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DEFINITIVE GUIDE

Becoming an employer of choice

GIVING SMALL-AND MEDIUM-SIZED BUSINESSES THE TOOLS TO SUCCEED.

The Definitive Guides are designed to play a practical and concrete role in helping Canadian companies become more successful.

What's in this issue?

You have probably heard or been told many times that “a company’s strength is its people.” For a lot of managers, that saying is right up there with “honesty is the best policy” and “don’t throw good money after bad.” Good sentiments, easy to say, but harder to execute well.

This issue of The Definitive Guide tackles the topic of a company’s people—its human resources—straight on. Specifically, this guide looks at how companies that have made their employees one of their greatest strengths went about doing it. The ideas, policies and strategies they use. How they recruit and how they reward. How they became companies where people want to work, not just companies where people have to work.

If you’re interested in ways to transform your people into your company’s greatest strength, this guide is a good place to start.

Over the next year you can expect additional issues of The Definitive Guide that take on the topics that matter to Canadian small-and medium-sized businesses.

Yours truly,

R.J. Hunt
National Manager,
Small Business Markets
RBC Royal Bank

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Who would want to work for you?
As an employer, you are engaged in a battle for skills and, indeed, a battle for hearts and brains. A joint report by Canadian Manufacturers & Exporters and Ontario’s Ministry of Training, Colleges and Universities forecasts the need for 1.5 million skilled workers nationwide by 2008.

You need to do more than fill positions, though. To become an employer of choice, to be a company where people want to work, you need to understand what motivates people. Not what makes them happy, but what makes them seek you out, engage themselves and their talents in the job and stay with the company. That’s right—remain loyal.

Employee loyalty is a rare commodity these days. A 2002 workplace survey of 10,000 employees in 32 countries by Walker Information and the Hudson Institute found that only 34 per cent of workers worldwide are loyal to their organization. Canadian employees were particularly dissatisfied, with only one in seven classified as loyal.

So what makes an employee stay put? The Walker/Hudson study listed loyalty builders, in order of importance, as fairness, care and concern, trust in employees, reputation of the organization, job resources and satisfaction with the job’s activities. But most of all, work environment.

And what about compensation? A 2002 Conference Board survey indicated only half of 5,000 U.S. employees were satisfied in their jobs and that the biggest causes of dissatisfaction were bonus plans, promotion policies and training programs. So, while career path and fair compensation are certainly very important, you shouldn’t neglect the obvious. When you ask people to spend half their waking hours on your company, compensation will not overcome misery for long.

Of course, not everyone is motivated by the same things. A Towers Perrin survey found that the influence of workplace factors varies by age, position, tenure, gender and company size. And as the labour shortage statistics make abundantly clear, the workplace will become more diversified as employers look to immigrants, the disabled, older workers and as-yet-untrained workers to fill empty positions. Increasingly, you will need to accommodate a range of needs with your benefits and work environment.

A major part of building a company is finding, motivating, developing and managing people and their talent. You will need an ongoing hiring plan to cultivate a supply of workers and give you the basis to select those with skills and potential. As well, you will need a compensation and benefits plan that accommodates different needs, and motivates employees toward job objectives but also wider company goals. You will also need to develop workplace policies that treat people fairly while giving them the flexibility to handle personal responsibilities and challenges.

When you become an employer of choice, everyone wants to work for you, which allows you the freedom to choose the best and brightest.
Hiring: The Quest for a Quality Workforce
PUTTING IT ON PAPER:
BEST PRACTICES

Job descriptions help candidates to know whether they are qualified to apply. You will also use the job description to decide whether existing qualifications are appropriate, to help direct your interview questions and to orient your training and set goals for new employees. You may also use them to set pay levels and incentives, as well as to manage performance, keeping employees focused on their actual duties and not on what they might like them to be.

These tips from experienced human resources officers should help avoid the pitfalls.

1. **Get input from managers and co-workers.** They often have a fresh perspective.

2. **Prioritize.** Participants sometimes succumb to the temptation to write down everything they can think of without placing a priority on anything. Separate real requirements from peripheral concerns or nice-to-have abilities.

3. **Describe how the job is done, not just the outcome.** For instance, a broad outcome such as “Manage customer accounts” is not nearly as informative as “Work on-site and in partnership with major customers and in-house production manager to grow customer satisfaction, sales and share of customer spend.”

4. **Put numbers to it.** Whenever possible, quantify your expectations, especially in the “results” section of the job description.

5. **Model your workforce.** Use profiles of your best employees as best-case selection criteria for hiring in key positions. Compile profiles in two categories: Work experience such as previous positions, supervisory roles and education; and personal characteristics such as leadership, problem solving, conflict resolution and social skills.

INTERVIEWING:
A QUESTION OF PREPARATION

Good preparation is the foundation of good interviews. Here are some basic decisions and actions that you need to take before you start.

- **Will you conduct the interview alone?** An alternative to multiple interviewers is a multiple-stage interview process.
- **How long will the interview last?** Inform your short-list candidates, and tell them who will be there.
- **Will you interview one candidate at a time?** For some positions, such as customer
relations, some companies interview multiple candidates at once to see how they relate to others under pressure.

› **Have you reviewed the résumé and job description?** Show respect for your candidates by knowing what your job description says and what the candidate has submitted already, so that you don’t go over old ground.

› **Do you have a prepared list of questions?** If you ask everyone the same questions, you have a basis upon which to compare answers.

**FACE TO FACE**

Some of your candidates will be nervous, some will be confident. Your task is to make the quiet candidate open up and to direct both types of candidates toward the information that is most useful to you. Make them feel comfortable and, as much as possible, let them do the talking. After all, you want to get to know something about them and they want to tell you. Intimidation is not a useful tactic to attract long-term employees.

Here are some interview devices that usually bring out the kind of information you need.

**Don’t allow interruptions:** No cell phone, no one bursting into your office, no one calling for your decision on this or that. It’s insulting to someone who is considering devoting the next several years of his or her working life to your company.

**Don’t rehash the résumé:** Instead, ask what the candidate thought was good or bad about the job and what they learned there.

**Ask for anecdotes:** It’s an old but effective technique. Get the person talking about incidents and occasions when, for instance, they had to solve a contentious issue or make a difficult sale or take a new product to market. It can be easier for you to draw conclusions by going from the specific (their experiences) to the general (their qualities).

**Start with something familiar:** Ask about the candidate’s current job, or course of studies, or a recent project. Ask what they like or dislike about it, and what part of it they find most satisfying. You are putting the person at ease by talking about something they know.

**Keep your eyes and ears open:** Subjects will tell you a lot by their body language and choice of words. Also, listen carefully as the interview ends. When the pressure of the structured interview falls aside, you often get candid comments.
**Hiring**

**Good Question!**

Interviewers sometimes suggest that you should avoid standard questions. Candidates know them and prepare pat answers. One way around these “Where do you want to be in five years?” and “Tell me about your strengths and weaknesses” types of questions is the scenario-based question. You provide a situation and ask what the candidate would do. You could also ask about a situation that the candidate has experienced.

Another way to get a candid response is to ask questions they probably haven’t heard before.

- **What risks did you take in your last job, and what happened?** You discover both the candidate’s perception of risk and you may learn something about the person’s judgment.

