



National Small Business Poll

NEIB National

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2003

Small Business Poll

Compensating Employees

NFIB National Small Business Poll

The *National Small Business Poll* is a series of regularly published survey reports based on data collected from national samples of small-business employers. Eight reports are produced annually with the initial volume published in 2001. The *Poll* is designed to address small-business-oriented topics about which little is known but interest is high. Each survey report treats different subject matter.

The survey reports in this series generally contain three sections. The first section is a brief Executive Summary outlining a small number of themes or salient points from the survey. The second is a longer, generally descriptive, exposition of results. This section is not intended to be a thorough analysis of the data collected nor to explore a group of formal hypotheses. Rather, it is intended to textually describe that which appears subsequently in tabular form. The third section consists of a single series of tables. The tables display each question posed in the survey broken-out by employee size of firm.

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Small Business
Poll



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Executive Summary

- One-third (33%) of small employers pay a majority of their full-time employees hourly. They less frequently pay a majority by salary, and least frequently do so with commissions including tips. Hourly wage is the dominant form of payment for part-time employees.
- Seven (7) percent reported at least one full-time employee, including tipped employees, working at the minimum wage or below.
- Fifty-two (52) percent said that they paid employees periodic bonuses or profit-sharing based on the performance of the business.
- Two-thirds of small employers ask their employees to work overtime. The most frequent way they determine who (and who not) to pay overtime is to follow industry practice (29%); make all hourly employees eligible (29%); make everyone who works overtime eligible (17%); make everyone except management employees eligible (12%); and classify employees by earnings and occupation into eligible and ineligible for purposes of overtime pay (9%).
- The most common employee benefit small-business owners offer (excepting flexible work arrangements) is paid vacations. Three of four (75%) who employ at least one full-time person with a minimum of one year of service offer paid vacations to a majority or more of their full-time employees. Sixty-one (61) percent sponsor an employee health insurance plan; 59 percent give paid sick leave; 41 percent disability insurance; 39 percent job-related education reimbursement; 30 percent a pension plan; 29 percent life insurance; and 24 percent provide dental insurance to a majority of their full-time employees with at least one year of service.
- Owners of firms with 20 or more employees are substantially more likely (usually in the range of 20 percentage points) to offer any of the benefits listed above than are those employing fewer than 10. The percent of full-time employees covered is much greater than the percent of employers offering.
- Fifty-four (54) percent provide discounted or free goods or services from the business with about 30 percent saying those goods or services are worth over \$1,000. Offering flexible hours to handle personal situations is almost universal.
- If small-business owners wanted to give their employees the equivalent of a \$1.00 per hour compensation increase, 73 percent said they would give it in the form of higher wages or salaries. The second most cited choice is paid time off (5%) followed by health insurance benefits (5%).
- Eighty-two (82) percent of small employers believed that employees would prefer a compensation increase equivalent to \$1.00 per hour in added wages or salaries. Six (6) percent believed that they would prefer it in some benefit not listed, such as paid parking. Four (4) percent each identified paid time off and health insurance benefits as the benefit employees would most like to have increased (or instituted). Four of five would offer what they believe employees most want.
- Small employers do not consciously target their benefit package to any portion of their labor forces. Almost seven of 10 (69%) indicated that they focus the type and size of benefits provided to all full-time or all full-time and part-time employees. Eight (8) percent target the ownership, another 8 percent the firm's most valuable employees, and 5 percent the longest serving.

Compensating Employees

Employee compensation issues are always of interest if for no other reason than all working Americans and their dependents are directly affected. However, with the country facing a soft economy that restrains wage/salary increases, potential new regulations governing overtime pay, an ideological drum beat to increase the Federal minimum wage, states more frequently raising the minimum wage in their jurisdictions and pressure on some localities for a living wage, more than 40 million Americans without health insurance, and a Social Security retirement system that soon will experience enormous short falls, interest in employee compensation issues appears greater than usual. Small employers face supplemental issues that generate attention, the most prominent being lower average compensation paid, even after controlling for factors likely to cause differentials, such as employee training and experience. While those differentials appear to be diminishing over time, employee compensation in small firms customarily reflects the prosperity of the employing business. When employees do well, employers do well, and vice-versa. This represents one aspect of small-business owner decisions and actions regarding employee compensation that should be understood. The Bureau of Labor Statistics (BLS) at the U.S. Department of Labor produces figures on compensation and employee benefits in small establishments. However, the BLS data are not always satisfactory for purposes of understanding small business. For example, the BLS unit of analysis is customarily the establishment, a business location, not a business; benefit data are published in employees covered, not employers offering; and, definitions of wages and benefits sometimes differ from conventional usage. BLS also does not recognize a surprisingly large number of employing businesses that have no full-time employees who have worked in the business for at least one year, and therefore met some type of probationary period making them eligible for certain benefits. Hence, this issue of the *National Small Business Poll* is devoted to Compensating Employees.

Salaries, Wages, and Commissions

Employees can be paid in a variety of acceptable methods. The manner of payment usually is for the convenience of the business, meaning that employee incentive is an influence on payment method, ease of administration is an influence, etc. A majority of full-time employees are most often paid hourly. One in three (33%) small-business owners reported that they pay a majority of their full-time employees by the hour (Q#1). Twenty-eight (28) percent indicated that they do not pay a majority of their full-time employees by any one method. They appear to mix payment methods extensively. Twenty-three (23) percent pay a majority of their full-time employees in salaries, and 7 percent pay a majority with commissions including tips. Eight (8) percent of small employers said that they have part-time employees, but no full-time employees.

