice (tech), eFinancialCareers or HigherEdJobs. [Here's a list of 50 niche job boards from SmartRecruiters.com](#).

- **Internship programs** — By offering internships to undergraduate or graduate students, SMBs can put potential job prospects through a trial run. Take care in setting up internships, though; the best offer “experiential learning,” help students make professional contacts and let employers evaluate talent, according to the National Association of Colleges and Employers6.

- **Hackathons, meetups and other events** — Tech and other companies sponsor challenges, user group meetings or other events to attract people who might be prospective job candidates7.

### Fig.2 - Sources for External Hires

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Referrals</td>
<td>24.5%</td>
</tr>
<tr>
<td>Career Page or Website</td>
<td>23.4%</td>
</tr>
<tr>
<td>Job Board</td>
<td>18.1%</td>
</tr>
<tr>
<td>Direct Source</td>
<td>6.8%</td>
</tr>
<tr>
<td>College</td>
<td>5.5%</td>
</tr>
<tr>
<td>Rehires</td>
<td>3.3%</td>
</tr>
<tr>
<td>Third Party (recruiters, etc.)</td>
<td>3.1%</td>
</tr>
<tr>
<td>Social Media</td>
<td>2.9%</td>
</tr>
<tr>
<td>Print</td>
<td>2.3%</td>
</tr>
<tr>
<td>Temp/Contract to Employee</td>
<td>1.5%</td>
</tr>
<tr>
<td>Job Fairs</td>
<td>1.2%</td>
</tr>
<tr>
<td>Walk-Ins</td>
<td>0.3%</td>
</tr>
<tr>
<td>Other</td>
<td>7.2%</td>
</tr>
</tbody>
</table>


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4 2013 Source of Hire Report, CareerXroads, March 2013
5 The Shortest Path to Better Hires: Best Practices for Employee Referral Programs, Oracle, January 2013
6 Position Statement U.S. Internships, National Association of Colleges and Employers, July 2011
7 Corporations Embrace the Hackathon, Workforce Management, September 2012
Software, Social Media and Mobile Recruiting

SMBs with a substantial number of openings to fill or whose average turnover is relatively high can use applicant tracking software (ATS) to speed up the hiring process. SMBs can use the programs to create, screen and manage online applications, search resumes for job-related keywords, store applicant profiles, schedule interviews and communicate with prospective employees. Newer ATS software plugs into LinkedIn and other social networks.

The Interview

To identify the best prospects, SMBs have to prepare for job interviews just as much as potential candidates they talk to. Key elements of successful job interviews include types of questions to ask, which company personnel should participate, how to check references, avoiding discrimination and following up on background and reference checks.

Tips for Social and Mobile Recruiting

As more job seekers use social media and mobile devices to look for work, SMBs are following suit, sharing job openings and advertising their corporate culture or employer brand. Close to half of recruiters in a recent poll expected to increase spending on social recruiting in 2013. Here are strategies that SMBs can use:


Use social media such as Twitter and Facebook to share links to positions posted on a company career site and ask employees to do the same. Have staff tweet about other news and events, too, so potential candidates get a feel for a company’s culture, recommends Twitter’s recruiting programs manager.

2. Use Video.

SMBs can use Skype and other web-based services to conduct video interviews with candidates. On-demand services such as HireVue let companies email interview questions to job candidates, who can record their answers using a standard webcam and then send them back.

3. Use Mobile Apps.

People-search apps such as 123People.com and LookUp pool data on potential candidates from social media and other public sources into a single profile, and let users share results through email, Facebook or Twitter or save to read later.

4. Look Good For Mobile Job Seekers.

Even if SMBs can’t spring for mobile apps, they can optimize their company websites or career pages to look good on job seekers’ smartphones and tablets. That could mean streamlining text, graphics and forms.


Maintain accounts on LinkedIn, Twitter or Pinterest to attract a pool of prospects and get to know potential candidates before positions open up.