- **If you stayed with your current company, what would be your next move?** You may find out more about why this person is leaving.

- **How do you make decisions in your job?** You may uncover someone reliant on everyone else’s opinion or on policy manuals. Follow up with a situation that has occurred in your company.

- **Have you ever wanted to disagree with your boss? What happened?** Find out whether they stand up for their opinions, and how they express disagreement or dissatisfaction.

- **What do you have that makes you better than anyone else for this job?** Self-esteem is good, rampant egoism may disrupt the team. It’s a tough question that takes some flair to tackle with style.

- **How many hours a week does your job take you?** You may discover evidence of a strong (or weak) work ethic and get an idea of expectations for the hours of work. You may also learn whether the person works efficiently.

- **Have you dealt with difficult people in your job?** What was difficult and how did you handle it? Look for evidence of conflict resolution. Also, assess whether the person was really “difficult.” Perhaps this candidate is thin-skinned.

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<thead>
<tr>
<th>Characteristics (Age 25-35)</th>
<th>ECHO BOOMER</th>
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<tbody>
<tr>
<td></td>
<td>Late entrants to workforce (25+).</td>
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<tr>
<td></td>
<td>Only generation to grow up with PCs.</td>
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<td></td>
<td>Positive attitudes, but hard to satisfy.</td>
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<tr>
<th>Characteristics (Age 45-55)</th>
<th>MIDDLE BOOMER</th>
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<tbody>
<tr>
<td></td>
<td>Lagging in hands-on skills.</td>
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<td></td>
<td>Short of funds (often downsized, late savers).</td>
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<tr>
<th>Characteristics (Age 35-45)</th>
<th>GENERATION X</th>
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<tbody>
<tr>
<td></td>
<td>Survivalists and entrepreneurs.</td>
</tr>
<tr>
<td></td>
<td>Cynical about corporate culture.</td>
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<tr>
<th>Characteristics (Age 55-65)</th>
<th>TRADITIONALIST</th>
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<tbody>
<tr>
<td></td>
<td>Strong work ethic.</td>
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<tr>
<td></td>
<td>Most loyal.</td>
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<td></td>
<td>High priority on job security.</td>
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<tr>
<th>Salary</th>
<th>MIDDLE BOOMER</th>
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<tbody>
<tr>
<td></td>
<td>Will press more due to cash needs.</td>
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<td></td>
<td>Still the highest paid segment.</td>
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<tr>
<th>Salary</th>
<th>TRADITIONALIST</th>
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<tbody>
<tr>
<td></td>
<td>Interested in early retirement incentives.</td>
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<tr>
<td></td>
<td>May contract back to the company in retirement.</td>
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<tr>
<th>Position/Promotion</th>
<th>MIDDLE BOOMER</th>
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<tbody>
<tr>
<td></td>
<td>Do not want added responsibility without money to back it up.</td>
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<tr>
<td></td>
<td>Lots of management experience.</td>
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<td></td>
<td>Thankful to delegate to others with more hands-on skill.</td>
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<tr>
<th>Position/Promotion</th>
<th>TRADITIONALIST</th>
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<tbody>
<tr>
<td></td>
<td>Likely to be in senior position, but no longer concerned with promotion.</td>
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<tr>
<td></td>
<td>Concerned with planning/preparing retirement lifestyle.</td>
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<tr>
<th>Pension</th>
<th>MIDDLE BOOMER</th>
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<tbody>
<tr>
<td></td>
<td>Concerned about maximizing pension.</td>
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<tr>
<td></td>
<td>Concerned about saving outside pension, and investment performance.</td>
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<tr>
<th>Pension</th>
<th>TRADITIONALIST</th>
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<tbody>
<tr>
<td></td>
<td>Plans in place.</td>
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<tr>
<td></td>
<td>Concerned about security of retirement income, investments.</td>
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<tr>
<th>Pension</th>
<th>GENERATION X</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reaching an age where pensions are an issue.</td>
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<th>Pension</th>
<th>ECHO BOOMER</th>
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<tbody>
<tr>
<td></td>
<td>Too young to think seriously about pensions.</td>
</tr>
<tr>
<td></td>
<td>Generally not financially responsible for anyone but themselves.</td>
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</table>
The primary principle of compensation planning is that base pay covers performance of duties, while incentive and performance bonuses are generally for achievement of targets and contribution to larger corporate goals.

There should be no confusion that incentive or performance pay is something an employee is entitled to for the performance of basic duties.

For this principle to become a reality in your company, you must first establish a rational approach to base-pay compensation so that you are paying fair industry rates or better, and your employees must know and believe this to be the case. You must have a logical approach to raises and promotions. You must bring the complex, crucial and often thankless task of managing payroll under control with accuracy and timeliness in order to protect your credibility in the eyes of your employees.

This section will address these compensation issues. Incentive and performance bonuses will be dealt with in a subsequent section.

**THE COMPENSATION PLAN**

Your pay scales need to attract and retain employees. At the same time, new employees should be paid moderately enough that you have room to reward them as they learn and grow in the job. Many entrepreneurs also believe that as much as one-third of total compensation for some positions should be based on performance. Therefore, your entire compensation package should also reward loyalty and accomplishment.
KNOW INDUSTRY RATES
To begin, you need to know what your industry pays for particular jobs. You may already know—since you may have performed many of the jobs yourself—but you should keep on top of salary trends. Before advertising a job, check a few sources to make sure you’re in the ballpark:

› Online job sites and print advertisements: Call and ask if the salary is not given.
› Business associations: Local rates may vary, so check with your chamber of commerce as well.
› Compensation consulting company publications: Available online or in print. The full report may be expensive, but parts may be excerpted or quoted in articles.

With recent “real-life” examples in hand, you will offer competitive salaries and be able to provide evidence to rebut employees or candidates who believe they should receive more. Thus, you gain credibility as a fair employer.

SET PAY SCALES
You can establish pay scales for each job within your company so employees have room to grow, even if they are not promoted.

Here’s how to do it: from your research, calculate the average industry rate in your area for each job in your company. The average becomes the midpoint of the pay range for that job. Take 85 per cent of the midpoint as the low end of the range and 115 per cent of the midpoint as the upper end. The salary of a new employee coming in at the low end of this range can now grow 35 per cent within that pay scale.

The pay scale will change over time to remain competitive with other employers, and if you keep it up to date, you will instantly be able to see how each employee’s pay compares to industry rates for that work.

How do you know if your pay scales are out of date? Watch your turnover rate. And consider quality. Only you can judge whether you are satisfied with the quality of your employees and whether they are really contributing as well as they can. If not, at least part of the answer could be in your pay scales.

RAISES: BLANKET VERSUS MERIT
Once you have established pay scales, consider how your employees will advance up the rank. You may wish to use a combination of strategies. You can give raises on the basis of:

› Loyalty or length of service: An annual across-the-board increase tells your employees that they are still learning and, therefore, becoming more valuable to the company. It’s a loyalty-builder, but keep in mind that they may come to feel entitled to the raise. While a small annual increase in base pay is probably a good idea, higher salaries need to be supported by growth in the business. If competitive or economic pressures make raises impossible, you may have a crisis of morale on your hands. You will need to communicate with employees in a way that rallies them to the common cause.