Most small-business owners use the hourly wage as the dominant form of employee payment. This is particularly true among those employing more than 10 people. Four of five (80%) small-business owners employing more than 10 people reported either that a majority of employees are paid hourly or that hourly wages are an important part of the payment mix. (It is technically possible that nearly a majority are salaried, nearly a majority are commissioned, and only a small fraction paid hourly. But, that is not likely.)

Part-time employees are even more likely to be paid by the hour than full-time employees. Forty-nine (49) percent of small employers said that they paid a majority of their part-time employees hourly (Q#1a). Considering that 34 percent have no part-time employees, 73 percent of owners with at least one part-time employee maintained that they paid a majority of part-timers by the hour. In fact, payment of part-time employees other than hourly is not customary.

The Federal minimum wage has not been raised since 1996, though the states have been aggressively moving it higher within their jurisdictions. Eleven states have minimums higher than the Federal with Washington and Oregon now having the highest (about one-third higher than the Federal) in the continental U.S. (as well as the highest unemployment rate in the con-

tinental U.S.). Still, the very tight employment markets in the late 1990s pushed employee compensation to points that made the Federal minimum largely irrelevant, except in some rural areas.

Few small businesses employ any full-time person at the minimum wage or below (including any applicable state minimum), even when they are tipped. Ninety-one (91) percent of small-business owners reported no full-time employees including tipped workers at or below the minimum (Q#4). Three (3) percent employed one or two people at that wage level and 4 percent employed three or more. The remainder did not respond. Just 18 percent of those with at least one minimum wage had tipped employees (Q#4a).

The most likely places to find the minimum wage paid geographically are in the Mid-west and Pacific regions. Virtually every respondent paying the minimum in the former is located in a rural area. Every state in the latter has a state minimum notably above the Federal.

Some small employers provide their employees incentives through periodic bonuses or profit-sharing based on performance of the business. Just over half (52%) said that they give such incentive payments to their full-time employees (Q#3). Another 1 percent volunteered that they give them to some full-time employees but not to others. The larger the firm, the more frequently small employers make profit-sharing type payments. Those in the largest-size group give them over one-third more often than those in the smallest-size group. It is not clear, however, whether this association stems from greater profitability generated by larger, small firms or whether some other factor is involved.

About two-thirds of small businesses have employees who work overtime (Q#2). Federal rules defining who must be paid for overtime work and who need not be paid for overtime work is a hodge-podge of occupational and wage criteria dating from the Depression. Most small-business owners do not appear to be aware of the legal specifics, though that certainly does not mean they violate either the letter or the spirit of the law.

Common industry practice is the most frequent way small employers determine who must be paid overtime. Nineteen (19)

percent (or 29% of those with employees who work overtime) copy their peers. Another 19 percent make only hourly wage employees eligible. Eleven (11) percent give overtime pay to everyone who works overtime and another 8 percent provide such pay to all but management employees. Just 6 percent appear to use the proper procedure. They classify each job by occupation and earnings. This type of classifying is the least frequently used method of determining eligibility for overtime pay.

It is important to note that using the wrong procedure does not necessarily yield the wrong answer. Most small employers probably derive generally correct and perhaps generous results. Less than one-half of one percent have been sued or seriously threatened with suit for allegedly not paying overtime or enough overtime (Q#2a).

Benefits

Usually employees become eligible for benefits after some probationary or waiting period. The length of the period varies by the benefit and firm. But, it is typical, for example, that an employee does not receive paid vacation days until after one year on the job. The waiting period for health insurance is typically three months. Flexible hours often begin immediately. To avoid confusion from such issues, the survey asked small-business owners if they had full-time employees who had worked in their firm for at least one year. Eighty-three (83) percent reported that they employed one or more such persons (Q#5). One in five (20%) who employed fewer than 10 indicated that they did not. The effect of this adjustment almost certainly makes the prevalence of benefits noticeably higher than it would be for the entire population. The precise size of the difference is not possible to gauge. Further, the size likely varies with the benefit assessed. The maximum range is ± 17 percentage points from the number of those providing. But since the small-business owners who employ no full-time people with at least one year of service exhibit the characteristics of those who provide few if any benefits, the lower end of the range is likely the most accurate estimate.

a. Separate Benefits

The most common benefit offered a majority of full-time employees who have been

with the firm at least one year is paid vacations. Seventy-five (75) percent provide paid vacations as part of their compensation (Q#6A). The larger the firm, the more likely a majority of full-timers receive them. In fact, 91 percent of those employing between 20 and 249 people provide paid vacations.

The more frequent offer of benefits to a majority of full-time employees by owners of larger firms is a theme that is repeated throughout this publication. While the differential varies notably from benefit to benefit, the pattern does not.

Small employers are not as generous with paid sick leave as they are with paid vacations. Fifty-eight (58) percent offer it to at least a majority of full-time employees who have worked at the firm one year or more (Q#6B). Paid sick leave has the smallest association (with a single glaring exception) between the benefit prevalence and employer size of firm. The immediate reason is not obvious.

