



# **REPORT ON HUMAN RESOURCES MANAGEMENT IN SMALL BUSINESS**

**Local, provincial  
and national review  
and findings**

Prepared by



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# **D INTRODUCTION**

**T**his report examines the human resources function, and its associated challenges and opportunities, in a small- and medium-sized enterprise (SME) environment. It approaches the subject from two broad perspectives that, in turn, define the two main sections of the report.

The first perspective pertains to the local area and focuses on the human resources management issues of local SMEs. The primary source of this information was the Small Business Human Resources Management Survey, which acted as the primary information source from local businesses. Other recent, local research that was conducted has been incorporated into the discussion and analysis of the local situation. In particular, local taxfiler profile data (obtained from the Small Data Division of Statistics Canada) is used to bring background and context into discussions on the general status of the local economy, which includes that of many local small business owners.

The second perspective is primarily a national and provincial one that looks at various aspects of small business human resources management. Most of the research conducted in Canada has a national or provincial focus. This portion of the report is derived from broad research and literature review, and is meant to provide background and discussion of the concepts and issues inherent in small business management of their human resources.

In general, SMEs often lack the time and resources to incorporate and implement HR management 'best practices' in either their strategic planning or daily operations. Consequently, the report explores national and provincial research around small business HR management challenges and opportunities, including recommendations for potential resolution of small business HR issues. The discussion is presented as issue-oriented, and is consequently organized by specific HR function: HR planning, outsourcing, recruitment, retention, workforce development & training, and termination. Each of these functional areas is examined with the focus on pragmatic solutions.

Some of the local HR issues and practices that are discussed include HR challenges of local small businesses, internal vs. external management, including outsourcing, of a broad range of HR functions, and employer-requested HR training and information sessions. Also examined are managerial responsibility for various HR activities, anticipated future HR staffing and budgets, and the incidence of human resources information systems and the functions automated.

Different readers with different perspectives will find, hopefully, useful information in the report: small business owners will identify with the spotlighting of issues they currently face, including the recommendations for potential resolution. Government will benefit from the discussion of where local employers are facing challenges, and the training and information they require. This information could facilitate decisions related to the priorities for government funding, including in the areas of education, training and economic development.

The section on regulatory and information burden may also help to raise awareness of the impact of regulation, and its associated required compliance, on both the overall success and viability of SMEs, and the costs to government of administering these regulations.

The last section includes recommendations for potential approaches to streamlining regulatory compliance and supporting some HR management issues, which could benefit both government and small business.

Finally, this report is one of two documents produced in this local initiative. The other document is a comprehensive Guide to HR services, issues, legislation and programs that is targeted at providing small businesses (and others) with some of the information, education and linkages needed to understand and address important HR matters. This guide can be obtained by contacting the East Central Ontario Training Board.

Special appreciation to our staff: Eric Bloom, primary researcher for this report, and Bonnie DeRushie for all her database and administrative service.

Scott Lawson  
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# HUMAN RESOURCES MANAGEMENT IN THE LOCAL AREA

Just as the economies of rural Canada are dominated by Small and Medium Sized Enterprises (SMEs), so too is the local region which is a main subject of this report (counties of Hastings, Prince Edward and Lennox & Addington). Collectively, small businesses (under 100 for this purpose) employ almost 90% of the regional workforce. Only a few companies have more than 500 employees. Clearly, resolving local small business issues is critical to local economic development and job creation.

The ranking of the region's industry sectors by number of businesses (expressed as a percentage of total businesses in the region) is summarized in the following table.

Ranking of Industry Sectors by Number of Businesses  
ECOTB Region (% of Total Businesses)

Industry Sector	%
Total - All Industry Sectors	100.0
Retail Trade	16.9
Construction	13.8
Other Services (except Public Administration)	10.9
Health Care and Social Assistance	8.2
Accommodation and Food Services	7.6
Professional, Scientific and Technical Services	6.4
Agriculture, Forestry, Fishing and Hunting	5.0
Manufacturing	5.0
Administrative and Support, Waste Management and Remediation Services	4.7
Transportation and Warehousing	4.4
Wholesale Trade	3.9
Real Estate and Rental and Leasing	3.8
Finance and Insurance	3.7
Arts, Entertainment and Recreation	1.7
Information and Cultural Industries	1.0
Educational Services	0.9
Management of Companies and Enterprises	0.8
Public Administration	0.6
Utilities	0.4
Mining and Oil and Gas Extraction	0.2

(Source: Canadian Business Counts, Statistics Canada, December 2005)

The top 5 regional sectors, in terms of number of Small and Medium businesses, are Retail (16.9%), followed by Construction (13.8%), Other Services (10.9%), Health Care & Social Assistance (8.2%), and Accommodation and Food Services (7.6%). At the lower end of the scale, the bottom 5 sectors are Educational Services, Management of Companies and Enterprises, Public Administration, Utilities, and Mining & Oil & Gas Extraction, all having less than 1% of regional SMEs.

When the region's industry sectors are ranked by employment, the results are somewhat different from those obtained when the ranking is based on the number of businesses. The ranking of the region's industry sectors by employment (expressed as a percentage of total employment in the region) is summarized in the following table.

Ranking of Industry Sectors by Employment  
ECOTB Region (% of Total Workforce)

Industry Sector	%
Total Employment, All Industry Sectors	100.0
Retail Trade	18.4
Manufacturing	13.1
Health Care and Social Assistance	10.6
Accommodation and Food Services	9.9
Construction	8.0
Other Services (except Public Administration)	5.4
Transportation and Warehousing	5.2
Administrative and Support, Waste Management and Remediation Services	4.3
Finance and Insurance	4.2
Wholesale Trade	3.8
Professional, Scientific and Technical Services	3.8
Real Estate and Rental and Leasing	2.9
Public Administration	2.2
Agriculture, Forestry, Fishing and Hunting	2.0
Arts, Entertainment and Recreation	1.8
Educational Services	1.7
Information and Cultural Industries	1.2
Management of Companies and Enterprises	0.9
Utilities	0.4
Mining and Oil and Gas Extraction	0.3

(Source: Canadian Business Counts, Statistics Canada, December 2005)

As noted, the top 5 sectors for employment are Retail Trade (18.4% of the regional workforce), Manufacturing (13.1%), Health Care and Social Assistance (10.6%), Accommodation and Food Services (9.9%), and Construction (8.0%). By contrast, the bottom 5 sectors in terms of regional employment are Educational Services (1.7% of the regional workforce), Information and Cultural Industries (1.2%), Management of Companies & Enterprises (0.9%), Utilities (0.4%), and Mining & Oil & Gas Extraction (0.3%).

The primary difference between the two rankings is the appearance of Manufacturing in the top 5 of the ranking by employment. Manufacturing firms only represent 5% of regional businesses, but they collectively employ more than 13% lot of the local labour force, due to the fact that most of the firms have larger workforces than those found in other sectors.

Finally, with respect to the size of businesses within industry sectors, the following table breaks down each sector by the employment size of its component businesses.

Business Employment Size Within Industry Sectors  
ECOTB Region (% of Sector Businesses)

Industry Sector	Employment Range (%)				
	1 to 4	5 to 19	20 to 49	50 to 99	100+
Total - All Industries	59.9	27.6	7.9	2.5	2.1
Agriculture, Forestry, Fishing and Hunting	83.9	14.0	1.8	0.4	0.0
Mining and Oil and Gas Extraction	41.7	41.7	8.3	8.3	0.0
Utilities	52.2	34.8	4.3	8.7	0.0
Construction	72.5	21.8	4.5	0.9	0.3
Manufacturing	42.2	22.7	13.0	10.1	11.9
Wholesale Trade	55.5	34.1	6.8	1.8	1.8
Retail Trade	48.5	36.9	10.4	2.6	1.7
Transportation and Warehousing	58.8	22.4	12.7	3.7	2.4
Information and Cultural Industries	48.3	37.9	6.9	5.2	1.7
Finance and Insurance	52.9	26.5	17.6	1.0	2.0
Real Estate and Rental and Leasing	66.4	25.7	6.1	0.5	1.4
Professional, Scientific and Technical Services	75.4	18.4	4.5	1.4	0.3
Management of Companies and Enterprises	73.3	13.3	6.7	2.2	4.4
Administrative and Support, Waste Management and Remediation Services	61.5	28.2	6.5	1.9	1.9
Educational Services	46.0	34.0	10.0	0.0	10.0
Health Care and Social Assistance	57.6	28.2	5.5	4.8	3.9
Arts, Entertainment and Recreation	50.5	34.0	11.3	3.1	1.0
Accommodation and Food Services	39.0	40.2	15.1	4.0	1.7
Other Services (except Public Administration)	74.1	22.8	2.8	0.2	0.2
Public Administration	0.0	47.1	29.4	5.9	17.6

(Source: Canadian Business Counts, Statistics Canada, December 2005)

Overall, there is an inverse relationship between business size and business numbers i.e. as the business size category increases, the number of businesses within the category decreases. The largest percentage of businesses are in the micro-business range of 1-4 employees (59.9%), followed by the 5 to 19 employee range (27.6%), 20 to 49 range (7.9%), and 50 to 99 range (2.5%). Only 2.1% of regional businesses employ 100 employees or more, while over 95% employ fewer than 50 employees. Clearly, the region's economy is dominated by small businesses.

The sectors with the greatest percentage of businesses that employ in excess of 100 staff are Manufacturing (11.9% of sector businesses), Public Administration (17.6%), and Health Care and Social Assistance (10%). By comparison, the sectors with the greatest percentages of micro-businesses are Agriculture, Forestry, Fishing and Hunting (83.9% of sector businesses), Professional, Scientific and

Technical Services (75.4%), Other Services (74.1%), Management of Companies and Enterprises (73.3%), and Construction (72.5%).