› Individual performance: Rewarding employees for achieving individual goals may emphasize competition at the expense of team play, but it also gets employees to take personal responsibility for their results. Rewards can take the form of one-time bonuses, regular periodic commissions or a larger pay raise. Regardless, establish clear goals to trigger the reward.

› Team performance: Team rewards work well for temporary project teams and for company-wide programs such as gainsharing, profit sharing, continuous improvement and “fast factories.” It is surprising how groups will pull together to meet, share information and work together when there is a tangible group reward. (See Benefits II)

BEWARE OF SALARY COMPRESSION
When a skills shortage forces companies to raise the salary ante for new employees, the pride of loyal employees can be unintentionally injured if newcomers are making as much as or more than your tried-and-true staff members do.

The phenomenon is known as salary compression. It occurs when internal salaries rise at a lower rate than the external market. The result can be high turnover rates among employees with the most valuable skills and longest experience. Leaving is the only way they can bring their salaries into line with industry standards.

Some companies have tackled salary compression by contracting work out, using signing bonuses to maintain base pay-rates or introducing performance bonuses such as profit-sharing and stock-ownership plans. Prestigious perks such as a company car, cell phone, club membership or company-sponsored travel can also be less expensive in the long run than additional recruitment.

However, employees will ultimately look at the bottom line on their pay stub. In the long run, it’s imperative to keep your pay scales up to date.
Employees spend at least half their workweek either in your workplace, communicating with it or travelling to or from it. Few people will spend that kind of time in a place or with people they dislike—or fear. Money and financial stability only goes so far, and it’s in an employer’s interests to make a workplace welcoming, accommodating, safe and, hopefully, stimulating.

Employees should certainly not dread the experience for fear of humiliation, ostracism, outright harassment or injury.

In fact, the law demands that they should not be made to feel that way.

**HARASSMENT AND DISCRIMINATION**

All the provinces and the federal government have legislation that protects employees from discrimination and harassment. Indeed, the Canadian Human Rights Act treats harassment as a form of discrimination.

No right-thinking person wants to foster a negative work environment. Unfortunately, not everyone is right-thinking. Some people lead, draw attention to themselves or simply gain pleasure by dividing the people around them, putting others down or placing others in uncomfortable situations.

Other individuals simply don’t appreciate how their words and deeds can affect others. They harass or discriminate not so much out of malice but out of ignorance.

That’s why federal law (applying only to federally regulated employers) and many provincial employment laws require employers to create and circulate policies on discrimination and harassment. Check federal guidelines and/or your province’s code for definitions and your obligations as an employer. Go to Industry Canada’s Strategis site at www.strategis.ic.gc.ca, click on...
Managing People, then Human Resources Management, then Labour Law at a Glance, then Health & Safety.

www.hrmanagement.gc.ca/gol/hrmanagement/interface.nsf/engdocBasic/7.2.html

TAKE AN ACTIVE STANCE

Owners and managers don't have to personally harass or discriminate against someone in order to be held liable for it by the courts. If you do nothing to prevent it, or effectively fail to respond to a complaint, you may wind up with legal responsibility.

› Educate managers and employees about what harassment and discrimination is.
› Have a stated policy and procedure in place that tells employees who they can talk to if they feel they are being victimized. The policy should also include what steps will be taken to investigate, protect the accuser, mediate the dispute and, if appropriate, allow the accused to respond or explain.
› Treat allegations seriously. Investigate promptly and impartially.
› Resolve possible instances as soon as you become aware of them. Don't wait for a complaint.
› Take action to mitigate the effects of confirmed harassment. Restore sick leave that may have been used to deal with stress caused by it. Get an apology. Show regard for the victim.
› Prevent further instances. Reiterate the policy. Provide staff with human rights literature and training, if necessary.

ACCOMMODATE!

Women and disabled people are sometimes denied jobs that involve physical effort because employers fear they do not have the strength or endurance to do the job. If you find yourself in this position and thinking in this way, consider whether the physical aspect of the job is the most important. If it is knowledge and experience, for instance, that is the real qualifier, consider how you might change the conditions of work or rearrange duties with co-workers to make use of this employee's abilities.

Under federal law (and some provincial labour laws), employers are required to make reasonable accommodation in working conditions, as long as it doesn't cause the employer undue hardship. Employees must also make an effort to facilitate accommodation. When they can come to a mutually agreeable conclusion, the added benefit for employers is the message in the workplace that they want to employ people's brains and not just their muscles and bones.

DIVERSITY: IT'S THE CANADIAN WAY

Did you know that immigration already accounts for 75 per cent of the growth of the Canadian labour force? In some parts of Canada—Toronto, Montreal, Nova Scotia, Saskatchewan and Manitoba—the workforce would not grow at all without immigration.

Yet employers still can't find enough skilled employees. In 2001, the Canadian Federation of Independent Business reported that more than 250,000 positions at small-and medium-sized businesses in Canada were unfilled in industries as varied as construction, high-tech, business services and agriculture. A staggering 46 per cent of survey respondents said they had major problems finding qualified staff.

Canadian employers need to draw on the vast and largely untapped resource of visible minorities and other non-traditional labour pools. If they don't, the industrial capacity of individual businesses and the nation as a whole will diminish. Businesses and jobs will disappear.

When you are filling your next job openings, consider these facts:

› Since 1991, 41 per cent of immigrants arriving in Canada already had a university degree, compared to an average of 22 per cent of Canada's general population. And yet they are often passed over because they lack Canadian experience.
› Women held 35 per cent of managerial positions in Canada in 2001, and still they are considered second choices for promotion in many industries.
› By 2006, another 365,000 young aboriginals will enter Canada's workforce, a tremendous resource. But many will probably need job training.
› Workers in their late 50s, 60s and even 70s have job and life experience that make them excellent candidates for many management jobs for which they are often passed over.
› One of the benefits of having a diverse workforce is that they understand and can relate to the diversity of your clientele/market.

While no country can claim a flawless record on accepting new faces and changes to its social makeup, no country in history has ever successfully built its reputation, domestically and internationally, around diversity in the way that Canada has. Diversity is the Canadian way and it's a smart way to do business.
Benefits I: The Basics
When a company is small and growing, and cash flow is tight, it’s hard to match the benefits that larger companies offer. But employers of choice, even in small companies, will certainly offer basic benefits—drug, dental, long-term disability and life insurance, plus a pension plan. That’s on top of mandatory benefits, such as vacation pay, maternity and parental leave, workers’ compensation insurance and the employer’s contribution to employment insurance and the Canada Pension Plan.

All told, expect your benefits package to add 15 per cent to 35 per cent to your direct payroll costs, depending on what you offer beyond the basics.

However, small companies can provide something big companies often cannot match in the same way: work environment. That’s one of the strengths of smaller businesses as employers—the excitement of teamwork, an atmosphere of camaraderie and the caring attitude of a family. Many of these “side benefits” of work won’t cost much at all—just a little creativity and flexibility.