Disability is another insurance product often found in an employee benefit package. Forty-one (41) percent of small employers reported offering it. Contractors (construction) were those most likely to provide the benefit. The relative danger of the industry is the most likely reason.

Life insurance is a curious employee benefit from a variety of perspectives. Just 29 percent reported life insurance as part of their employee package (Q#6D). But the benefit has the largest proportionate spread of any benefit between the smallest employee-size group (23%) and largest group (59%) of businesses. Life insurance is a relatively inexpensive benefit and employees may view it as inconsequential. However, tax rules require that owners can enjoy no more than 15 percent of the benefits. That means a business must have at least seven employees before the employer can participate. The low incidence of coverage in the under 10 employee group may therefore be a function of tax rules rather than the lack of desire to provide the benefit. Since the life insurance benefit is part of an employee benefit package, the frequency of provision among large small firms is doubtfully related to the estate and gift tax. The owner would need a larger, individual policy for that type of protection.

Health insurance is probably of greater interest to policy-makers than is any other employee benefit. Sixty-one (61) percent reported health insurance covering at least a majority of full-time employees. That figure is comparable to the 60 percent reported by the Kaiser Family Foundation (April 2002) of employers with between 3 and 24 employees. Both yield an identical 55 percent among employers having fewer than 10 employees, though the treatment of the very smallest differs somewhat. It should be noted that despite the large number of small employers who do not offer this benefit, health insurance remains one of the most frequently provided benefits in smaller enterprises.

Reports suggest that the purchase of health insurance is sometimes questionably tied to the purchase of life insurance. Small-business owners who provide both benefits were asked if they believe they experienced an implied tie-in. Thirty-two (32) percent or almost one in three who purchase both types of insurance believe there was one (Q#6E1); 9 percent were not certain. The size of that number raises important issues about a questionably legal practice. However, there is a second perspective to the data. Not quite half as many purchase life insurance as purchase health insurance. The group that purchases health, but not life, is therefore somewhat larger than the group who purchases only health. The former was interrogated about a possible tie-in. But whether a tie-in was implied or not, these small-business owners apparently felt able to reject any inferences. When viewed from both perspectives, the data yield few concrete results. Yet, they pose questions that merit further consideration.

Twenty-four (24) percent offer dental insurance. Nearly half of those employing 20 or more people do (Q#6F). Still, it is the benefit offered to at least a majority of full-time employees less often than any of the others evaluated.

Congress has invested considerable time and energy to streamline pension plans and make them easier for small-business owners to provide their employees. It is not yet certain that their efforts will be rewarded. Just 30 percent responded that their business gives at least a majority of its full-time employees a pension plan (Q#6G). The

employee-size of business influence again appears enormous. The likelihood that a small-business owner employing 20 or more will offer a pension plan is two and one-half times greater than one employing fewer than 10.

Continuing employee education is critical for all businesses. Large firms usually have enough critical mass to bring in instructors to train their people when they do not have in-house staff to do the job. Small businesses more typically have a single person taking one type of training or another. In-house training rarely makes sense under those circumstances. Owners of larger, small firms are still more likely to extend the benefit than are owners of smaller, small firms. Still, the difference is less than for most other benefits. Thirty-nine (39) percent of small-business owners offer their employees job-related education reimbursement (Q#6H).

One little-recognized benefit is paid jury duty. Seven states require that wages/salary must be paid for at least some period to a person in jury service. Fifty-two (52) percent said that they offer the benefit, 39 percent do not, and 10 percent do not know (Q#6I). The frequency of the “don’t know” response is significantly above that registered for any other benefit. The reason for it is obvious enough. These employers probably have never had anyone called to jury service and have not thought about how they would respond if it occurred.

A cafeteria plan allows employees to have some choice in the benefits that they receive. But a cafeteria plan, at least a formal cafeteria plan, creates administrative problems that usually are beyond the capacity of small-business owners as well as possible adverse selection issues. As a result, just 12 percent reported having a cafeteria plan. The economies of scale required to institute one seem to rise quite rapidly, however. Just 8 percent of those with fewer than 10 employees had one compared to 31 percent of those with 20 or more.

Larger, small businesses usually have scale advantages when purchasing employee benefits. Those advantages appear less obvious with discounted or free goods and services for employees, and flexible working hours when personal situations arise. About 60 percent of those employing 10 or more offer their employees discounted or free

goods and services while 52 percent of those with less than 10 offer them (Q#6K). The population average is 54 percent. However, industry distinctions quickly emerge. Retailers and those in such services as food and accommodation, and art, entertainment and recreation appear most likely to give employees purchasing advantages while those in the financial services including finance, insurance and real estate are least likely.

The discounted or free purchasing benefit could be of significant value to employees. While 8 percent estimated its value to be less than \$100 per year to the typical full-time employee, 22 percent placed it over \$1,000 per year (Q#6K1). Given that 30 percent would not make an estimate, one in three of those who did make one put the benefit's value in four figures.

Small-business owners often compete for employees on the flexibility they can give. Drawing out that phenomenon in a single survey question is difficult. However, small-business owners were asked if they provide flexible working hours when personal situations arise. Examples of personal situations were having to attend a funeral or picking up a child stranded at school. Ninety-six (96) percent said that they provide employees with flexible working hours under such circumstances (Q#6L). Employee-size of firm has no relationship to the frequency that the benefit is given.