Rates of sole self employment – the percentage of taxpayers who derive all of their income from self employment – are of interest because they provide an indicator of the availability of conventional, ‘paid’ employment in the Region. Paradoxically, higher rates of ‘self-employment only’ correlated with lower self-employment incomes. The result is a greater disparity between conventional ‘paid’ employment incomes and self-employment incomes. This situation strongly suggests that the individuals who are solely self-employed often do so through necessity, rather than choice, primarily due to a shortage of conventional employment. It further highlights the important role that small business (i.e., self-employment) plays in providing employment where none might otherwise exist.

It is also noteworthy that the Region has a significantly higher percentage of solely self-employed taxfilers than the Ontario average. This typically reflects, again, the lower availability of paid employment locally relative to that of the province. Annual taxfiler profile data indicates that in 2003 (the most recent year for which data is available as of this writing), 8.3% of Ontario’s employed tax filers were solely self-employed, while the ECOTB Region had 9.5% solely self-employed.

## Analysis of Local Survey Results

The East Central Ontario Training Board (ECOTB) selected a random sample of 250 SMEs within the Region, stratified to gain responses across various industry sectors, geographies and size of business. Of those surveyed, 85 completed and returned the survey, representing an overall response rate of 34%, a solid return rate for voluntary surveys such as this one.

### Profile Of Survey Respondents

This section of the analysis describes the survey respondents with respect to their industry sector, workforce size and status, legal status, and whether they are unionized.

#### Sectoral Breakdown

The percentage breakdown of survey respondents by industry sector is identified in the following table.

Breakdown of Respondents by Industry Sector (% of Respondents)

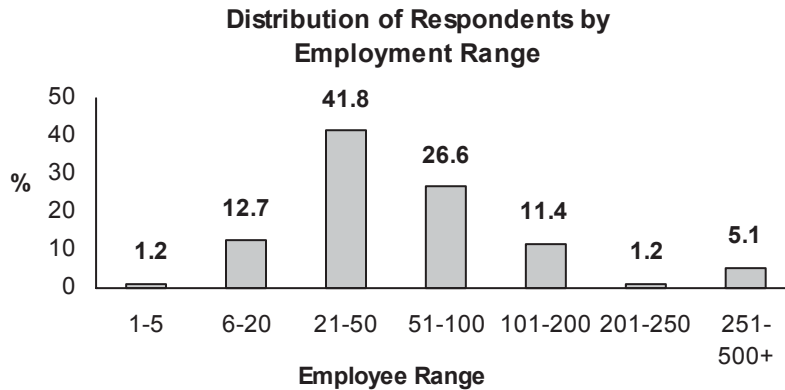
Sector	%
Manufacturing & Processing	25.4
Retail Trade	15.8
Accommodation, Food and Beverage	10.5
Business Services	8.8
Transportation & Storage	8.8
Health & Social Service	7.0
Wholesale Trade	4.4
Finance, Insurance & Real Estate	3.5
Other (please describe):	3.5
Agriculture and Horticulture	2.6
Educational & Training Services	2.6
Logging & Forestry	2.6
Communications & Utilities	1.8
Construction	1.8
Mining	0.9
<b>TOTAL</b>	<b>100</b>

In terms of survey response, the top three sectors were Manufacturing & Processing (25.4% of respondents), Retail Trade (15.8%), and Accommodation, Food & Beverage (10.5%). While this relative ranking is somewhat different than the percentage breakdown of businesses in the Region as a whole, the results were not unexpected given the relatively large size of these sectors in the local economy. Similarly, the lower response rates from Educational & Training Services (2.6%), Logging & Forestry (2.6%), Communications & Utilities (1.8%), and Mining (0.9%) are a consequence of the relatively low numbers of businesses in these sectors throughout the Region.

By contrast, the low response rates for Finance, Insurance & Real Estate (3.5%), Agriculture & Horticulture (2.6%), and Construction (1.8%) was, in fact, genuinely lower than expected given that these sectors are more prominent in the local area.

## Employment

Respondents, collectively, represent an overall workforce of approximately 6800, which represents nearly 10% of the Region's overall SME labour force. In terms of numbers of employees, respondents fell into the following distribution:

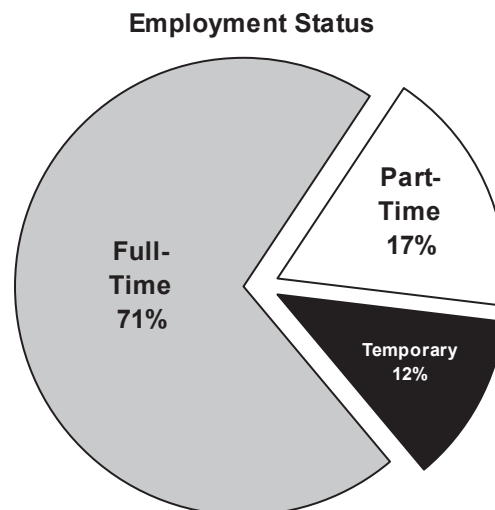


The most common employment range was in the 21-50 employee range (41.8% of respondents), followed by 51-100 employees (26.6%). Only 1.2% of respondents were micro-businesses (5 employees or less). Small businesses (100 employees or less) comprised 82.3% of respondents, while 17.7% were medium-sized (101-500+ employees).

Given that almost 60% of the region's businesses are micro-businesses (as mentioned previously), these operations are underrepresented among survey respondents. The probable reason for this is the relatively lower impact, both actual and perceived, of HR management issues on micro-businesses. Additionally, micro-business owners are experiencing significant time constraints, and tend to be disinclined to complete voluntary surveys given their overall paper burden.

## Employment Status

Overall, 70.7% of the labour force employed by respondents was full-time, while 17.4% and 12% had part-time and temporary status, respectively. Almost 37% of respondents employ workers on a temporary basis at times of the year other than when the survey was conducted, and these workers are factored into the 12% temporary status figure.



The nearly 71% local full-time employment rate compares unfavourably with the overall provincial and national rates at the time the survey was conducted. Canada and Ontario as a whole posted 81.6% and 82.3% full-time employment in February 2006, respectively. (Source: Statistics Canada, Labour Force Survey, February, 2006)

The overall 71% local full-time employment rate can be further broken down and analyzed as per the following table.

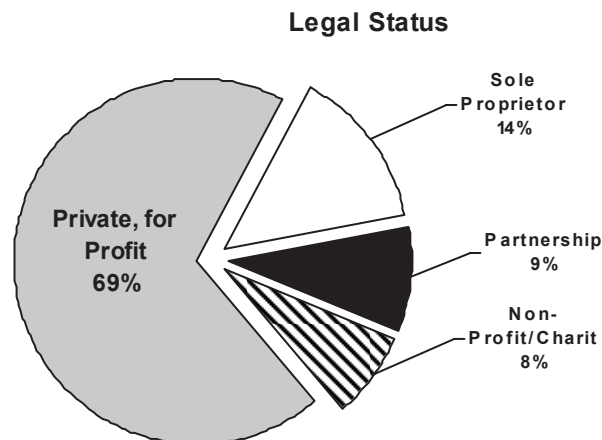
Breakdown of Respondents by % of Full-Time Employees

Full-Time Rate (% Range)	% of Respondents
0 - 10	6.3
11 - 30	8.9
31 - 50	16.4
51 - 75	12.7
76 - 90	13.9
91 - 99	11.4
100	30.4
<b>TOTAL</b>	<b>100</b>

Over 30% of respondents (the largest category) employ their entire workforce on a full-time basis, while almost 56% of respondents provide full-time employment to a minimum of three quarters of their employees. Almost a third of respondents employ less than half of their employees on a full-time basis, however, suppressing the overall full-time rate. These relatively lower rates of full-time employment contribute to relatively lower local employment incomes and overall economic performance which are found year-over-year in the region.

### Legal Status

Almost 69% of respondents were private, for profit corporations, the most common legal status. Next were sole proprietorships, at over 14%, while approximately 9% of respondents were partnerships. Non-profit/charitable corporations rounded out the list at just under 8%.

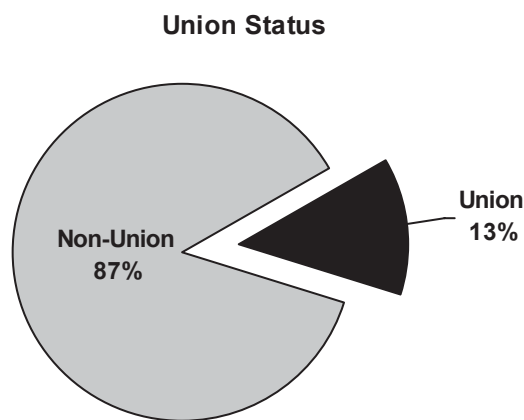


In addition to their legal status, a further 19.5% of respondents were also a division/branch of a larger entity, while just over 18% were franchise operations.

The relatively high percentage of corporate respondents is, at least partially, a function of the relatively low response rate of micro-businesses, which generally tend to be sole-proprietors and not incorporated.

### **Unionization**

The overwhelming majority of respondents (87%) are non-union workplaces, with less than 13% being unionized. This general absence of union shops is reflected in a relative lack of local significance for collective bargaining sessions and other regulatory and legal requirements of a unionized work place. This, in turn, can limit local requirements for some external HR services – usually legal and management oriented – related to collective bargaining, arbitration, and union relations in general, as is noted in the External vs. Internal Management section of the following analysis.