Benefits break down into three categories:

- **Health protection**
- **Financial security**
- **Conditions of work**

### 1. HEALTH PROTECTION

It’s impractical to offer everything to everyone. Some coverages are basic, such as drug and paramedical services. Others will be of interest only to some employees, such as coverage for orthopedic shoes or hospital bed rental. To use your available benefit dollars most wisely, survey your employees to find what coverages they want.

A small company, even one with fewer than five employees, can certainly provide a basic package of health benefits. That would be life insurance, accidental death and dismemberment insurance and extended health care, which includes medical expenses not covered by provincial health plans, prescribed drugs and paramedical services such as chiropractors, masseurs and physiotherapy. Many small companies also offer dental and long-term disability insurance. If chosen, all employees must participate in these plans.

With more than five employees, you can offer these benefits and more, such as short-term disability and key person insurance, which compensates the company for the loss or long-term disability of a key employee. At this size, companies also have flexibility in terms of deductibles, co-payment and maximum limits. For disability coverage, they can adjust the percentage of salary that will be paid to a claimant. In other words, they can offer more but control spending.

Another valuable consideration for these companies is the concept of the health spending account. Each year, the employer gives each employee a set amount of health-care benefit dollars in a personal account. The employee can then decide which benefits to select from the menu beyond mandatory coverage. Some plans also allow employees to apply unused benefit allocations to another part of their compensation plan, such as vacation. It’s a win-win because the employer controls costs and employees choose what is most valuable to them personally.

### CRITICAL ILLNESS: BENEFIT NEWCOMER

A new item on the health benefits menu in recent years, critical illness insurance pays a lump sum to those diagnosed with life-threatening conditions.

### SHORT-TERM DISABILITY: TO INSURE OR SELF-INSURE?

Short-term disability, which covers absences of six months or less, is important for key people in the company. For others, workers’ compensation and employment insurance will help bridge gaps in income. Many small companies simply continue to pay salary to sick or injured employees with short-term illnesses or disabilities rather than pay premiums for coverage. The risk is that with this arrangement, some employees may not feel inclined to return as quickly as they might otherwise. Disability insurance includes coverage for rehabilitation and managed care to get employees back to work when ready.
It covers coronary artery disease, cancer, stroke, Alzheimer’s, Parkinson’s, multiple sclerosis, vital organ failure and numerous other conditions. Many people view it as extremely important due to medical advances that prolong life in the face of serious illness. Recipients can use the money as they wish: out-of-country treatment, modifications to their homes or changes to lifestyle.

In almost all cases, if the policyholder dies without collecting payment, all the premiums are returned to the beneficiaries, minus a small administrative charge. It’s also possible to buy a return-of-premium rider that returns all premiums to a policyholder who survives to age 75.

The Canadian Life and Health Insurance Association reports that nearly 40,000 Canadian workers were covered by 335 group critical illness policies in 2002.

2. FINANCIAL SECURITY

Pensions are a basic part of any plan, but the truth is that their importance is directly proportionate to the age of your workforce. The older your employees, the more important a pension plan becomes.

Interestingly, however, research by compensation specialists Towers Perrin found that increased satisfaction with pension benefits in the 55-plus age category actually increased the level of disengagement from the work. That is, it increased these workers’ desire to leave and enjoy the benefits of the pension. The lesson: pensions in the benefits mix seem to be like iron in your diet—essential, but in measured doses.

There are three kinds of company pension arrangements:

- **Registered Plans:** Contributions to registered plans are not subject to payroll taxes, but they need to meet federal and provincial requirements in terms of benefits, terms and conditions, solvency, investment and accounting. For these reasons, smaller companies generally find them impractical.

- **Group RSPs:** Your employees contribute to their plan through payroll deductions and you match them at between 50 per cent and 100 per cent. You set a maximum employee contribution for each year, probably on a sliding scale that rises with each year to encourage loyalty. For example, an employee could contribute one per cent of earnings during the first year, two per cent the second year and so on up to, say, five per cent of earnings. In this way, you control the cost.

- **Deferred Profit Sharing Plans:** For each employee, the company transfers a share of pre-tax profit into a group RSP. Contributions are not subject to payroll taxes such as CPP and employment insurance deductions, workers’ compensation premiums or health-tax levies. Employers also make a strong statement to employees that they share in the company’s success, a tremendous loyalty builder. Available from your financial institution.

**PERKS ON A SHOESTRING**

- **Health club memberships:** If you can deliver several employees, the club may give you a group rate.

- **Conferences and seminars:** Regularly send each employee to an event that gives them an opportunity to learn and network. Out-of-town is even better if you can afford it.

- **Lunch days:** Once a month—more if you can manage it—order in sandwiches or pizza. Bring people up to date on new developments, but make it primarily social and fun—a chance to be a business family.

- **Improvement groups:** A 2001 Aventis Pharma survey found that employees rated exercise (70 per cent), quitting smoking (77 per cent) and weight loss (55 per cent) among the best ways employers can help improve employees’ health. If people show interest, throw in an achievement prize.
3. CONDITIONS OF WORK

This is where smaller businesses can really shine. Some employees will love a pool table and soft drinks on a Friday afternoon, while others will desperately need flexible work hours in order to look after children. Perhaps you can’t do everything you want to do to make the workplace enjoyable and stimulating, but a little creativity and sensitivity to what matters to your employees can go a long way.

Employee Assistance Plans: At some point in their working lives, most people are torn between their jobs and stressful personal circumstances. An employee assistance program, or EAP, gives them someone to lean on for advice. Counselling on child, teenager and eldercare problems, drug and alcohol dependency, personal mental health, financial crises, legal situations and even emergency delivery or on-site trauma response are among the services an EAP can offer. You can buy into a plan as part of long-term disability coverage for as little as $1 a person monthly.

Flextime: The company designates “core hours” when workers have to be present, but employees can fill in the rest of their required hours whenever they wish. They can work some short days and some long ones or vary their start and quit times. It’s extremely helpful for employees with children or other dependents. Employers should take into consideration that employees may sometimes need to work without supervision.

A variation is the compressed work week, where employees work four 10-hour days or regular nine-hour days with every other Friday off. This is sometimes preferred by younger employees and those without young children or other dependents.

Flexiplace or Telecommuting: For many employees, working at home some or most of the time is a way of life. The only issue is how much home office equipment employers will supply. Telecommuting reduces commuting time and the stress of juggling home and work life, although employees’ home offices should provide them with a place to concentrate away from children or other obligations. Employers should consider these productivity issues as well as how telecommuting could affect team bonding between workers.

Daycare: If the employer subsidizes daycare, or sets up a non-profit organization to provide daycare, it’s a taxable benefit. Employees deduct their share of cost as a childcare expense when filing personal income tax returns. There’s no taxable benefit if the employer operates the child-care facility directly. Providing daycare is a valuable service where daycare is hard to find or when employees work long or irregular hours. Besides being a quick and easy solution for parents, it reduces anxiety and lets them visit their children during the day.

An alternative and less expensive solution is a referral service, often through an EAP. Consultants offer information on choosing between types of childcare and lists of for-profit centres, licensed private home care, co-op centres, drop-in centres, nanny agencies and nursery schools. 


Benefits II: Sharing the Wealth

Not unexpectedly, business owners extol the virtues of entrepreneurship. Individuals are rewarded for their effort, creativity and sacrifice. Ownership leads to motivation, which in turn leads to critical thinking and action.