Prescreening

Once a job has been listed, the work of sifting through resumes for candidates and putting them through additional screenings begins. Today, SMBs can use ATS and other recruiting technology to identify high-potential prospects. Companies also can choose to use additional screenings. Some options:

- Prehiring assessments — Retailers and other SMBs that get large volumes of applications for openings can put them through prescreening tests to find candidates whose traits, experience or values best match what they need. Some ATS programs have prehiring assessments built in.

- Personality and behavioral tests — Some small businesses use Myers Briggs or other personality or behavior tests to learn more about a candidate or to assess how they would handle specific work-related situations.

- Executive assessments — Companies hiring upper management could run candidates through evaluations of their leadership skills. Consultants recommend that companies use thorough interviews to dig deep into a candidate’s work experience plus in-depth reference checks to get the clearest picture of their strengths and weaknesses.

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9 How Does Twitter Use Twitter to Recruit?, The New Talent Times, September 2013
Asking the Hard Questions

Face-to-face interviews remain a hiring mainstay. At some small businesses, owners or managers handle interviews. Others include managers and employees, especially if the person being hired will work on a team or on a project basis with multiple groups.

Regardless of who does the asking, to gather the most relevant information, SMBs need to pose questions that touch on a prospective employees' knowledge, skills and abilities, strengths and weaknesses, interests and career goals. Oregon State University's career-service department includes the following in a list of common interview questions for prospective employees:

- Why did you choose to interview with our organization?
- Of which three accomplishments are you most proud?
- What motivates you most in a job?
- What skills have you developed that would prepare you for this job?
- Which classes in your major did you like best? Least?
- Have you ever quit a job? Why?
- How do you think a former supervisor would describe your work?
- Do you prefer working under supervision or on your own?
- Do you prefer large or small organizations? Why?
- Tell me about a time when you had to resolve a conflict in a group situation.

On the other hand, some types of questions are illegal to ask, especially questions pertaining to a person's age, gender, ethnicity, race, ability or anything else that could be a potential source of discrimination. Here's a checklist from Michigan Technological University of questions companies can and can't ask in job interviews:

- Attend on-campus or off-site gatherings to meet executives or potential co-workers
- Create a hypothetical product or solution to a common business problem
- Role-play a typical customer interaction
- Shadow current employees to get a feel for the work environment
- Work (for pay) during a predetermined probationary period
- Compete in some type of challenge

Beyond the Interview

These days, companies don't just rely on interviews to decide whether someone's a good fit for their team. Depending on the industry and the circumstances, companies may also ask candidates to:

- Attend on-campus or off-site gatherings to meet executives or potential co-workers
- Create a hypothetical product or solution to a common business problem
- Role-play a typical customer interaction
- Shadow current employees to get a feel for the work environment
- Work (for pay) during a predetermined probationary period
- Compete in some type of challenge
Reference and Background Checks

SMBs should use reference and background checks to do due diligence on promising candidates before extending an offer. Be careful not to use background checks to discriminate. Running credit and criminal background checks on prospective employees once was more common. In 2012, only 47% of human resource professionals used credit checks, down from 60% in 2010, according to a SHRM survey\(^{10}\). With the rise of social recruiting, some companies also have run into legal trouble by asking job candidates for passwords to their Facebook or Twitter accounts during background checks or other screenings.

Welcoming and Managing New Employees

New employees at Radio Flyer get flowers delivered to their homes\(^{11}\) in one of the 60-person company’s iconic little red wagons before their first day on the job.

Not all small businesses welcome new employees with flowers. But SMBs need to have systems in place to bring new hires into the fold, including filing tax and other forms, putting newcomers through some type of orientation, and completing other onboarding procedures. They also need to make sure employees feel welcome and recognized, and when people aren’t meeting expectations, take the proper steps to rectify the situation.