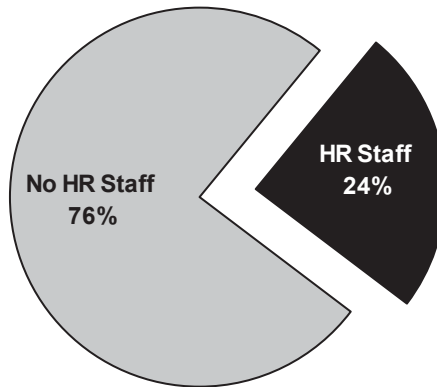
### **Human Resources Management**

This section examines respondents' HR practices. These include internal responsibility for management of HR functions, the involvement and qualifications of dedicated HR staff, and anticipated future HR staffing, issues and budgets. Also examined are outsourcing and the use of external consultants, the prominence and use of Human Resources Information Systems (HRIS), and the HR challenges of local small businesses. Finally, requested topics for local HR training/information sessions, and local membership in HR associations are also included.

#### **Dedicated HR Staff**

Over three quarters of respondents (75.9%), have no dedicated HR staff positions. In these companies, a variety of line, administrative, general, and owner managers handle the main HR functions, with responsibilities often spread out over several individuals.

### Presence of Dedicated HR Staff



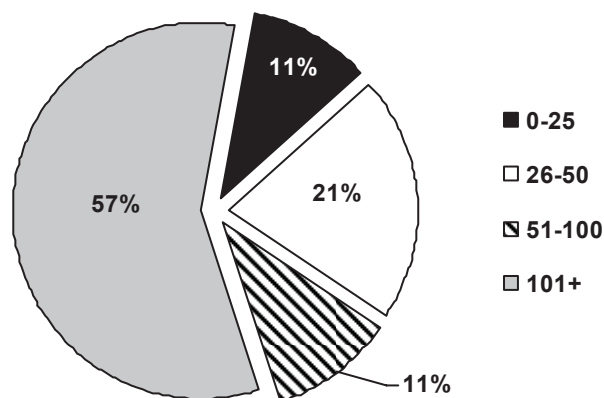
Research indicates that most small businesses, typically, need one-half day per week of support from an HR manager or advisor on an as needed basis. The average length of time spent by respondents in managing HR functions is over 9 hours per week, or the equivalent of approximately one working day for one manager. The median is significantly less, at 5 hours per week (which still represents over half a day). In the absence of dedicated HR staff, a significant amount of management time that would otherwise be dedicated to the manager's area of primary responsibility is being focused on company HR requirements.

The difference between the average and median values is a consequence of the greater HR management burden in relatively larger companies, including those lacking dedicated HR staff. A large number of respondents are smaller, and spend relatively less time on HR management, lowering the median relative to the average. Conversely, the larger-sized respondents spend relatively more time on HR management, raising the average relative to the median. At any rate, respondents' HR management is consuming a significant amount of managers' time, regardless of company size.

Research indicates that most companies consider adding formal HR departments when they reach 30-60 employees in size. Local results are comparable to those cited in most research literature. While the majority (57%) of respondents with dedicated HR staff have in excess of 100 employees, almost 32% have 50 employees or less.

Among the respondents who have dedicated HR staff, the breakdown by employment size is listed in the following chart.

### Breakdown of Respondents With HR Staff by Number of Employees



Among the 76% of respondents who do not currently have dedicated HR staff, the vast majority (97.5%) have no plans to hire HR staff over the next 2 years.

Research has shown that the ratio of total employees to HR staff size for companies is relatively high. Even in large organizations, the average employment to HR staff ratio is around 120:1. (120 employees for every HR staff position). Locally, the average employee to HR staff ratio is 81:1, as respondents had generally lower numbers of employees per each HR staff position than is typically reported in the research literature. There was wide variability among respondents, however; the range of this ratio varied from a low of 13:1 to a high of 225:1.

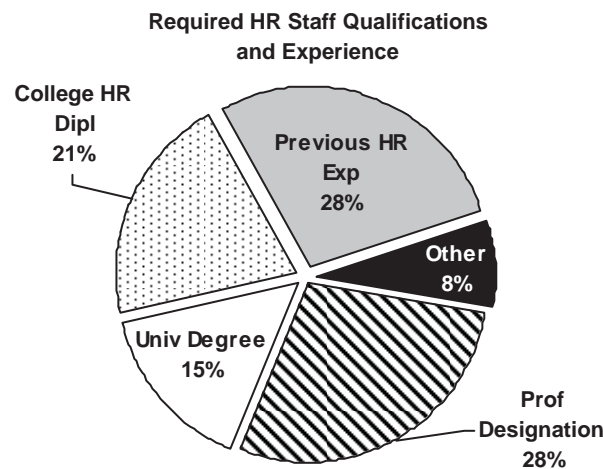
The breakdown of respondents by employment: HR staff ratio is summarized in the following table.

Local Employees to HR Staff Ratios

Number of Employees Per Single HR Staff Position	% of Respondents
1 - 25	15.8
26 - 50	26.3
51 - 100	26.3
101 -150	21.1
151+	10.5

### HR Staff Qualifications

Respondents reported the following requirements for their HR staff in terms of qualifications and experience.



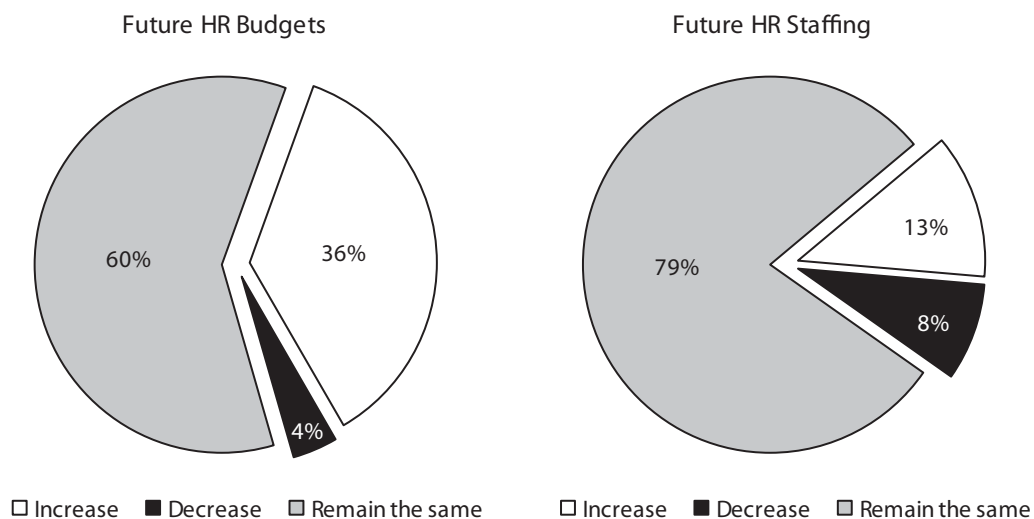
Respondents were most interested in previous HR experience (28% of respondents) and a professional HR designation (28%). A college diploma was acceptable to 21% of respondents, while 15% noted that they require a university degree. Clearly, respondents were rather pragmatic in terms of their requirements, favouring practical, hands-on experience and education for their HR staff.

## Anticipated Future HR Staffing And Budgets

In terms of future HR staffing, most respondents (79.2%) see little change in their situation over the next two-year horizon. A small percentage (12.5%) foresees HR staffing increases, while an even smaller number (8.3%) predict decreases. Overall, respondents without dedicated HR staff plan to continue with their present HR management arrangement for the foreseeable future.

With regard to HR budgets, over a third (36%) of respondents anticipate budget increases over the next 2 years, while only 4% predict budget cuts. A full 60% of respondents, however, foresee no significant changes in HR budgets over the period.

Some respondents anticipate staffing and budget increases, while a large majority predict stability in their HR function over the next 2 years. Significantly, very few respondents anticipate a reduction of their HR activities.



## Internal HR Activities and Responsibilities

Respondents with dedicated HR staff were asked to indicate if various internal HR activities were applicable to their businesses and, if so, who had primary responsibility for handling the matters - HR staff or some other manager/department.

Overall, HR staff has primary responsibility for internal HR activities in over 57% of responses, while 34% of responses indicate responsibility lies elsewhere with another manager or department. Almost 9% of responses fall into the Not Applicable category, which is significant given that these HR activities are often critical to the management of most companies, suggesting that either employers do not require these activities because of their specific circumstances, or they are neglecting important HR management activities that could significantly improve their business operations. All responses are summarized in the following table.