Most small employer decisions regarding workplace flexibility are themselves flexible. Eighty-eight (88) percent who provide such flexibility do it on a case-by-case basis (Q#6L1). Just 11 percent handle them with some type of policy. A policy is substantially more likely to appear as the firm gets larger. Hence, 26 percent of those employing 20 or more people have a policy compared to 9 percent of those employing fewer than 10 people.

b. Benefit Combinations

The employee benefits discussed above fall into three classifications in terms of their provision. When an owner offers (does not offer) one of the benefits, there is a tendency to offer (not offer) other benefits in the classification. All benefits do not necessarily fit in one of the classifications and, in fact, some do not. The most notable example is the cafeteria plan.

The first classification consists of life insurance, health insurance, dental insurance, and pension plans. These are add-ons normally thought of when discussing benefits. They are basically insurance products, marketed by the financial services industry, and involve significant outlays from the employer. The second classification consists of paid sick leave and paid jury duty and is associated with paid vacation, and educational reimbursement. These benefits are very simple administratively. They require little bookkeeping and no outside vendors or advisors. Paid vacation can be expensive which is perhaps the reason the benefit is only associated with the classification. The other three occur infrequently thereby limiting costs, but also allowing the employer to offer some employee benefits. The third classification has only two elements – discounted or free goods or services from the business and flexibility. These benefits usually require little or no cash outlay on the owner's part. A cash strapped owner, particularly one operating in the service sector is, therefore, able to offer employees some work incentive in addition to pay.

It is likely that a benefit “pecking order” or hierarchy of some type exists. Specific employee benefits are likely to be introduced prior to others. Small employers do not select benefits to provide at random. Cost obviously plays a role in the ordering, but other factors, such as employee preferences, are also at work. Take health insurance and pensions, for example. Twenty-six (26) percent of all employers with at least one full-time person who has been employed in the firm for one year or more provide both health insurance and a pension plan. Thirty-four (34) percent do not provide either. The remainder have one but not the other (except 1 percent no answer). Thirty-five (35) percent have health insurance and no pension plan while 4 percent have a pension plan and no health insurance. The imbalance strongly suggests that small employers customarily provide health insurance before they provide pension plans. The data are similar though not quite as powerful with respect to paid vacation and health insurance. Fifty-four (54) percent have both and 18 percent have neither. Meanwhile, 21 percent have paid vacations but no health insurance while just 6 per-

cent have health insurance but no paid vacations. The implication is that the pecking order could change if incentives change. That raises the question, do we want to change the pecking order?

Increasing Employee Compensation

Small employers periodically decide to increase their compensation package. When that occurs, employers, employees, and policy-makers may have very different preferences about how it should be done. The survey provided a hypothetical situation to employers, the ones who make the decisions about compensation increases barring some type of collective bargaining arrangement or legal requirement. If the employer wanted to increase compensation by the equivalent of \$1.00 per hour, how would he do it?

The response was overwhelming. If small employers were to increase compensation, they would give it to employees in the form of greater wages or salaries. Seventy-three (73) percent said they put the extra money in a bigger paycheck (Q#8). Another 2 percent volunteered that they would supplement or institute a profit-sharing plan which is a variant of the wage/salary response. The second most frequent answer, just 5 percent, was that they would give the money in the form of more paid time off. Third in frequency came added (or new) health insurance benefits (5%). A smattering of responses went to other benefits or a combination of benefits. Nine (9) percent did not know what they would do.

This dominant choice suggests that small-business owners are catering to the wishes of their employees, at least as they perceive the wishes of their employees. When asked how employees would prefer the additional money to be given, small employers chose the wages/salary option with even greater frequency. Eighty-two (82) percent believed employees would prefer that extra dollar per hour of compensation in cash (Q#8a). Six (6) percent thought employees would like it in some other benefit, perhaps something like parking or meals. Four (4) percent identified each paid time off and health insurance. One (1) percent chose creation or enrichment of a pension plan.

Given a pre-determined benefit cost, small employers will generally provide employees the type of compensation increases that employers perceive employees want. Following employee wishes aids recruiting and retention, and raises morale. Eighty (80) percent reported that they would give employees the type of compensation increases they think their employees would prefer. That relationship is driven by the administratively simple and numerically frequent wage and salary increase. The evidence tying employee wishes and employer actions is not as strong when other benefits are involved. For example, there are 26 cases (weighted) where small employers believe their employees would prefer health (an increase in) benefits. Eleven of those employers said they would provide additional health benefits; six said that they would provide additional wages/salary, four more time off, and five were undecided. There are also 26 cases where employers believe employees would prefer more paid time off. In 65 percent of those cases, the small employer indicated that he would provide paid time off. Thus, while the association between the preferred form of employee compensation increases and employer responsiveness is strong, its strength appears likely to vary by the form of compensation considered.

Targeting Benefits

A compensation or benefits package can be designed to attract and retain certain types of employees. For example, a child care benefit may be useful to an employer attempting to attract young, female employees. But it does not appear that small-business owners often consciously target benefits. Just 8 percent reported that when making decisions about the type and size of benefits to provide, they target their most valuable employees (Q#9). Just 4 percent said that they target their longest serving employees. Another 8 percent indicated that they target the package to the owner(s) and their family needs. The latter is most common among owners of the smallest businesses.