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\(^{10}\) "SHRM Survey: Fewer Employers Conducting Credit, Criminal Checks of Job Applicants," Workforce Management, July 2012

\(^{11}\) Radio Flyer Inc., Great Rated
What to Know When You’re Hiring Employee No.1

Small businesses hiring an employee for the first time need to take steps to make sure they comply with federal and state labor laws, and SMBs with existing staff should check periodically to make sure they’re following proper protocols. According to the SBA, here’s what they need to do:

- **Get an employer identification number (EIN)** — Apply online at the Internal Revenue Service for this number, which is necessary for reporting taxes.

- **Pay taxes and set up records for withholding taxes** — Businesses that pay wages subject to withholding of income, Social Security and Medicare taxes have to file IRS Form 941, Employer’s Quarterly Federal Tax Return. For more information, visit IRS.gov. The IRS also requires that employers keep federal tax-withholding certificates and wage and tax statements for at least four years. Keeping organized tax records can also help companies prepare financial statements, identify receipts, track deductible expenses and prepare tax returns, according to the SBA.

- **Register with your state’s new-hire reporting program** — Companies are required to report new or rehired employees within 20 days of their first day of work. The SBA maintains this state-by-state list of new-hire reporting agencies.

- **Carry workers’ compensation insurance** — SMBs can self-insure or get coverage through a broker or state workers’ comp program.

- **Post labor-law notices** — Depending on their line of business, companies may need to display workplace posters outlining their responsibilities and employees’ rights under labor laws.

12 *Hire Your First Employee*, Small Business Administration
13 *E-Verify History and Milestones*, U.S. Citizenship and Immigration Services, October 2013

Need to Know: E-Verify

Before SMBs can put anyone on the payroll, they’re required by law to fill out an I-9 employment eligibility verification form confirming that a potential employee is OK to work in the country, either because they’re a U.S. citizen or a foreign citizen with proper authorization. One way to check on an employee’s status is through the federally run E-Verify service. E-Verify lets companies instantly match employee documents against Social Security Administration and Department of Homeland Security databases to confirm they’re cleared to work. Federal contractors have used E-Verify since 2009, and at least 20 states require that employers use it to verify work eligibility of public or private employees, according to the National Conference of State Legislatures. More than 473,000 U.S. businesses are on the system, according to the U.S. Citizenship and Immigration Services.
Onboarding

It's not enough to schedule new employees' hours and give them a cubicle, laptop and password to the company intranet. To make the most of their people, SMBs should have an onboarding plan that covers orientation, benefits, expectations, policies and more. The Society for Human Resources Management suggests the following best practices for bringing on new hires14:

- Implement basics before the employee’s first day.
- Make the first day special.
- Use a formal orientation program.
- Be clear with employees about objectives, timelines, roles and responsibilities.
- Make the onboarding a participatory experience.
- Use technology to monitor the process (if possible and relevant).
- Use milestones to check on employee progress.
- Involve key people in planning the process, and also in onboarding sessions with new hires.

To make the most of their people, SMBs should have an onboard plan that covers orientation, benefits, expectations, policies and more.

14 Onboarding New Employees: Maximizing Success, SHRM Foundation, 2010
Managing Performance

Watching over new hires doesn't end after they've gone through onboarding. Like larger enterprises, SMBs should have processes in place to regularly review how new and existing employees are performing. That includes systems for coaching and mentoring, training and mapping out career goals.

Some SMBs use performance management or appraisal software\(^\text{15}\) for employee reviews. Larger SMBs that use talent-management suites to track job applications, onboarding and other aspects of hiring may have modules in those suites for performance reviews or management. But even companies that aren't technologically equipped or big enough to use such software can put effective performance-management measures in place.

At minimum, job reviews should include objectives that an employee needs to achieve over a period of time, an assessment of their progress toward those goals, and, if needed, a way to address specific performance issues, according to performance-management standards from SHRM, the HR industry trade group\(^\text{16}\). Reviews could include goals based on a worker’s job description, projects, behavior, as well as “stretch” goals that challenge or expand someone's abilities, according to the standard. It's also recommended that SMBs use some type of rating system or scale to determine how well individuals meet specific goals.