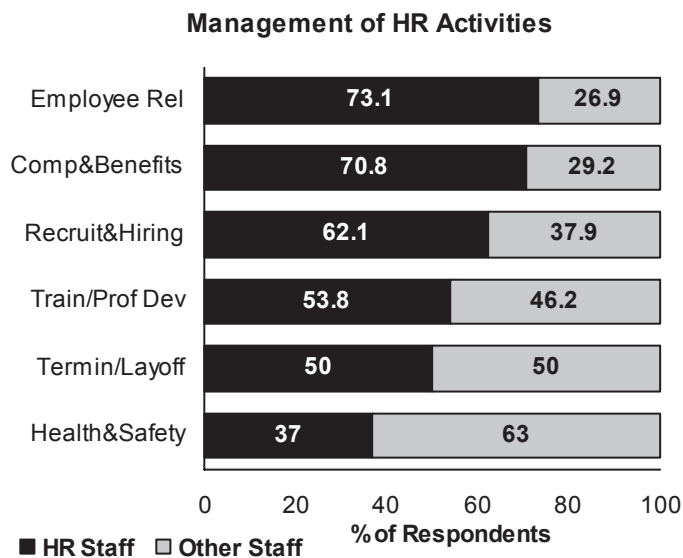
### Responsibility for Management of Internal Hr Activities: (% of Respondents)

HR Activity	HR Manager/ Dept. (%)	Other Manager/ Dept. (%)	Not Applicable (%)
Recruitment & Hiring	62.1	37.9	0.0
Compensation & Benefits	70.8	29.2	0.0
Training/Professional Development	53.8	46.2	0.0
HR Planning	56.5	30.4	13.0
HR Policy Development	75.0	16.7	8.3
HR Generalist Functions/Advice	75.0	20.8	4.2
Employee Relations	73.1	26.9	0.0
Job Analysis & Classification	62.1	27.6	10.3
Occupational Health & Safety	37.0	63.0	0.0
Succession Planning	44.0	48.0	8.0
Performance Management	48.3	48.3	3.4
Termination/Layoff	50.0	50.0	0.0
Collective Bargaining	20.0	4.0	76.0
Legislative Compliance	76.9	19.2	3.8
<b>Overall</b>	<b>57.2</b>	<b>34.0</b>	<b>8.8</b>

#### HR Activities Applicable to All Respondents:

All respondents noted their involvement in the following HR activities: recruitment & hiring, compensation & benefits, training/professional development, employee relations, occupational health & safety, and termination/layoff. HR staff had the greatest responsibility for employee relations (73.1% of respondents), compensation & benefits (70.8%), and recruitment & hiring (62.1%).

By contrast, HR staff had relatively less involvement in the management of training/professional development (53.8% of respondents), termination/layoff (50%), and occupational health and safety (37%). This is summarized in the chart below.

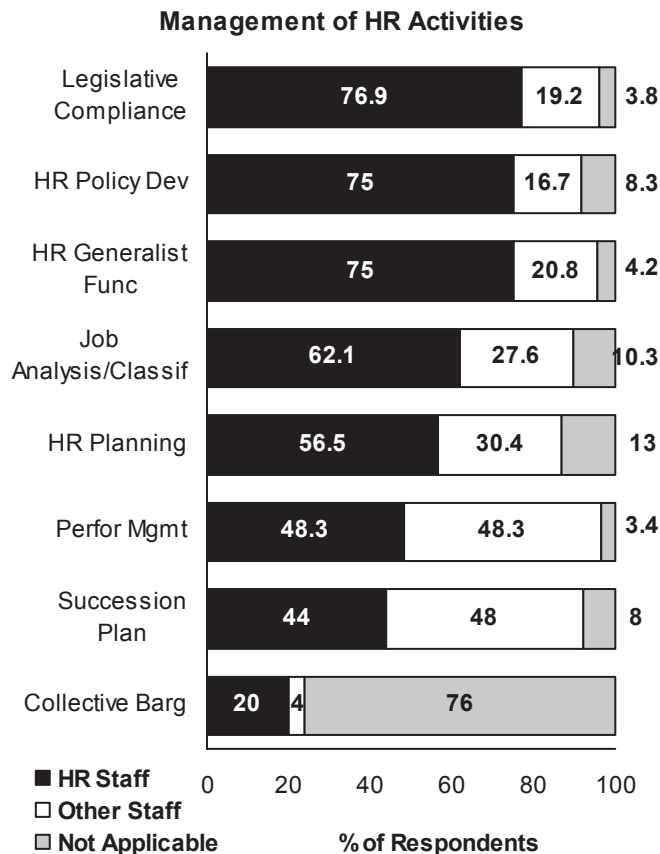


## HR Activities Not Applicable to All Respondents

Some respondents reported the following activities as Not Applicable: collective bargaining (76% of respondents), HR planning (13%), job analysis & classification (10.3%), HR policy development (8.3%), succession planning (8%), HR generalist functions/advice (4.2%), legislative compliance (3.8%), and performance management (3.4%).

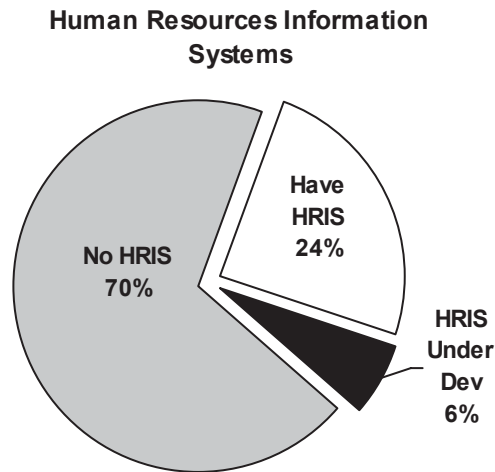
The high rate of non-applicability of collective bargaining was anticipated, reflecting the low incidence of unionization among respondents (less than 13%) previously noted. The number of respondents reporting other HR activities as Not Applicable was relatively low, but raises the question of whether these respondents are not engaged in HR activities they otherwise should be: the importance of these various HR management activities to overall business management is described in detail in the discussion section of the report.

Among this set of activities, HR staff had the greatest responsibility for legislative compliance (76.9% of respondents), HR policy development and HR generalist functions (75%), job analysis & classification (62.1%), and HR planning (56.5%). By contrast, HR staff had relatively less involvement in performance management (48.3% of respondents) and succession planning (44%). Collective bargaining, while reported as Not Applicable by a full 76% of respondents, was almost exclusively managed by HR staff where they existed.



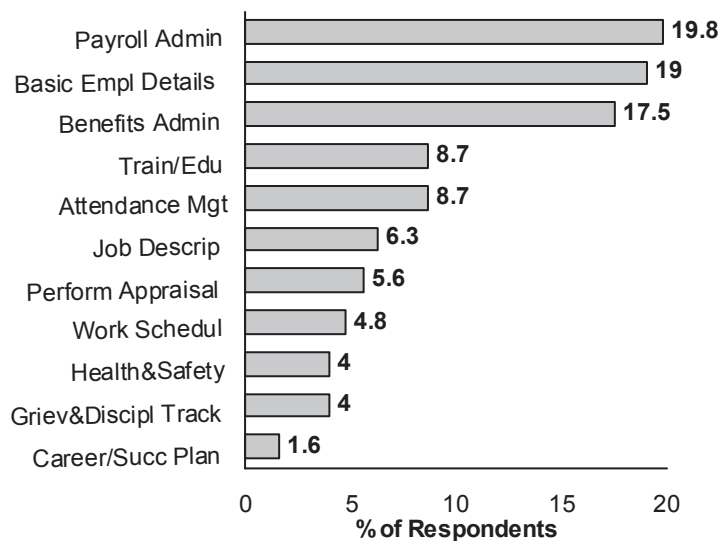
## Human Resources Information Systems (HRIS)

Just under 25% of respondents currently have an HRIS, while a further 6% report having one under development. The large majority of respondents (70%) have no HRIS.



Given the large number of respondents without an HRIS, it may be prudent for these local businesses to explore automation as one means of achieving greater efficiency of HR administration.

### HRIS Administration & Information Activities



Respondents' systems handle a range of HR administrative activities and information requirements to the extent indicated in the following chart. The activities most commonly handled by respondents' HRIS are payroll administration (19.8% of respondents), basic employee details (19%), and benefits administration (17.5%). At the other end of the spectrum are performance appraisal (just 5.6% of respondents), work scheduling (4.8%), health & safety (4%), grievance and discipline tracking (4%), and career/succession planning (1.6%).

Clearly, respondents' systems tend to focus on the fundamental HR administrative functions, while support of HR management level practices is less common. This suggests that at least some respondents are likely under-utilizing their automated systems in terms of the total HR management capabilities.

### External VS Internal HR Management

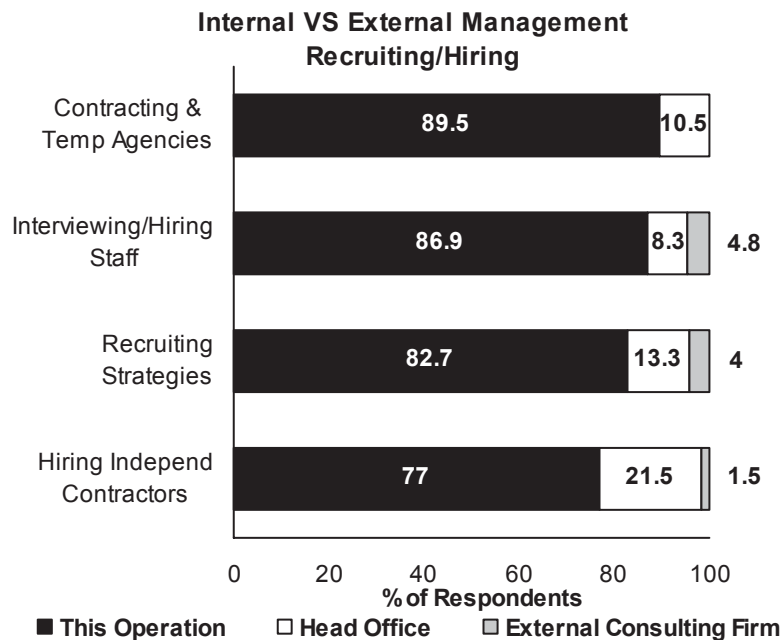
Respondents were asked to identify 'who' currently manages the wide array of common HR functions: the business itself (internal management), a head office (external management), or an external consulting firm (external management, outsourced).