Forty-one (41) percent, a plurality of owners, stated that they target all employees, full- and part-time, though nearly half that number currently have no part-timers. This response also seems a bit odd as 88

percent do not provide part-time employees the same benefits as full-time employees, even on a pro-rata basis (Q#7). Still, it indicates that the work force, whatever its composition, is the focus. Another 28 percent indicated that they target just their full-time employees. These owners seem to be making a distinction between full- and part-time as three-quarters do employ people part-time. But on balance, small employers do not seem to structure their benefit package as an employee recruiting or maintenance tool. The reason(s) is not clear, though there are several possibilities including scale economies, a social belief that benefits are for all (at least all full-timers), and legal requirements.

Conclusion

Small employers compensate their employees using the same means that large employers do. They pay by the hour, with salaries, commissions and tips, and bonuses or profit-sharing. They also provide an array of benefits that would be familiar to the benefit manager of any Fortune 500 company. The difference between large and small is not so much one of kind as of degree. Small-business owners do not provide as much as often and that is not always true either, particularly when controlling for employee qualifications including experience. What appears different is the strong tie between firm profitability and employee compensation. Elsewhere it has been shown that the amount of employee compensation in small firms is tied to firm profitability; the more the owner earns, the more the employees earn.

The data presented here raise important issues regarding employee compensation. For example, they underscore a need to revise and simplify government rules related to overtime pay. Small-business owners appear to have no idea of the rules or how to apply them. The common use of industry practice to determine overtime eligibility as well as a focus on hourly and low-wage employees suggests that most are inadvertently following the rules. However, little doubt exists that there are those who do not receive overtime pay when they should and those who receive overtime pay when they should not. That over one in 10 pay everyone overtime testifies to the like-

lihood of overpayment. The current confusing situation is fair neither to employees nor to employers.

The data also show that relatively few small businesses pay any full-time employees the minimum wage, let alone the Federal minimum. That fact is already well-established. However, less well-established is that those that do pay the Federal minimum tend to be concentrated in low cost-of-living rural areas. For example, of the 25 cases of businesses paying the minimum wage to one or more full-timers in middle west and plains states, just three had a zip code located in a city of more than 20,000 people and one in a city of over 100,000. The market wage and state minimums are taking over where costs-of-living are higher.

Small employers possess a disparate set of employee benefit packages. Some contain comprehensive packages that appear competitive with many large firms; others have non-existent packages. While the percentage of small employers offering a particular benefit often appears low, the number of employees who receive it is notably higher. The reason is that those providing benefits tend to be larger than those not providing them. Seventy-five (75) percent of all firms offer paid vacations, for example. Yet, the number of full-time employees covered is closer to 85 percent. Twenty-nine (29) percent of all firms include life insurance. Yet, those firms employ somewhat less than half of all full-time employees.

Unless small-business owners are oblivious to the wishes of their employees (and that is highly unlikely), the low frequency of employee benefits in many firms is directly tied to employee preference for wages/salary. Employers give cash because that is what their employees want. In fact, when small employers spurn perceived employee compensation preferences, they are more likely to turn employee wishes for additional cash into additional benefits than they are wishes for additional benefits into additional cash. They thereby risk a lost opportunity to foster maximum good will by providing employees what the employer believes employees should have rather than what employees prefer.

Administrative simplicity plays a role in small employer decisions regarding their choices of employee compensation. Those

forms of compensation with fewest administrative requirements are usually the ones most frequently provided. The primary exception is health insurance which involves considerable administrative effort yet is frequently offered. Direct costs (outlays) obviously enter any compensation equation. Still, paid vacations can directly cost every bit as much as health insurance. But the administrative ease of the former compared to the latter is striking. Not surprisingly, more provide paid vacations than health insurance.

Policy-makers need to consider three factors when crafting legislation offering small employers incentives to provide specified employee benefits. First, small employers believe that employees generally prefer cash to benefits, and cash is administratively the most simple to provide. Second, there appears to be an order in which benefits are customarily introduced. Third, small employers who do well are likely to provide good wages and a wide variety of benefits while those who are not doing well are not as likely to do so.

Compensating Employees

(Please review notes at the table's end.)

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
I. Are a MAJORITY of your FULL-TIME employees salaried, hourly, commissioned including tipped or is it mixed?				
1. Salaried	25.1%	15.9%	15.6%	23.2%
2. Hourly	30.2	47.7	41.6	33.2
3. Commissioned including tipped	7.3	3.4	3.9	6.5
4. Mixed	25.8	33.0	39.0	27.8
5. (No full-time employees)	9.7	—	—	7.7
6. (DK/Refuse)	1.9	—	—	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Ia. Are a MAJORITY of your PART-TIME employees salaried, hourly, commissioned including tipped or is it mixed?