It is not much of a leap to reason that employees should have a stake in the company. Everyone brings their brain to work each day seeking ways to improve results.

Gainsharing, profit sharing and employee share ownership plans are the most popular means to bring employees into a mindset of partnership in the business.

**GAINSHARING**

The idea behind gainsharing is for the company and its employees to share productivity gains. It appeals to many business owners because they don’t need to disclose financial information as they would with profit-sharing plans.

There are three main types of gainsharing plans: Scanlon plans compare productivity sales value, Rucker plans compare production value added, and ImproShare plans compare hours of labour per unit of productivity.

It begins with a benchmark productivity measure, which employees then look for ways to improve upon. They share half the gain (usually) for as long as they maintain it. For example, if a group of employees reduces turnaround time by 10 hours for a certain process, and each worker earns $15 an hour, they would each get an extra $75 a week, or $3,900 a year. You can use different measures for individual work groups or set one company-wide productivity measure.

Because employees are taking a stake in the “upside”, they also participate in losses of productivity. Plans usually hold back 20 per cent to 25 per cent of the gainsharing payout each month as a reserve fund. The reserve is then “charged” according to the same formula when productivity declines. If there is not enough
money in the reserve fund, the company usually covers it.

Gainsharing isn’t appropriate for many service businesses or custom manufacturers where each product is different. But for production plants, it’s often a good motivator.

**PROFIT SHARING**

Profit sharing gets employees thinking like owners. Many entrepreneurs find sharing the necessary financial information is just as valuable as sharing the profits. When employees see the numbers, the reasons for many decisions become much more apparent. Of course, when employees have a stake in the results, you can expect criticism for some decisions as well. It comes with the profit-sharing territory.

The plan should add at least five per cent to employee wages to be considered meaningful. You may want to offer it to everyone as a motivational tool or only to key employees as a reward and compensation tool.

Plans can either pay cash or, for tax reasons, money can be deferred and invested as a pension plan. Paying cash brings instant motivation. Deferring payments rewards employee loyalty without losing much of the motivational element. Major financial institutions provide deferred profit-sharing products, which they administer at a reasonable cost.

Eligibility and vesting rules address the goal of loyalty (and control administrative costs). For instance, you may decide that employees can participate in profit sharing only after the first year. You may also decide how long employees have to remain with the company before they have a right to shared profits held in a trust account. Immediate vesting gives employees all the funds right away, while a sliding scale gives employees the right to an increased percentage each year. Anyone who leaves the company would take the vested portion and forfeit the rest.

Some managers encourage employee feedback and suggestions as part of the profit-sharing plan. You may or may not decide to hold meetings—monthly, quarterly or annually—to discuss improvements and strategies with participating employees, but you will certainly need to establish regular written and face-to-face opportunities to report on the plan’s results and outlook. You should create a handbook about the plan and distribute reports each period.

**EMPLOYEE SHARE OWNERSHIP PLANS**

Turning employees into shareholders with an employee share ownership plan, or ESOP, gives them a direct incentive to work for the long-term success of the firm. As with profit sharing, however, you have to be prepared to accept the kinds of uncomfortable questions that shareholders sometimes ask.

You don’t need to go public to have employee share ownership. Private companies create phantom shares, put a value on them and trade them within the firm. You should obviously get professional assistance with this exercise. Whether public or private, companies place limits on when shares can be sold.

Usually, employees own a small piece of the company, but some ESOPs allow groups of employees to own half or even all the company. In some cases, owners actually use ESOPs to exit the firm and retire. As with profit sharing, you should set a minimum period of employment to be eligible and establish a vesting schedule.

You can assist employees’ share purchases through a contribution or simply make regular payroll deductions. You set up a trust fund and contribute shares, then allocate the shares to individual employee accounts as they earn them. Or, the ESOP can borrow money to buy the shares from you, with the company guaranteeing the loan. Company contributions to the fund are partially tax deductible (in proportion to payroll—check the rules in your province). Principal payments on loans are also partially tax deductible and interest payments are fully deductible, if certain criteria are met.
Training and Skills
Upgrading
Why, then, do employers so often give short shrift to training? There is no doubt that it is often expensive in terms of absolute cost and time away from work. It can sometimes be misdirected at non-strategic skills. And in some cases, employees come away from long hours in a classroom or looking at a computer screen feeling they have really not learned anything practical.

**TRAIN WITH A PURPOSE**

Orientation training comes first. New employees, or those transferred or promoted to new responsibilities, need to understand work routines, expectations, reporting relationships and team members’ needs. If you don’t assign someone the job of telling them, you can’t complain if they do it poorly.

Training for existing employees focuses on skills that you and your employees truly need. Target business or individual performance measures. Training can focus on business skills, such as software training, sales courses or customer service upgrading, or they could target interpersonal skills concerned with leadership, team-building or project management, or they could be directed toward upgrading for technical and professional members of staff. Make room for all kinds of training in your budget.

Usually, situations will bring the need for training to your attention.

> New projects, restructuring or a change in your proposition to customers.
> New certification requirements, either at company level such as ISO certification or with the individual employee—qualification level, such as new technical proficiency certifications.
> Requests for upgrading. Employees often know what skills they need to do their jobs and which skills they may lack, but these should relate to an agreed career plan within the company, performance evaluation and post-training performance goals.
> Customer complaints or requests for new, enhanced or improved services.

**POST-TRAINING SUCCESS**

Always look for a return on your training investment. You may find it at the individual, team or company level.

> Employees: Ask whether they found the course useful and relevant. On a personal level, will they find the material helpful in their job?
> Team: Observe whether the team is functioning better since training. Does the team work more smoothly, without bottlenecks or in greater communication? Ask the team’s opinion as well.
> Company: Look for tangible measures of improvement. Compare versus a benchmark taken beforehand. It could be customer satisfaction, sales or new sales, cycle time or time to market. Don’t expect immediate improvement. Give the training time to “take hold.”

**E-LEARNING AND BLENDED LEARNING**

E-learning began with a seductive promise: huge cost savings. Supposedly, it would reach large numbers of employees who could study whenever and wherever they pleased, reducing travel and hotel costs as well as time away from work.

The course modules could be used repeatedly and in many different applications (certain software or business communications skills, for instance, are used in many different jobs) without paying for instructors each time. More learning at lower cost.

It didn't quite work as planned. Many employees found they didn't like e-learning. Not all information was helpful or relevant, and they found it boring without a human instructor or interaction.

It turned out that the human element is quite important to learning. E-learning has evolved to encompass the best of both worlds—blended learning. It's a combination of self-paced online modules and live virtual-classroom
The online sessions deliver informational content that brings everyone to a basic level of understanding. Live sessions then focus on group case studies, question-and-answer periods, mentoring, comparisons to on-the-job experience, and role-playing.

Instead of a classroom day ending with tired participants learning practical applications, it begins with fresh participants and practical applications. Both instructors and students report the blended model covers more material and offers a better use of time. It also adds an interpersonal element that gives the information practicality and relevance.

Organizations of every size can take advantage of e-learning through course libraries offered by e-learning organizations. You get the convenience of online learning that doesn’t interfere with regular workloads, consistent training, and a shorter lag time between learning new skills and applying them.