Overall, respondents are handling most of their HR functions themselves, internally. Over three quarters of total responses (75.9%) fell into the internal management category, while less than a fifth (18.2%) indicated external management by a head office. Finally, only 5.9% of responses reported using an external consulting firm. Clearly, respondents are not heavily reliant on, or using, external consulting firms.

This raises the question of whether respondents may be under-utilizing outsourcing as a potential option for dealing with HR management issues. Respondents may be fully compliant with government HR regulations, but they may not be optimizing their use of HR management best practices. Some explanations for this limited use include a lack of appreciation of best practices, limited financial resources, and an absence of local consulting firms capable of providing appropriate HR management support.

### Recruitment/Hiring

Within this broad category, respondents were asked to identify the method used to manage the following functions: recruiting strategies, interviewing/hiring of staff, contracting and temporary agencies, and the hiring of independent contractors. The results are summarized in the following chart.

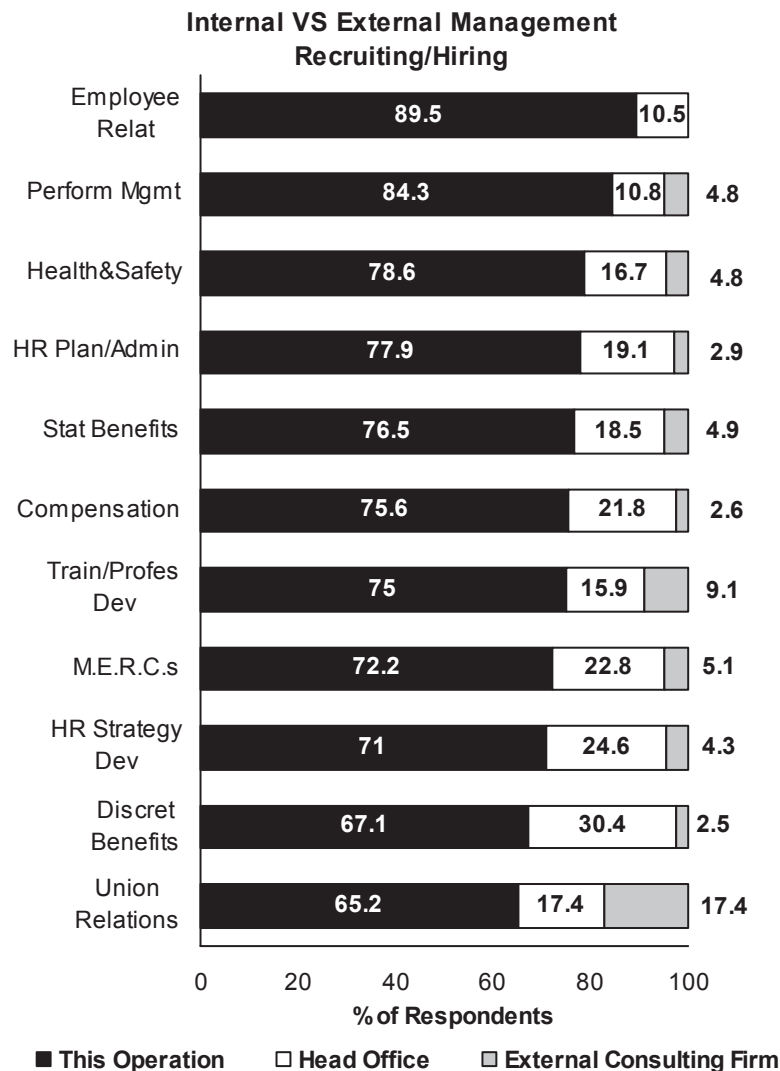


Clearly, respondents manage the noted functions internally, though a small minority of respondents' report that recruiting and hiring functions are primarily handled through their head office. Very few respondents employ external consulting firms in their recruitment and hiring efforts. This is likely due to the relatively high cost of external recruitment services. Many local employers also report difficulties in finding entry-level staff.

Among the relatively few respondents that do use external consulting firms in their recruitment/hiring, the rationale cited included a requirement for temporary employees on an 'as needed' basis, and the wider range of applicants available through external consulting firms.

### Managing

Within this broad category of activities, respondents were asked to identify how they currently manage the following functions: developing an HR strategy, HR planning & administration, compensation, statutory benefits (e.g., vacation, statutory holidays, maternal leave), mandatory employment related costs (e.g., EI, CPP, Workers' Compensation), discretionary benefits (e.g., group health & life, sick days, employer pension plans), health & safety programs (and associated training), employee relations programs, training/professional development, performance management/discipline, and union relations/collective bargaining. The results are summarized in the following chart.



While the great majority of responses indicate primarily internal management of these functions, external management plays a larger role than with recruitment and hiring. The functions most likely to be turned over to external management tend to be those where legal compliance, technical complexity or head office policy (if applicable) predominate: union relations, benefits administration, mandatory employment related costs (M.E.R.C.s), and compensation.

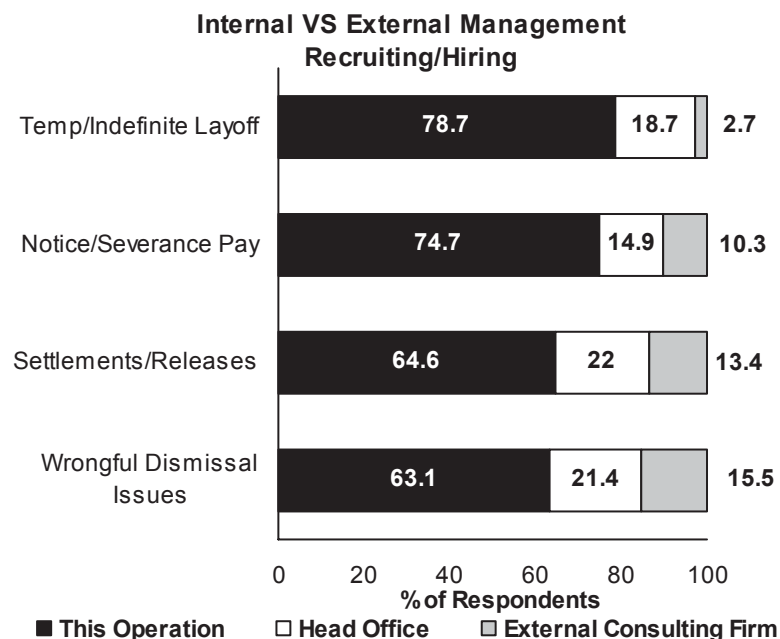
The use of external consultants, while not overwhelming, is nonetheless significant for certain functions, including union relations and collective bargaining (17.4% of unionized respondents), training/professional development (9.1% of respondents), and the administration of M.E.R.C.s (5.1%). Also relevant are handling statutory benefits (4.9%), health and safety (4.8%), and performance management (4.8%). These local results are consistent with the national data discussed in the Outsourcing section in Part I of the report.

Respondents who provided commentary on their rationale for employing external consulting firms most often cited technical and legal considerations related to benefits administration, union relations and collective bargaining. Frequently mentioned as a reason for using external firms was a lack of internal expertise in the following areas: training (e.g., WHMIS, orientation, supervisory), health & safety, and strategic management. A few respondents mentioned a need for compensation comparison data, and the lack of local availability of this information.

Based on respondents' comments, it would appear that both the costs of external consulting services and a lack of awareness of HR management issues/opportunities are precluding greater use of external consulting firms.

### Termination

Finally, respondents were asked how they manage the functions related to termination: wrongful dismissal issues, notice & severance pay, temporary or indefinite layoff, and settlements and releases. The results are summarized in the chart below.



It is not surprising that this set of HR functions is generally managed externally more than most of the previously reviewed HR functions. A company's potential liability and legal exposure in termination cases, and the specialized legal advice required for appropriate resolution are sound rationale for using external experts. Wrongful dismissal issues, and settlements and releases were managed externally by 37% and 35% of respondents respectively, the most of any HR functions examined. Notice & severance pay (25% of respondents) and temporary/indefinite layoff (21%) were also managed externally to a significant extent.

With regard to the use of external consultants, only union relations (at 17.4% of the respondents that have unions) were outsourced more than the termination functions (except for temporary/indefinite layoff). Wrongful dismissal issues (15.5% of respondents), settlements & releases (13.4%), and notice & severance pay (10.3%) were all outsourced to external consulting firms by a relatively high percentage of respondents.

Not surprisingly, respondents' comments around the rationale for outsourcing various HR functions most often referred to the legal aspects of those functions. Two thirds of respondents who provided commentary about their outsourcing activities employed law firms or other legal advisors. Many mentioned termination specifically, while others mentioned union negotiations and collective bargaining as reasons for seeking legal advice.

Temporary and indefinite layoff was managed internally by almost 79% of respondents, which suggests that respondents feel experienced with this aspect of termination.

## Local HR Training & Information Sessions - Requested Topics

Respondents cited a broad range of topics for which they would like to see local information/training sessions. These are outlined below:

- ▶ Legislative compliance
  - Remittances, documentation, forms completion
- ▶ Strategic HR Planning
- ▶ Performance management
  - Performance metrics
- ▶ Recruitment & Hiring
  - Interviewing
- ▶ Retention
  - Employee relations
  - Compensation & Benefits
- ▶ Local compensation surveys
- ▶ Leave - sick, compassionate, paternity
  - Employee motivation
- ▶ Training & Professional development
  - Management training
  - Customer service
- ▶ Health & Safety
  - WSIB training (Ministry of Labour)
  - JHSC training
  - WHMIS
  - First Aid Certification/CPR
- ▶ Disability management
  - Short-term disability
  - Long-term disability
- ▶ Attendance/absenteeism management
- ▶ Employment law
  - General
  - Employment Standards
- ▶ Termination
- ▶ Statutory holidays
- ▶ Termination/layoff
  - Wrongful dismissal
  - Settlements & releases/severances
  - Relevant employment law
- ▶ Succession planning
- ▶ Government HR Programs

Clearly, there is broad interest in a wide range of HR-related topics, and the provision of appropriate information sessions should be generally well received by the local small business community.