1. Salaried	4.0%	3.5%	2.6%	3.8%
2. Hourly	44.8	60.5	66.2	48.6
3. Commissioned including tipped	5.6	1.2	2.6	4.8
4. Mixed	7.9	10.5	7.8	8.2
5. No part-time employees	36.7	24.4	20.8	33.8
6. (DK/Refuse)	1.0	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

2. How do you determine if a specific employee who works more than 40 hours per week should receive overtime pay? Do you

1. Follow common industry practice	17.8%	23.0%	26.9%	19.3%
2. Classify each job by occupation and earnings	5.2	3.4	14.1	5.9
3. Make only hourly-wage employees eligible	16.9	26.5	26.9	18.9
4. Make only low-paid employees eligible	0.3	—	—	0.3
5. Make everyone but management employees eligible	6.5	16.1	11.5	8.1
6. (No employees work overtime)	38.8	17.2	9.0	33.5
7. (Everyone who works overtime is eligible)	11.3	12.6	9.0	11.2
8. (DK/Refuse)	3.2	1.1	2.6	2.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Employee Size of Firm

1-9 emp 10-19 emp 20-249 emp All Firms

2a. Within the last five years, have you been sued or seriously threatened with a suit for allegedly not paying overtime or enough overtime?

1. Yes	0.2%	1.1%	1.3%	0.4%
2. No	99.8	98.9	98.7	99.6
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

3. Do your full-time employees receive periodic bonuses or profit-sharing based on performance of the business?

1. Yes	48.9%	56.3%	67.9%	51.6%
2. No	45.2	40.2	30.8	43.3
3. (Some do and some don't)	0.6	2.3	1.3	0.9
4. (DK/Refuse)	5.2	1.1	—	4.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

4. How many full-time employees, INCLUDING tipped employees, do you currently pay the minimum wage or less?

1. None	91.3%	90.7%	92.0%	91.3%
2. 1-2	3.7	1.2	2.6	3.3
3. 3 or more	3.2	7.0	5.3	3.8
4. (DK/Refuse)	1.9	1.2	—	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

4a. How many full-time TIPPED employees do you currently pay the minimum wage or less? OR don't you have any tipped employees? (If minimum wage employees in Q#4.)

1. None paid minimum wage	—	—	—	52.7%
2. Paid minimum wage	—	—	—	5.5
3. No tipped employees	—	—	—	41.8
4. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	22	22	70

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

5. Do you have full-time employees who have been employed for at least a year?

1. Yes	79.5%	95.5%	97.4%	83.0%
2. No	20.3	4.5	2.6	16.9
3. (DK/Refuse)	0.2	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

6. Do you offer the following benefits to a MAJORITY of full-time employees who have been employed by you for at least one year? How about: ? (If have full-time employees with at least one year of service in Q#5.)

A. Paid vacations

1. Yes	71.8%	81.9%	90.8%	75.3%
2. No	27.6	18.1	7.9	24.1
3. (DK/Refuse)	0.6	—	1.3	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

B. Paid sick leave

1. Yes	56.8%	59.0%	63.2%	57.8%
2. No	42.0	39.8	34.2	40.8
3. (DK/Refuse)	1.2	1.2	2.6	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

C. Disability insurance

1. Yes	39.2%	42.2%	55.3%	41.4%
2. No	58.4	56.6	42.1	56.3
3. (DK/Refuse)	2.4	1.2	2.6	2.3
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

D. Life insurance

1. Yes	22.8%	36.1%	59.2%	28.7%
2. No	76.2	62.7	39.5	70.3
3. (DK/Refuse)	1.0	1.2	1.3	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

E. Health insurance

1. Yes	55.5%	68.7%	84.2%	60.5%
2. No	43.5	31.3	14.5	38.6
3. (DK/Refuse)	1.0	—	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

E1. Was there an implied tie-in between your purchase of health and life insurance, that is to say, you couldn't purchase health insurance under the terms you did without also purchasing life insurance? (If provide life insurance in Q#6D and health insurance in Q#6E.)

1. Yes	31.2%	37.9%	29.5%	31.9%
2. No	57.8	55.2	63.8	58.8
3. (DK/Refuse)	11.0	6.9	6.8	9.3
Total	100.0%	100.0%	100.0%	100.0%
N	59	66	116	241

F. Dental insurance

1. Yes	18.2%	35.5%	48.1%	23.5%
2. No	81.0	67.5	49.2	75.6
3. (DK/Refuse)	0.8	—	2.6	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

G. A pension plan

1. Yes	23.4%	40.5%	57.9%	29.5%
2. No	75.6	58.3	40.8	69.4
3. (DK/Refuse)	1.0	1.2	1.3	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

H. Job-related education reimbursement

1. Yes	35.4%	47.0%	50.0%	38.5%
2. No	63.0	53.0	46.1	59.8
3. (DK/Refuse)	1.6	—	3.9	1.7
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

I. Paid jury duty

1. Yes	49.7%	53.6%	64.5%	51.9%
2. No	39.3	39.3	27.6	37.9
3. (DK/Refuse)	11.0	7.1	7.9	10.2
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

J. A cafeteria-type plan that allows each employee to spend the dollars allocated for benefits on his or her preferred mix of benefits.

1. Yes	8.2%	14.5%	30.7%	11.6%
2. No	87.6	84.3	65.3	84.7
3. (DK/Refuse)	4.2	1.2	4.0	3.8
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

K. Discounted or free goods or services from your business.

1. Yes	51.6%	59.5%	60.5%	53.6%
2. No	47.2	39.3	38.2	45.2
3. (DK/Refuse)	1.2	1.2	1.3	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

KI. About how much is this benefit worth to the typical full-time employee on an annual basis? (If “Yes” in Q#6K.)