Besides cost and effectiveness, another side benefit of e-learning is the tracking system that surrounds and manages the online courses. Called learning management systems, they monitor who takes what training, how much time they spend, how they scored and job performance appraisals. You can use the data to evaluate progress but also the courses themselves. Some employers have introduced internal certification, so that sales employees, for example, can qualify themselves to sell new product lines, or production associates could qualify for other jobs in the plant.

By tying online learning results to career progress, you can offer the “carrot” that helps overcome any initial resistance to online learning or lack of discipline in studies.

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Ten Things You Should Know About Privacy in the Workplace

1. The new federal privacy legislation The Personal Information Protection and Electronic Documents Act (PIPEDA) does not currently affect employees in private businesses. It only applies to employee information in federal works, undertakings and businesses.

2. In response to PIPEDA, several provinces have enacted, or are enacting privacy legislation that covers employee information for all employers, trade unions and other entities. For example, Ontario’s draft legislation, Privacy of Personal Information Act (PPIA) requires an employee’s consent for the collection, use and disclosure of his or her personal information, subject to various exceptions.

3. Under Ontario’s PPIA, which may be typical of other emerging provincial privacy legislation, employees will be able to challenge their employer’s information collection, retention and use practices, either through the designated privacy officer or by filing a complaint with Ontario’s Information and Privacy Commissioner. A breach of an employee’s rights that results in actual harm to the employee can be compensated by damages.

4. The law acknowledges that employers need basic information about their employees for administration, and to ensure that the workplace is safe and secure. However, some controversial employer practices include video surveillance, keystroke monitoring, web-browsing records, psychological testing, drug testing and genetic testing.

5. Whether privacy is or is not protected by law, respecting privacy in the workplace makes good business sense. The erosion of employee trust and morale can outweigh the dubious benefit of always knowing what every employee is doing on company time and equipment.

6. The employer should disclose what personal information they collect from employees, why they collect it, and what they do with it.

7. Collection, use, or disclosure of personal information should normally be done only with an employee’s knowledge and consent.

8. Employers should only collect personal information necessary for a stated purpose, and collect it by fair and lawful means.

9. Employees’ personal information should be accurate, complete and up-to-date.

10. Employees should be able to access their personal information, and be free to challenge its accuracy and scope.
You would waste all that effort if you did not give employees goals and targets, then regular feedback on their achievement. That’s why top employers pay plenty of attention to annual performance reviews. It’s the chance to fine-tune the direction of the company; don’t let them turn into defensive jousts, salary evaluations or a meaningless bureaucratic checklist. For it to be worth your valuable time, it’s got to be a time for two-way reflection on how the job can be done better, from both the personal and the process perspective.

The whole human resources package of hiring processes, compensation and benefits plans and training programs is intended to create a qualified staff that is interested, engaged in the company mission and motivated to succeed in the objectives of the job.

**PREPARATION: MAKING IT REAL**

The first task with performance appraisal actually starts long beforehand, even at hiring. That is, you must set the target. It sounds simple, but there are a number of ways in which the target can be unclear, irrelevant or counter-productive. Here are some ways to make sure you set the sights correctly.

**Make it measurable.** One sure way to make it real is to put numbers on it. The job description mentions performance targets, so that’s the first place to start. The
5. **Don’t cancel.** Managers often don’t like performance appraisals any more than employees do, because reviews are often seen as bureaucratic or just plain uncomfortable. But cancelling sends the message they aren’t important. Consider it another way: this could be the best chance this year for one-on-one feedback from this employee.

6. **Address shortcomings.** The opposite of assigning blame, some employers avoid saying anything too critical at all face to face. Or they say it and take it back or soften it. Phrases such as “It’s not really your fault” or “I know it was out of your control” are often correct—who controls everything?—but they don’t let employees take ownership of their results, good or bad. Remember that you are putting issues on the table for discussion, and you must do it whether it is a hard-numbers performance issue or a softer personality issue. Some suggestions:

- **Focus on particular instances rather than sweeping descriptions such as “lazy” or “stupid.”**
- **Explain what the results of inadequate actions or attitudes are for others and for the company.**
- **Emphasize that you want to prevent it from happening again rather than casting blame.**
- **Ask for suggestions from the employee. Get some buy-in on rectifying the problem.**

measures must be important—sales, customer satisfaction, response time, for instance—but they must be measures that the employee can directly affect. Goals must also be achievable.

**Bring employees in.** The performance appraisal should be an opportunity for the employee to suggest other important measures you might have overlooked that could lead to greater productivity or customer satisfaction. You may get a better measure of performance while giving the employee a hand in setting the target, which is useful for buy-in. You may also discover whether the employee is properly focused on the job.

**No surprises.** Re-evaluate the goals during the year. Are they still realistic and is the employee on track? It shouldn’t be a shock at evaluation time if employees are not meeting the target. Deal with it early, adjust measures if appropriate, and keep anxiety down to a minimum so the annual review can be calm and considered.

**Be consistent.** Set the same goals for everyone with the same job description.

**PERFORMANCE APPRAISAL: A TIME FOR TALK**

One of the most important things to remember is that a performance appraisal must be a frank, two-way discussion for it to benefit the employee and lead to improvement. And improvement is the primary objective, here. Not salary review, although that may be a part of it. Not blame. Not intimidation. Not comparison with others. It must be about improvement in the job. Here are some tips:

1. **Don’t focus on the paperwork.** The form is for the employee’s record, if you need it. Make performance and the job the centre of interest.

2. **Let them come prepared.** Prompt employees about upcoming reviews and to think in advance about how their jobs could improve.

3. **Make the employee talk.** You must truly believe that you don’t know all about what they do all day and what they run up against. The employee has valuable things to tell you about this job. You asked for feedback, so get it.

4. **Beware of tactical landmines.** A conversation about performance is likely touchy enough without resorting to techniques that will only inflame it, lead it off course or actually de-motivate the employee. Don’t compare employees. Don’t blame. Don’t get drawn into an argument. Don’t raise your voice. Focus on what you and the employee think needs to be done to get better results.
Firing: The Long Goodbye

Firing isn’t as easy as it has been presented on reality television shows. Saying, “You’re fired!” to someone because you don’t like the way they handled a project can be a quick way to the steps of the courthouse, or at least to a healthy wrongful dismissal settlement.

That’s why firing has to be a long goodbye. It begins before you think about it, in fact, with summaries in the employment record. When specific performance problems or instances of poor attitude or behaviour begin to crop up, issue a written warning with a copy to the file. You need a trail of written warnings to consider firing.

In part, these warnings should take the form of unambiguously inferior recent performance reviews. The reviews should set out specific actions for improvement and targets for future achievement. If additional training is specified, the record must show that you have made it available or facilitated it. When performance has not improved, the file should show a written record that this fact has been brought to the employee’s attention. Where you have issued verbal warnings, make note in the file.

For employees going through temporary problems that cause poor performance, allow plenty of time to improve. The longer the employee has worked for you, the longer they deserve. Several months, even a year in some circumstances, is not unreasonable. Take the high road: Helping a long-term employee recover will do a lot for team morale while firing that employee can be a legal boomerang.