## HR Challenges Of Local Small Businesses

Most of the challenges of local small businesses closely mirror those examined in the discussion section of this report. Respondents cited the following challenges as having the most impact on their businesses:

- ▶ Legislative compliance
  - Staying current with changing government regulations and standards
  - The Employment Standards Act
  - Record keeping
- ▶ Basic HR management practices
- ▶ HR responsibilities fragmented over several managers, not coordinated
- ▶ HR planning & strategy development
- ▶ Job description development
- ▶ Maintenance and update of the employee policy manual
- ▶ Recruitment
  - Finding qualified employees/skilled labour shortages, including professional staff
  - Recruiting part time/seasonal/low wage staff
- ▶ Retention
  - Turnover, especially in low wage settings
  - Work ethic, especially among youth
  - Work/life balance, including the promotion of wellness
  - Employee/labour relations

- Employee communications
- Union relations
- Contract Negotiations
- Employee motivation
- Change management
  - Compensation & benefits
- Remaining competitive re compensation of skilled labour
- Costs
- Contract negotiations
- Training
  - Costs
  - Time involved
  - Lost production due to training
- Health & safety
  - Keeping current with legislative changes
  - Training (including WHMIS)
- Termination/layoff
  - Seasonal layoffs
- Performance management
- Attendance & absenteeism management
- Succession planning
- Workplace bylaws (e.g., smoking)

Ironically, in spite of the extensive list of challenges noted above (and high response rate to the question), relatively few respondents indicated that there are HR functions that their businesses are not currently implementing even though they expressed a need. Either respondents feel that their current HR functions are not adequately addressing the challenges reported, or there is a disconnect between the HR challenges respondents identify for their businesses and the HR functions they perceive as required to address those challenges.

Those respondents that did answer the question identified the following HR functions as requiring implementation in their operations:

- HR policy enforcement
- HR planning
- HR department performance measurement (performance metrics)
- Job and Employee evaluations
- Performance management
- Training strategies
- Disability management, particularly short-term disability
- Employee recognition

## **HR Associations**

Only 21.5% of respondents hold memberships in some type of HR association, and, for those that do, the organization overwhelmingly cited is the local chapter of Human Resources Professionals Association of Ontario (HRPAO). Also frequently mentioned is The Canadian Payroll Association. Other organizations cited include The Human Resources Advisors for Ontario Employers, The Ontario Manufacturers Human Resources Association, The Textile Human Resources Council, and Registered Professional Recruitment (RPR). The low rate of membership suggests that many local businesses should investigate whether HR association membership is a potential support in helping them address HR challenges.

# **D SMALL BUSINESS HR MATTERS – A NATIONAL AND PROVINCIAL OVERVIEW**

The importance of small business to the Canadian economy cannot be over emphasized. At every level of the economy - national, provincial, regional, and local - small business is crucial to both job creation and economic development. This is particularly the case in rural areas, where almost all business is small business.

The human resources (HR) function is of critical importance to any and all businesses, but is especially so for small- and medium-sized enterprises (SMEs). Larger organizations, with relatively higher levels of human and financial capital, can usually get away with a certain degree of inefficiency in their HR staffing. This is not the case for small businesses. With relatively limited financial resources and tight profit margins, small businesses simply cannot afford to carry any excess 'baggage' in their staffing. Typically, employees of SMEs often fill multiple roles within their companies, wearing various hats and completing a wide array of tasks involving a multitude of skills. They may often be highly skilled in a variety of areas and capable of independent action and, often, make critical decisions under tight deadlines in a highly competitive business environment.

Therefore, given the importance of small business to the economy, and the importance of the human resources function to small business, it is logical to examine the challenges and opportunities of human resource practice in a small business environment. The following discussion approaches the subject from two major perspectives. The first involves an examination of the challenges small businesses face in complying with legally mandated requirements flowing from human resources legislation. The second perspective reflects the challenges and opportunities associated with the adoption of human resources 'best practices' in a small business environment, where time and financial resources are at a premium, and where a certain degree of creativity and innovation are consequently required for the optimization of the HR function.

## **Small Business - The Backbone Of The Economy**

The immense size of the Canadian small business sector, and its tremendous impact on the Canadian economy, necessitate an examination of the requirements, challenges and opportunities of the small business sector, including those related to human resources. Addressing small business human resources issues is therefore essential to economic improvement and economic development.

What constitutes a small business? It is important to first define when a business qualifies as 'small'. The size of a business can be defined in numerous ways, including the magnitude of its annual gross or net revenue, the volume of its annual sales, the size of its assets or the number of its employees.

Canada has often used a definition based on the number of employees. The term 'SME' (for small and medium-sized enterprise), refers to businesses with fewer than 500 employees, while companies with 500 or more employees are defined as large businesses. Goods-producing businesses are defined as 'small' if they have fewer than 100 employees, while for service providers, the cut-off point is 50 employees. Above that size, and up to 499 employees, a company is considered medium-sized. The smallest of small businesses are called 'micro-enterprises', and are usually defined as having fewer than five employees. Almost 99% of the 2.4 million businesses in Canada (2005) had fewer than 100 employees.<sup>1</sup>

# Economic Impact Of Small Business

## Employment

According to Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH), on average in 2004, just over 5.0 million employees who were on payroll, or 49% of the total private labour force, worked for small enterprises (defined as fewer than 100 employees). Over 1.6 million, or 16%, worked for medium-sized enterprises (100 to 499 employees). In total, therefore, SMEs employed close to 6.7 million, or 65%, of all employees in the private sector covered by SEPH. (Self-employed persons who are not on a payroll are not included in these figures, nor are employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services).

Almost 3 million Canadians are currently self-employed - more than one person out of every six in the work force. Among these business owners, almost one million operate incorporated businesses, of which 78% have fewer than five employees and 97% employ fewer than 50 people.

The strong expansion in Canada's entrepreneurial sector continued in 2005, when self-employment created more than two-thirds of the new private sector positions in the economy (approximately 80,000 jobs). During the year ending March 2005, small business generated one-quarter of all new paid-employment positions in the economy.

The retail trade industry experienced a notable increase in small business hiring in 2005, reflecting the dominance of small businesses in this industry and the fact that consumer spending was the main force driving the economy. Interestingly, the recent growth in small business employees was limited almost exclusively to young workers (between the ages of 15 and 24) and those over the age of 45.

The distribution of employment by size of firm varies considerably across industries. Small businesses account for over two thirds of employment in four industries: the non-institutional health care sector (90%), construction industry (77%), other services (73%), and accommodation and food (69%). Industries that had the largest number of employees working for small firms were, in order of magnitude, retail trade (0.79 million), accommodation and food (0.65 million), manufacturing (0.64 million), construction (0.52 million), wholesale trade (0.41 million) and professional services (0.40 million). These industries alone accounted for 68% of all jobs in small firms in Canada.<sup>2</sup>

According to a CIBC report, between June 2001 and June 2002, employment in firms with fewer than 20 employees grew by 2.8%, as compared to 1.2% growth in firms with 500+ employees. Indeed, small business provided just less than 40% of all new jobs in Canada during that one-year period. Moreover, small businesses are hiring workers downsized by major corporations.<sup>3</sup>

The chronic problem of labour shortages among small businesses persists. In a 2002 survey, the Canadian Federation of Independent Business found that there were still 265,000 small business job vacancies in Canada, with 185,000 of them being open for at least 4 months. Twenty six percent of small business in 2002 had at least one job vacancy due to a lack of skilled labour. This continued shortage is preventing small business economic growth from reaching its full potential.<sup>3</sup>

## Business Creation

Successful economies have been shown to have high levels of new business creation and the ability to allow small firms to grow into larger ones. The past two decades have seen tremendous growth in the creation of new small businesses in Canada. More than half (55.7%) of these businesses were classified as 'indeterminate' - businesses that do not maintain employee payrolls, but have a workforce that consists of contract workers, part-time employees, family members or business owners. These smallest of small businesses are the prime drivers of small business growth in Canada. Increasing at nearly double the rate of the sector as a whole, there were 161,104 more businesses that were 'indeterminate' in 2001 than in the previous year.<sup>3</sup>

From June 2001 to June 2002, growth in the small business sector was not limited to numbers of businesses; overall economic activity within the sector expanded greatly. According to the CIBC Small Business Economic Index, during the first 4 months of 2002, small business activity increased by 8.2%, thereby outperforming the economy as a whole by 1.3%. In the manufacturing sector alone, the percentage of small businesses reporting increased production levels jumped from 28% in the 4th quarter of 2001 to 41% in the 2nd quarter of 2002, while the percentage of firms reporting increased orders also rose from 16% to 28%.

## Gross Domestic Product

Gross Domestic Product (GDP) is a key measure of economic activity. Because it avoids double counting by measuring unduplicated value added, GDP is considered more useful for gauging economic performance compared to employment, revenue, or business counts.