1. <\$100	7.8%	7.0%	10.0%	8.0%
2. \$100-\$499	30.2	23.3	20.0	28.1
3. \$500-\$999	7.5	18.6	7.5	8.9
4. \$1,000 or more	23.5	25.6	32.5	24.9
5. (DK/Refuse)	31.0	25.6	30.0	30.2
Total	100.0%	100.0%	100.0%	100.0%
N	141	114	117	372

L. Flexible working hours when personal situations arise, such as having to attend a funeral or picking up a child stranded at school.

1. Yes	6.2%	95.2%	96.1%	96.1%
2. No	3.0	4.8	2.6	3.2
3. (DK/Refuse)	0.8	—	1.3	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

Employee Size of Firm
 1-9 emp 10-19 emp 20-249 emp All Firms

L1. Do you have an explicit policy for personal situations or do you handle them on a case-by-case basis? (If “Yes” in Q#6L.)

1. Policy	8.9%	12.7%	26.0%	11.4%
2. Case-by-case	90.0	87.3	71.2	87.5
3. (DK/Refuse)	1.0	—	2.7	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	167	143	157	467

7. Are your part-time employees generally eligible to receive the same benefits on a pro-rata basis as your full-time employees? (If “part-time” employees in Q#1a.)

1. Yes	8.9%	12.7%	26.0%	11.4%
2. No	90.0	87.3	71.2	87.5
3. (DK/Refuse)	1.0	—	2.7	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	167	143	157	467

8. If you wanted to give your employees the equivalent of an additional \$1.00 per hour, would you be most likely to give it to them in: ?

1. Health insurance benefits	4.2%	4.9%	7.9%	4.7%
2. Paid time off	5.6	2.4	5.3	5.2
3. Pension benefits	2.4	2.4	2.6	2.4
4. Wages or salary	73.0	78.1	71.1	73.4
5. Some other benefit	2.2	1.2	2.6	2.1
6. (Profit-sharing)	2.6	1.2	1.3	2.3
7. (Combination)	0.2	1.2	3.9	0.8
8. (DK/Refuse)	9.8	8.5	5.3	9.1
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

8a. If your employers were to get the equivalent of an additional \$1.00 per hour, how do you think they want the increase? Would they want the increase in: ?

1. Health insurance benefits	4.4%	2.4%	2.7%	4.0%
2. Paid time off	4.8	1.2	2.7	4.1
3. Pension benefits	0.8	1.2	1.3	0.9
4. Wages or salary	79.9	92.7	86.7	82.3
5. Some other benefit	6.8	1.2	4.0	5.8
6. (Profit-sharing)	1.0	—	—	0.8
7. (Combination)	1.0	1.2	2.7	1.2
8. (DK/Refuse)	1.2	—	—	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

Employee Size of Firm
 1-9 emp 10-19 emp 20-249 emp All Firms

9. Who do you target for your benefit package when making decisions about the type and size of benefits you provide? Do you target: ?

1. Your most valuable employees	9.0%	3.6%	3.9%	7.7%
2. Your long-serving employees	4.4	2.4	6.6	4.4
3. Your full-time employees	26.5	28.9	39.5	28.3
4. All employees, full- and part-time	39.1	50.6	39.5	40.6
5. The owner or owners and their families	9.2	3.6	3.9	7.9
6. (Combination)	1.8	2.4	2.6	2.0
7. (DK/Refuse)	10.0	8.4	3.9	9.1
Total	100.0%	100.0%	100.0%	100.0%
N	275	188	195	658

Demographics

D1. Which best describes your position in the business? Are you the: ?

1. Owner/manager	87.8%	80.7%	76.9%	85.9%
2. Owner, but NOT manager	4.6	5.7	3.8	4.7
3. Manager, But NOT owner	6.5	13.6	17.9	8.4
4. (DK/Refuse)	1.2	—	1.3	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D2. Is your primary business activity: ? (NAICs code)

1. Agriculture, forestry, fishing	6.7%	2.3%	2.6%	5.8%
2. Construction	8.1	7.0	9.0	8.1
3. Manufacturing, mining	8.4	10.5	15.6	9.4
4. Wholesale trade	5.3	5.8	10.3	5.8
5. Retail trade	18.4	20.9	11.5	18.0
6. Transportation and warehousing	3.0	5.8	3.8	3.4
7. Information	0.6	2.3	1.3	0.9
8. Finance and insurance	3.5	3.5	3.8	3.5
9. Real estate and rental leasing	5.6	3.5	3.8	5.2
10. Professional/scientific/ technical services	12.2	8.1	5.1	11.0
11. Adm. support/waste management services	1.4	2.3	2.6	1.6
12. Educational services	0.8	1.2	—	0.8
13. Health care and social assistance	3.2	4.7	7.7	3.8
14. Arts, entertainment, or recreation	1.6	3.5	3.8	2.0
15. Accommodations or food service	4.3	10.5	12.8	5.8
16. Other service	5.8	2.3	2.6	5.1
17. (Other)	9.4	4.7	2.6	8.2
18. (DK/Refuse)	1.6	1.2	1.2	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D3. Over the last two years, have your real volume sales: ?