Sometimes, warnings kick the lagging employee into gear. Other times, it spurs them to quit or look for other work.

Inevitably, however, some employees won’t work out. Whether it’s their skills, attitude, behaviour or work habits that are lacking, you just can’t carry them forever. If you have issued warnings and tried remedial measures without success, don’t delay. Check with your lawyer to make sure you’re on firm ground, but it’s time to get it over with.

THE MEETING

The dismissal meeting should take place early or mid day to give the employee time to collect personal effects and perhaps spend some time gathering thoughts and emotions before going home.

Approach the employee personally to invite him or her into your office for a discussion. It is insulting to be called by a co-worker into a meeting that turns out to be a termination.

Have one or more witnesses present, perhaps a direct supervisor or other senior manager, your lawyer or an outplacement professional.

Give the news immediately. Explain that you have come to a decision to end the person’s employment. Don’t read off a list of offences, but summarize the main reasons, the warnings, the extra training or help you have offered and the lack of improvement. Detail the severance offer and present the documentation for review. Don’t ask the person to sign it right away. Offer to let the employee gather belongings or have someone put them in a box to collect later. This part of the meeting shouldn’t take more than a few minutes.

The employee may wish to respond. Do not enter into a debate. Sympathize, if it’s appropriate, but don’t backtrack. Don’t restate yourself unless asked. At this point, the more left unsaid, the better. Answer any questions, however, even if they are repetitive or aggressive. Because the employee is likely in some degree of shock, you may well have to repeat points.

Regardless of how you feel about the employee, be polite and respectful. Keep emotions in the background. If the employee becomes aggressive and abusive, ask them to leave the building right away. If the employee becomes tearful, offer a few minutes to

NO TRUMP: HOLD YOUR FIRE

Thieves, thugs, saboteurs—employers see them all and sometimes catch them red-handed. But even when you think you couldn’t have a more clear cause for dismissal, firing someone on the spot can land you in hot water.

Better to separate the employee from the situation, suspend and investigate. Then, with evidence, fire. It may take a day or a week, but you avoid an irreversible mistake when you wait for the emotion of the moment to die down and all the facts to come out.
The Ten Biggest Mistakes Companies Make When Firing

1. **Ignoring due process**—An angry, on-the-spot firing can bring you a mountain of legal headaches, and likely a large settlement against you.

2. **Discriminatory firing**—This is when you fire someone because of— for example—sexual preference, health, religion, or because they are pregnant or were injured on the job. It’s an act that’s almost impossible to defend.

3. **Firing without documentation**—If you need to dismiss an employee due to poor performance, you must thoroughly document incidents and all prior written and verbal communication that warned the employee about the poor performance. Otherwise, it could just be your word against his or hers.

4. **Breaching privacy**—Do not let any word of the impending termination leak out in advance to other employees. You shouldn’t conduct the termination interview in a place where others can see, hear, or interrupt.

5. **Delaying termination**—A termination that is justified should be carried out as soon as possible to avoid costly mistakes, safety issues, and other potential problems.

6. **Poor timing**—If you need to fire an employee, you should do it early in the week and early in the day. The worst time to fire someone is late in the day and just before the weekend.

7. **Lack of preparation**—Any pay and/or paperwork owed to the employee must be delivered at the termination interview.

8. **Failing to escort the employee from the premises**—Firing can provoke an immediate irrational response in some people. Escorting the employee, in as friendly a manner as possible, can help discourage any violent, impulsive or destructive behaviour.

9. **Poor termination interview**—This could involve the supervisor talking too much, being too vague, becoming angry or failing to let the terminated employee make a statement.

10. **Failing to obtain legal advice**—Your right to terminate an employee is tempered by many laws and regulations from all levels of government. Terminated employees can seek legal recourse against you, so you need to be prepared.

- Meet with employees whose jobs will be affected by any changes in the works. Reassure them and let them know they are valuable to you in their new roles.
- Demonstrate that job changes are not demotions. Keep reassigned workers at the same salary level when the work is of equal value. If on the other hand, you intend to demote an employee based on poor work performance, document specific instances, warnings and attempts to remediate.
- Do an analysis showing the bona fide economic reasons for making fundamental changes.
- Give employees as much advance notice as is practical.
HR Outsourcing: Expert Help

Creating a compensation and benefits plan that attracts, retains and motivates employees is time-consuming enough. Administering that plan each week and month can begin to take resources away from your real purpose: running a business.

And given regulation and growing complexity of plans and instruments, every task requires a growing level of expertise: calculating payroll, making timely government remittances, tracking employee benefit plans, even hiring, training and managing the employee assistance program.

Many companies across North America—even the smallest ones are gratefully handing these tasks over to HR outsourcers. These are organizations that hire experts, track all the regulatory and rate changes, buy the latest hardware and software to streamline the processes and maintain it rigorously—and then spread the cost over thousands of companies with hundreds of thousands of employees.

They usually save their clients some money, too. A 2003 study conducted by Pricewaterhouse Coopers revealed that hidden costs of upgrades of payroll and HR systems make in-house services much more expensive than previously thought: $16 to issue a paycheque and $88 per employee for an in-house HR system. Outsourcers say they can typically lower these costs by about 30 per cent. One large payroll processing firm in Canada cites a typical cost of $35 per cycle for a 10-person staff.
While cost control is certainly a decisive factor, however, other factors are contributing strongly. A 2002 Hewitt Canada survey found that while 48 per cent of respondents cited price as a determining factor for outsourcer selection, 38 per cent cited quality commitment. In other words, it’s also a matter of best practices. Companies want these jobs done with world-class speed and efficiency, and they want them out of their hair so they can get on with business in their fields of expertise.

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**WHAT DO COMPANIES OUTSOURCE?**

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<tr>
<th>At least one HR function</th>
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<td>Payroll administration</td>
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<td>Benefits administration</td>
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<td>Training</td>
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<td>Hiring and recruiting</td>
<td>20 per cent</td>
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<td>Personnel administration</td>
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Source: Gartner Inc., 2002

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HR outsourcing was initially the domain of big companies involved in highly customized solutions, an approach that didn’t make sense economically for other companies. Now, web-based methods have made HR outsourcing commonplace at every size of business. Solutions are even synchronized so that subscribers to both payroll and benefits administration solutions can enter data such as pay rates into one application and have them flow automatically into the other application as well.

When you consider that service providers also take care of filing government remittances, generating records of employment and producing T4s, so that your firm never incurs late-filing penalties, it’s a considerable time saver and headache relief.

**THE FULL SLATE**

Having witnessed the success of HR outsourcing, many companies are willing to consider taking another next step by outsourcing more of their HR processes.

Service providers have responded with menus of services that go far beyond payroll processing and benefits administration. They act as consultants on compensation strategy, recruitment, labour relations and organizational design. They run online and in-house training and development programs and call centres for employee assistance plans. They are essentially prepared to take on as much of the HR role as companies are willing to delegate.

**CHOOSING AN HR OUTSOURCER**

Clearly, the qualifiers are cost, credibility in the marketplace, quality of service and technological capability. Major payroll and HR outsourcers such as ADP Canada, with whom RBC Financial Group maintains a strategic relationship, and Ceridian Canada both meet these criteria.