Finally, a company’s employee-review process should encompass the ways workers improve, by including coaching and mentoring, motivation and learning, communications, and rewards and recognitions, according to the standard.

5 Budget Ways to Say 'Thanks' to Employees

In addition to formal performance-review processes, a little appreciation can do wonders for workplace morale. Employees are more productive, engaged and happier when they know that their efforts are recognized and rewarded. Here are a few ways that a small business owner can say “Thanks” for a job well done without having it break the bank:

1. **Catch ’em in the act** — Give spot awards to employees who go above and beyond in day-to-day duties. Also, don’t overlook the power of giving a compliment. “I don’t think I’m exaggerating when I say that 99.9 percent of employees have never been complimented or thanked by their bosses,” management consultant Kathleen Brush says in an American Express OpenForum report.

2. **Tell the world** — Post pictures of star performers on the company bulletin board or intranet, and use social media to share their accomplishments with customers and the world.

3. **Treat people to a gift card for a meal, beverage or service** — It doesn’t have to be a lot. Even $5 or $10 can go a long way toward making someone feel appreciated.

4. **Use a rewards program** — Web-based services such as Achievers.com, Give a Wow or iAppreciate offer fee-based employee rewards and recognitions programs that can facilitate all of the above, and more.

5. **Let employees reward each other** — A Chicago-area health care information technology firm gives employees leeway to award coworkers $50 gifts for superior efforts\(^\text{17}\) without needing managers’ approvals. It could explain why the firm has landed on several best-place-to-work and most-engaged workplace lists\(^\text{18}\) in recent years.

\(^\text{15}\) Compare Employee Performance Appraisal & Review Software, Software Advice, September 2013
\(^\text{16}\) Performance Management Standard, American National Standards Institute Inc., and SHRM, November 2012
\(^\text{17}\) Two Steps Forward, One Step Back, Workforce Management, September 2013
\(^\text{18}\) Impact Advisors Named One of 50 Most Engaged Workplaces in the Nation, Impact Advisors, August 2012
When a New Hire Doesn’t Work Out

Despite a company owner or individual's best efforts, sometimes things don't work out and an employee has to leave. Even in serious situations, workforce experts caution SMBs to avoid imitating Donald Trump's signature “You're fired” line from “Celebrity Apprentice” and proceed with caution.

When situations arise, remind an employee who’s not cutting it of the company workplace policies and code of conduct and make sure they understand what’s expected of them, according to a Law360 report 19. Have procedures in place so employees know what’s expected of them if they want to stay, and what will happen if they don’t comply. Keep detailed records of any misconduct or violations. Be consistent: What’s not acceptable for one should be not acceptable for all, and vice versa.

If, despite the company’s best efforts, an employee has to be let go, keep it respectful: no firing people over the phone, email or text message. Owners might want to have another manager or a human resources manager present at a termination meeting for backup. Meet in private. Have any necessary paperwork or documents ready so the employee can leave immediately after. Some experts suggest letting employees go early in the workday or workweek 20 with pay so they can get a quick start on the search for another job.

Conclusion

SMBs are powered by their people. To be successful, small businesses need to act thoughtfully when it comes to finding good candidates. They need to carefully review their labor needs, navigate the interview process to hire the best and recognize and reward employees’ achievements.

Online services have given small employers a powerful way to advertise themselves and find potential candidates — even when people aren’t looking.

The proliferation of web-based services and programs for hiring and managing employees doesn’t mean retailers, service providers and other SMBs should forgo the human touch when it comes to their people practices. Even in a world that lives by tweets and status updates, employees still want to feel appreciated and thanked for a job well done. SMBs also need to have effective protocols in place for when new hires don’t work out, including procedures for firing people when necessary.

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19 5 Best Practices for Firing Bad Employees, Law360, April 2013
20 Workforce Management: Managers and Employee Terminations, Monster.com