1. Increased by 30 percent or more	10.3%	7.8%	14.3%	10.4%
2. Increased by 20 to 29 percent	9.4	7.8	9.1	9.2
3. Increased by 10 to 19 percent	18.7	18.9	23.4	19.2
4. Changed less than 10 percent one way or the other	25.4	35.6	28.6	26.9
5. Decreased by 10 percent or more	31.7	25.6	20.8	30.0
6. (DK/Refuse)	4.4	4.4	3.9	4.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D4. Is this business operated primarily from the home, including any associated structures such as a garage or a barn?

1. Yes	23.7%	4.5%	3.5%	13.2%
2. No	74.6	95.5	96.0	85.9
3. (DK/Refuse)	1.7	—	0.5	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D5. How long have you owned or operated this business?

1. < 6 years	27.0%	18.2%	22.1%	25.5%
2. 6-10 years	22.5	21.6	15.6	21.8
3. 11-20 years	27.9	27.3	26.0	27.7
4. 21-30 years	11.4	21.6	19.5	13.3
5. 31 years+	9.4	10.2	14.3	9.9
6. (DK/Refuse)	1.7	1.1	2.6	1.8
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	757

D6. What is your highest level of formal education?

1. Did not complete high school	3.0%	—%	1.3%	2.5%
2. High school diploma/GED	21.5	13.8	15.4	20.0
3. Some college or an associates degree	26.2	21.8	20.5	25.2
4. Vocational or technical school degree	2.7	3.4	3.8	2.9
5. College Diploma	28.3	42.5	37.2	30.7
6. Advanced or professional degree	17.2	18.4	20.5	17.6
7. (DK/Refuse)	1.1	—	1.3	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

D7. Please tell me your age.

1. <25	3.3%	1.1%	2.6%	3.0%
2. 25-34	8.3	5.6	7.8	7.9
3. 35-44	24.2	22.5	26.0	24.2
4. 45-54	37.9	34.8	29.9	36.8
5. 55-64	17.8	27.0	27.3	19.8
6. 65+	8.1	9.0	6.5	8.1
7. (DK/Refuse)	0.3	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D8. What is the zip code of your business?

1. East (zips 010-219)	16.6%	17.0%	14.1%	16.4%
2. South (zips 220-427)	18.0	20.5	20.5	18.5
3. Mid-West (zips 430-567, 600-658)	23.1	26.2	25.6	23.7
4. Central (zips 570-599, 660-898)	24.6	21.6	26.9	24.5
5. West (zips 900-999)	17.8	14.8	12.8	16.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D9. Sex

Male	81.1%	87.5%	88.3%	82.5%
Female	18.9	12.5	11.7	17.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Table Notes

1. All percentages appearing are based on **weighted** data.
2. All “N’s” appearing are based on **unweighted** data.
3. Data are not presented where there are fewer than 50 unweighted cases.
4. ()s around an answer indicate a volunteered response.

WARNING — When reviewing the table, care should be taken to distinguish between the percentage of the population and the percentage of those asked a particular question. Not every respondent was asked every question. All percentages appearing on the table use the number asked the question as the denominator.

Data Collection Methods

The data for this survey report were collected for the NFIB Research Foundation by the executive interviewing group of The Gallup Organization. The interviews for this edition of the *Poll* were conducted between February 4 and February 28, 2003 from a sample of small employers. “Small employer” was defined for purposes of this survey as a business owner employing no fewer than one individual in addition to the owner(s) and no more than 249.

The sampling frame used for the survey was drawn at the Foundation’s direction from the files of the Dun & Bradstreet Corporation, an imperfect file but the best currently available for public use. A random stratified sample design was employed to compensate

for the highly skewed distribution of small-business owners by employee size of firm (Table A1). Almost 60 percent of employers in the United States employ just one to four people meaning that a random sample would yield comparatively few larger small employers to interview. Since size within the small-business population is often an important differentiating variable, it is important that an adequate number of interviews be conducted among those employing more than 10 people. The interview quotas established to achieve these added interviews from larger, small-business owners were arbitrary but adequate to allow independent examination of the 10-19 and 20-249 employee-size classes as well as the 1-9 employee-size group.

Table A1

Sample Composition Under Varying Scenarios

Employee Size of Firm	Expected from Random Sample*		Obtained from Stratified Random Sample			
	Interviews Expected	Percent Distribution	Interview Quotas	Percent Distribution	Completed Interviews	Percent Distribution
1-9	593	79	350	47	350	47
10-19	82	11	200	27	200	27
20-249	75	10	200	27	201	27
All Firms	750	100	750	101	751	101

*Sample universe developed from special runs supplied to the NFIB Research Foundation by the Bureau of the Census (1997 data).

The Sponsor

The **NFIB Research Foundation** is a small-business-oriented research and information organization affiliated with the National Federation of Independent Business, the nation's largest small and independent business advocacy organization. Located in Washington, DC, the Foundation's primary purpose is to explore the policy related problems small-business owners encounter. Its periodic reports include *Small Business Economic Trends*, *Small Business Problems and Priorities*, and now the *National Small Business Poll*. The Foundation also publishes ad hoc reports on issues of concern to small-business owners. Included are analyses of selected proposed regulations using its Regulatory Impact Model (RIM). The Foundation's functions were recently transferred from the NFIB Education Foundation.



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