When approaching an outsourcer, remember that you can gain cost savings and efficiencies, but that doesn’t mean relinquishing responsibility either for the tasks or the relationship. This is especially true if you wish to outsource a range of HR functions. Here’s some advice on how to get the most from an outsourcer.

1. **Perform a “survey” of present costs.** If you and the outsourcer can agree on what you’re spending now, prior to outsourcing, there is a benchmark against which to measure the outsourcer’s performance.

2. **Don’t concentrate solely on price.** Instead, establish targets and then negotiate price based on those agreed goals.

3. **Set goals and measure performance.** What’s written in the contract will govern the relationship. Most contracts set service standards and financial penalties for not meeting these levels, as well as detailed security and capacity provisions that ensure flexibility.

4. **Create a regular review process.** Frequency will depend on your business, but it shouldn’t be less frequent than annually. Share perceptions about how to obtain performance improvements, what needs to be changed, or which parts of the process may need to be transferred from one organization to the other.

5. **You set the target—let the vendor establish the means.** You are paying for the outsourcer’s knowledge of best practices. If you wish to dictate the size of the workforce, types of equipment, locations of facilities or other aspects of operations, you must research vendor compatibility before signing an agreement.
Trends: The Future of HR

Many business observers have remarked upon the demise of employee loyalty. It is presented as if it is almost by mutual consent. Companies apparently demand a flexible workforce, one that expands and contracts, works on a project basis, or is transferred to another employer. Job security is out the window. Employees supposedly pursue lifelong employability through continuous training, mobility between different assignments and a diagonally upward career path.

IS THE KEY REASON FOR BECOMING AN EMPLOYER OF CHOICE—TO INSTILL LOYALTY—A GOAL THAT IS PASSÉ?

A look around tells a different story. People still have families, homes, mortgages and affiliations. Employees still want steady employment. Everyone still admires the friends or colleagues who say with enthusiasm, “I love my job.”

You can become an employer of choice. But you must remember that while you, as an employer, may be tempted to see employees as a vehicle for the goals of your company, your employees see your company as a vehicle for their careers, families and dreams. It cannot be a one-way street.

HOW DOES THIS AFFECT YOU AS AN EMPLOYER?

The compensation that you offer to your employees is not just payroll and benefits. It’s the entire package: the way you hire, compensate, motivate and train, the day-to-day work environment, the way you treat employees and the way they relate to you and treat each other.

Your HR activities must become strategic. In this respect, the downfall of many companies is that these duties become reactive—someone quits, so they find a replacement; more people quit, so they build a better benefits package; someone files a harassment complaint, so they create a harassment policy. HR needs to be far more proactive.

These functions require considerable forethought, strategizing and expertise because they are critical to attracting and retaining the best and brightest. They are essential to the ongoing workplace environment, which in turn affects productivity and creativity.

That said, HR functions are not usually core functions, so they will increasingly be outsourced—perhaps not all, but at least some. The challenge, then, for owners and managers in growing companies will be to understand HR functions even when they don’t perform them in-house, because they still need to manage and direct those activities. It will be important to think strategically—to think about how you want to attract, motivate and retain talent, for instance, and to have a vision of what the working environment should be, and what constitutes positive interpersonal relationships in the company.

When you seek to become an employer of choice, you are in fact recognizing that employee loyalty is far from dead.

Loyalty is simply a career choice.
Payroll Taxes: Responsibilities and Opportunities

Many owner-managed companies enhance their profitability by cutting costs where they don’t add value for customers. Payroll taxes are one such area—there is absolutely no customer value in a company paying more than required.

As an employer, you are well aware that you have to deduct Canada Pension Plan (CPP), Employment Insurance (EI) premiums, and Income Tax from your employees’ salary. You have to keep these amounts separate from the operating funds of your business, and protect them from insolvency. If you fail to pay, the government can garnishee your trade receivables, bank deposits and loans, or even seize and sell assets.

**CONTRACT WORKERS**

Some employers try to sidestep the payroll tax system by engaging independent contractors instead of hiring full-time employees. These contract workers invoice the employer and become responsible for their own tax payment. They are not entitled to pension, benefits, vacation time or vacation pay. If business is bad, you can simply discontinue their services.

It sounds like a good deal, and it can be. The government, however, protects its payroll tax revenue by determining whether your contract workers are really full-time workers masquerading as independents. If an employment audit finds this is true, you could be liable for back taxes, plus interest and penalties.

To determine whether an individual is an employee or a self-employed worker, the CRA has to analyze the factual working relationship between the worker and the payer. Over time, the courts have established four criteria to use during this process:

**Control:** The right of the payer to exercise control over the worker.

**Tools and equipment:** Who supplies the tools and equipment the worker needs to complete the task?
**Chance of profit/Risk of loss:** What degree of financial risk is taken on by the worker? What is the degree of responsibility for investment and management held by the worker? What is the worker’s opportunity for profit and risk of financial loss in performing his or her tasks?

**Integration:** Was the worker performing the services as a person in business on his or her own account? Is the worker operating his or her own business, or is his or her work performed as an integral part of the payer’s business?

How do you know when to hire and when to contract? Many businesses hire full-time workers for their core competencies, and contract specialized workers for their non-core requirements. If your business supplies coffee beans, for example, your core competencies might include procurement, roasting, packing, marketing, sales and customer service. Your non-core competencies might include accounting, shipping, maintenance, real estate and legal counsel.

**WORKERS’ COMPENSATION**

Most businesses with employees must be registered with their provincial Workers’ Compensation authority (WCB) and must pay applicable assessments.

Even though it may feel like a tax, workers’ compensation is actually structured like an insurance plan. That means several variables can raise or lower premiums—factors that often quietly change with the passing of time. Many employers have found they can reduce their workers’ compensation costs by reviewing the following factors:

**Classification**

When an employer registers with a provincial Workers’ Compensation authority, the assessment department requires the employer to supply a description of its business operations. The assessment department then classifies the business according to risk and assigns it an assessment rate.

But if an employer’s business changes over time—say a construction company begins to operate a lower-risk retail lumber and builders’ supply business—it can be reclassified. A favourable reclassification can be applied retroactively, so you could recover past overpayments and capitalize on future savings.

**Assessable earnings**

WCB assessments are determined by payroll, but some types of payments may be eligible for exclusion. Employers often overpay their premiums by unintentionally overstating their assessable earnings.

One opportunity frequently missed involves payment to officers of the company. Some provincial authorities require officers’ salaries to be included in the assessment, but in other provinces, like Ontario, officers have the right to opt out for private insurance. Other exclusions can apply as well, so review assessment reporting on a regular basis. Retroactive adjustments are subject to time limitations.

**Manage your experience rating**

Experience rating programs provide a financial incentive for employers to keep a safe work environment. Of course, the main idea here is claims reduction. Unfavourable claims experience not only excludes you from incentive programs, but it can also have a compounding effect on incorrect classification and assessment factors described earlier.

**Manage your claims**

Another means of managing worker’s compensation costs is routinely monitoring an injured workers’ rehabilitation progress and the associated accident costs. Claims management is a function often contracted out by owner-managed companies that lack dedicated human resource staff to make this function cost-effective.