The Organisation for Economic Co-operation and Development (OECD) has published estimates of the contribution to GDP by small and medium-sized businesses in member countries. Its 2000 Canada profile (based on 1998 data) indicated that 43% of private sector GDP can be attributed to SMEs, where SMEs are defined as businesses with fewer than 500 employees.<sup>4</sup>

Small Business Contribution to Total GDP by Geography, 1993 to 2003

Geography	Contribution to Total GDP (percent)										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Ontario	22	22	24	23	22	22	22	22	23	23	23
Canada	25	24	26	25	24	24	23	23	24	25	24

*Strategis/Industry Canada, Key Small Business Statistics, July 2005*

Small businesses are defined here as businesses with fewer than 50 employees, plus those operated by the self-employed with no paid employees.

## Innovation

Innovation represents the quickest way to boost productivity and economic growth. One measure of innovation is the amount of research and development (R&D) expenditures a firm undertakes. Statistics on Scientific Research and Experimental Development tax credits reveal two facts about innovation by SMEs: they spend far less than large firms do in terms of absolute amounts, but, as a percentage of revenue, SME spending on innovation greatly surpasses that of large firms.

Statistics Canada reports that in 2002, nearly 9000 firms spent over \$12 billion on R&D. Of the total R&D spending, close to 20% came from some 7770 firms with fewer than 100 employees, or an average of \$330,000 per small business. On the other hand, just 288 large firms accounted for 60% of total R&D expenditures, an average of \$25.6 million per firm.

## Exporting

Exporting is essential to Canada's economy, representing more than 40% of GDP in recent years. Exports can drive economic growth and are strongly correlated with real growth of GDP. Exporting can also grow a firm by expanding its market internationally.

In 2002, nearly 85% of Canadian exporters were small businesses (defined as enterprises with fewer than 100 employees). Small businesses accounted for 20% of the total value of exports in 2002, with an average value of \$2.3 million. Medium-sized businesses represented 15%, with an average value of \$11.8 million, while large businesses accounted for 64%, with an average value of \$194.5 million in exports. SMEs clearly do make a significant contribution to Canada's exports.<sup>5</sup>

The proportion of small businesses that export is lower than the proportion of small businesses in the overall economy. Only 1.4% of small businesses export, while 27.0% of medium and 37.7% of large businesses are involved in exporting.

Start-ups and small companies are not only essential to economic development; they provide an important social function in local communities. Small, local businesses create a sense of community and represent the heart and soul of the economy. However, small firms can no longer be considered solely local players in their local economies; new technologies and innovative operations allow many small firms to participate internationally.

## Regulation, Compliance And Paper Burden

*"For too long, small businesses have been overwhelmed by requests for information from all levels of government. They have been forced to spend too much time filling in forms and shuffling paper - time better spent growing their businesses and creating employment. While much of the information collected by governments is necessary to carry out their functions (for example, collecting taxes and minimizing overpayment of entitlements), and some of the information is useful to small businesses (for example, providing important information on economic performance, identifying emerging opportunities or furnishing information on new technologies) the cumulative information burden was simply too great".*

*Art Eggleton  
Former President  
Treasury Board of Canada*

## Overview

**S**mall businesses are the most innovative and successful creators of employment and opportunity. Ninety nine percent (99%) of all Canadian businesses have fewer than 100 employees, generate almost all net job creation, and account for about 37% of Canada's economic output. However,

too much paperwork and too many regulations can negatively affect their competitiveness. In the opinion of many businesses and business advocates, government departments have failed to effectively coordinate their individual requests for information, producing a cumulative burden that takes significant time – and cost – from business operations.

While it is convenient to consider the time and cost of business compliance with human resources legislation and regulation in isolation, the reality is that human resources regulations are but one significant component of total regulatory burden. Therefore, an examination of the impact of human resources regulatory burden requires a consideration of the total regulatory and associated compliance burden imposed on small businesses.

Regulatory burden is a consequence of the intervention of government in the operations of business, and the effect of regulations that hurt competitiveness. It includes the costs involved in complying with regulatory requirements, and the administrative hurdles, lack of customer service, delays, uncertainties and frustration involved in dealing with a public bureaucracy.

Information burden refers to the time and costs involved in complying with government requirements to supply information. It includes the time and cost associated with the collection, processing and reporting of information, as well as the cost of retaining records.

In a recent survey of 710 businesses, firms with fewer than 50 employees reported spending, on average, between \$10,000 and \$15,500 each year to meet major federal government information requirements. Businesses in the survey with fewer than five employees spend, on average, just over 8 per cent of revenue on federal information requirements, while those with 5 to 19 employees spend about 3.8 per cent of their revenue. The proportion further declines as the size of the company increases. (1)

The study also found wide variation in costs between companies in different sectors. For example, firms in mining, agriculture, fishing and transportation reported higher average costs. These sectors are relatively prominent in rural communities. Frequency of reporting (for example, payroll) also increased the cost of doing business, as did the use of manual – as opposed to automated – systems for tax and payroll information. Significantly, a high proportion of small firms continue to use manual systems. Clearly, these costs constitute a major impediment to the productivity and bottom line results of small businesses.

Government burden has a cumulative effect. New demands are continually being added, with few eliminated, costing businesses time and money. Businesses are forced to spend time they generally cannot afford in order to research and comply with regulations. Business competitiveness is compromised when regulatory information requirements create inefficiencies, reduce flexibility and impede innovation. This burden is particularly heavy for small businesses that do not have the resources, the personnel, the time or the information to respond to the increasing and varied demands of government.

Human resources legislation creates a significant component of government burden. The human resources 'department' for a small business usually consists of one employee who would be responsible for any or all of the following:

- Compensation and benefits (job analysis, evaluation, payroll)
- HR management (policies and procedures, budgeting, strategic planning)
- Employee relations (discipline, discrimination, harassment, absenteeism, conflict resolution)
- Legal issues (firing, legislation, workers' compensation)

- Staffing (recruitment, selection, retention, employment contracts)
- HRIS (product/vendor selection, employee portals, implementation of HR systems)
- Training (new employee orientation, needs assessment, evaluation)

While an HR generalist may know a bit about everything, this level of expertise may be inadequate when a company is faced with an audit, an investigation by a government agency, or litigation. A wrong decision about an employment or employee issue can have significant consequences. One way of dealing with HR challenges is to outsource the problems to experts, but few small businesses have the resources to keep consultants and attorneys on retainer. HR staff can receive additional training in specific areas, providing the company can afford it, but few small businesses can hire in-house specialists.

It is conservatively estimated that regulatory compliance costs the economy approximately \$30 billion annually and requires well over 20,000 federal government employees for its administration. The impact on business is often lost jobs, lost investment, lost opportunities and lost entrepreneurial initiative.<sup>6</sup>

Reducing government burden is advantageous to both business and government. Lessening the burden will not only lead to greater business productivity, investment and jobs, but will also lower the current levels of government intervention in the economy, an expensive cost that even some levels of government can no longer afford.

From a small business perspective, government regulation is costly and often unnecessary. Small businesses are fundamentally different from big businesses in terms of structure, human resources and financing, but the distinction is not reflected in government regulatory policy. Moreover, as long as information is provided as a free commodity, government will not appreciate the cost to businesses of providing it. Many small businesses feel they can no longer afford to routinely accept government demands as merely a cost of doing business.

Small business is also concerned with disproportionate penalties, a lack of interdepartmental coordination with regard to regulatory information requirements, and the cost of accessing government programs that often exceed the cost of business simply doing it itself.

Reductions in government burden may require new, reengineered systems, and not just a reworking of inefficient existing systems. Governments need to focus on customer service excellence, and replacing complicated calculations with reasonable estimates (for example, the GST Quick Method) that save time through reduced regulatory compliance complexity.

Small businesses must be given the flexibility to determine how best to meet government expectations: if business is to collect information for governments, it should be allowed to determine how that information is collected.

## **The Regulatory Burden**

Running a small business can be a challenging undertaking. In addition to the issues of managing day-to-day operations, business owners must ensure that they understand and are adhering to a multitude of regulations from all levels of government.

Human resources-based regulatory requirements include employment standards, health and safety standards, privacy standards, the remittance of payroll taxes, and Statistics Canada requests for employment information. Compliance with these requirements comes on top of other regulatory requirements, including business licensing, environmental standards, the collection and remittance of provincial and federal sales tax, the remittance of corporate income tax, and the remittance of property taxes. The impact on small business is rarely considered when regulations are established. Small businesses are relatively vulnerable to the effects of regulations, while larger businesses can more easily absorb or distribute the workload imposed by government requirements.

As with some government spending, a certain level of regulatory activity benefits the economy. Too much, however, can stifle economic growth and minimize job creation. Most people, including small business owners, see regulations as a balance between protecting people or the environment while creating fair ground rules for businesses and consumers. However, a regulation becomes a burden the moment its costs (paperwork, compliance, jobs) outweigh its benefits.

The cost of regulation is not readily apparent. Unlike taxation and government spending, most of the cost of regulation is indirect - the only expense that governments incur is the cost of administering regulation, including additional staff. Businesses and individuals must spend time and money to comply with the regulation. These costs are not reported or measured by government, making regulation equivalent to hidden taxation.

Conservative estimates suggest that for every \$1 the government spends to administer regulation, the private sector spends \$20 to comply. Using this methodology, the private sector spent a staggering \$103 billion or \$13,700 for each family of four (or \$9,292 for each family of 2.59 - the average household size according to Statistics Canada) to comply with federal and provincial regulation in Canada in 1997/98.<sup>7</sup>

Consequently, governments have continued to impose an unmeasured and relatively invisible burden on businesses and the economy. Some regulation is clearly necessary and even beneficial, but excessive regulation results in standards of living that are lower than they could otherwise be. For existing businesses, too much bureaucracy means lower profitability and less time and money to expand operations, while some businesses never start at all due to the cost of regulation. Excessive regulation in one jurisdiction relative to another reduces investment, job creation and tax revenue in the more highly regulated area. For consumers, too much regulation means higher prices and less choice. Even governments suffer: regulators themselves must struggle to understand, communicate, and enforce rules, taking resources away from other priorities.

Regulation creates very specific problems for small businesses. In addition to high costs of compliance, government requirements are often unclear with respect to interpretation, timing of compliance, reporting, and enforcement. Regulations are often seen as redundant, reduce flexibility and innovative capabilities, and are often incompatible with prevailing market conditions, business-practices, or efficient administration. Regulations are often incompatible with the requirements of other domestic or international jurisdictions and of other regulating bodies. Government regulation trailed only the total tax burden as the major business issue identified by 68% of PEI small businesses in a 2004 study.<sup>8</sup>

While governments acknowledge, in principle, that too much regulation poses serious problems for businesses and society as a whole, initiatives to introduce accountability and transparency to the regulation process have often been ineffective and short-lived. For every regulation that governments eliminate or streamline, others often take their place. Both small business and government would benefit significantly if advice could be given to pertinent regulatory bodies on issues that affect small businesses and have the potential to adversely affect small business programs.

Many regulatory reform initiatives are aimed at the entire business community, which is seen by government as a homogeneous entity. Small business is very different from big business, and requires flexibility in compliance. Individual businesses, not governments, are often in the best position to determine how to meet regulatory objectives, including those associated with HR legislation, in the most effective and efficient manner, taking into consideration the particular circumstances of their businesses.

Close to 75% of Canadian businesses are microbusinesses, employing less than five employees. For these microbusinesses, it is not feasible to devote a single person to ensure regulatory compliance. Instead, it usually falls to the business owner to deal with these matters, usually after hours or on weekends.

Studies show that regulation has a negative effect on smaller businesses, putting them at a competitive disadvantage relative to their larger counterparts. According to a recent multi-nation OECD study, businesses with 1-19 employees spent US\$4,600 per employee per year, while businesses with 20-49 employees spent US\$1,500 per employee per year, and businesses with 50-500 employees spent an average of US\$900 per employee per year to comply with regulation.<sup>9</sup> A recent study of Quebec businesses supported these findings, where businesses with fewer than four employees spent \$11,814 per employee while businesses with 100 or more employees spent \$671 per employee.<sup>9</sup>

The USA and the European Union both have a small business charter on regulations, which should be considered for Canada and Ontario. The purpose of the charter is to ensure that government officials always consider the impact of their decisions on small businesses. Both the American Small Business Act and the European Charter recognize that smaller businesses often face a much higher compliance burden relative to larger businesses.

In a 2004 Canadian Federation of Independent Business survey, 79% of SMEs supported the creation of a Small Business Charter on Regulation. Key features included a business impact test that government must conduct before introducing or amending regulations, and regular government-industry forums where participants work towards smarter regulation.

The CFIB suggests the following ten-point list of recommendations for regulatory reform:

1. Measure the regulatory burden - Measuring the regulatory burden is not easy since much of the cost is hidden, but developing a reasonable estimate of the cost of regulation should be a high priority.
2. Publicly report measures taken - Real accountability requires public reporting and ongoing measurement that will allow the regulatory burden to be tracked over time.
3. Impose regulatory limits - Businesses have limited time and money to cope with regulation. Regulators must recognize these limits, prioritize, and impose some restraint on their own regulating. As businesses become less overwhelmed with rules, compliance with truly important regulations should improve.
4. Communicate existing and proposed regulations - Small business owners expect government agencies to provide straightforward advice regarding regulatory compliance in a timely manner. The onus should be placed on regulators to effectively communicate regulations. Small business owners often find themselves inadvertently out of compliance with regulations because communication was insufficient.
5. Focus efforts where most economically productive - To maximize the economic impact of regulatory reduction, emphasis should be placed on the areas of bureaucracy considered most harmful to business. For Ontario small businesses, the legislation of most concern includes the human resources regulations pertaining to workers compensation and safety, and employment standards.

6. Assign the Portfolio to a Premier or Senior Minister - Regulation has a serious effect on the economy, yet is usually a low-profile issue politically. It should be given the same level of political importance as finance. One way of achieving this is to appoint a Minister of Regulatory Oversight, who would be responsible for considering the macro implications of regulations, and ensure that regulation reform remains a priority for government.
7. Adopt a Process to Determine the Need for New Regulations - Any proposed regulations should be subject to scrutiny, including determining if the regulation is truly needed, ensuring that affected parties are consulted, and that any unintended consequences are considered. Guidelines for new regulations should be regularly monitored by a third party to ensure that they are being followed.
8. Make compliance flexible and easy to understand - Regulation should be based on outcomes, allowing businesses to find the most cost-effective means of compliance. Businesses should also be given some guidelines and examples of what constitutes compliance.
9. Consider the impact on small business - Special consideration should be given to how new regulations will affect small businesses, given the disproportionate impact regulations have on them. In the UK and in the US, legislation requires special provisions for small businesses. The US has a Small Business and Regulatory Act, which requires assessment of the impact a proposed regulation would have on small business, and provides for mitigating regulations or policies, as appropriate. The Act also requires regulations to be written in clear, plain language understandable to the small-business person. There is nothing comparable in Canada.  
Regulators dealing with small businesses should be given customer service training with emphasis placed on understanding the importance of small business to the economy, as well as the risks and difficulties faced by many trying to operate small businesses.
10. Place the onus for timeliness and communication on regulators as well as on businesses -There is often little or no flexibility for business owners with respect to their paperwork obligations. Regulators, on the other hand, often have no specific timelines in terms of when decisions must be made or permits approved. Regulators must also have deadlines and suffer consequences when those deadlines are not met. There should also be consequences for regulators when business owners are out of compliance due to inadequate communication of regulations.

Government could remove ineffective regulations that adversely affect SMEs, encourage regulatory flexibility (including systems of self-regulation), and rationalize existing regulations across departments and jurisdictions. Small business also requires a simple appeal process to respond to regulations, their implementation, and treatment by government field inspectors. Additionally, there could be a process for periodic assessment and revision of regulations affecting small businesses.

All levels of government should encourage dialogue with small businesses concerning the design and application of human resources programs. Focus groups should be an integral part of the design of these programs in order to avoid inappropriate program design and delivery. Business and government partnerships can effectively work together in this area. Positive advocacy is the most effective method of changing the status quo.<sup>10</sup>

Governments should also consider the potential savings to be achieved through regulatory reform, and reduction of paperwork and fee administration, which represent major administrative costs to the public sector. The overall objective is to balance the need to protect society without placing undue burden on small businesses, consumers and economic growth.

In order to make regulatory reform effective, it is essential to consider the actual number of regulatory requirements, and not just count the number of regulations, which gives no indication of the actual burden those regulations place on small businesses.

## The Information Burden

There is little recognition in government of how its demands for information represent a problem for small business in terms of the complexity, frequency and response time for information requests. Some of the more notable issues associated with government information requests cited by business include: different departments asking for the same information; a lack of awareness of the costs that requests impose on small business; and requests requiring extensive time to compile information. Other information challenges include complex information requests, duplicate calculations, and records retention requirements.

Workers' Compensation premiums are a concern for many small businesses, specifically rising premium costs and ensuring premiums reflect actual risk. The legislation of a short-term waiting period before benefits are paid out would help reduce rates by limiting short-term claims and cutting down on incidents of abuse, which add significantly to worker's compensation administrative costs. This solution is currently in place in Nova Scotia, New Brunswick, and Prince Edward Island, and is similar to that of many private and public insurance plans, including Employment Insurance and private disability plans.

Remittances of employee deductions are required on a frequent basis. For a small non-automated business, monthly remittances require three times as much paper work and three times as many manual calculations as quarterly payments. Moreover, only 15 days are allowed to file most remittances. The cost to small business of monthly payments is a heavier burden than the inconvenience the government would incur by allowing quarterly remittances.

To illustrate the challenges of information burden, consider the following partial list of the information government requires from a typical exporter.

### Partial List of Information Requirements for a Typical Small Exporter

Information Requirement	Frequency
<b>Human Resources And Skills Development Canada</b>	
▪ Record of Employment	▪ per transaction (weekly record keeping required, form filled as needed)
<b>Canada Revenue Agency</b>	
▪ Summary of Remuneration Paid	▪ annual
▪ Registered Pension Plan Annual Information Return	▪ annual
▪ Remittance form for current source deductions	▪ biweekly
▪ Record of Employment	▪ per transaction (weekly record keeping required)
▪ GST customer exemptions	▪ (kept four years for audits)
▪ Annual corporate tax return (federally incorporated)	▪ annual
▪ Corporation Remittance Form	▪ monthly
▪ Goods and services tax return for registrants	▪ monthly
<b>Statistics Canada</b>	
▪ Survey of employment, payrolls and hours	▪ monthly
▪ Telephone survey of sales and inventory	▪ monthly
▪ Survey of direct selling in Canada 1993	▪ monthly
▪ Annual retail trade survey	▪ annual

*Strategis/Industry Canada, November 2, 2005*

Government should review all retention of records requirements and reduce them wherever possible. The Canada Revenue Agency and Human Resources and Skills Development Canada must re-engineer the payroll tax remittance system to reduce the burden on small business. Small businesses require a system that involves less time, is less frequent and recognizes the realities of cash flow. Small business would benefit by being allowed to provide basic employee and taxation data to one access point from which different government departments could obtain their required information. Filing requirements for ROEs and Statistics Canada surveys need to be simplified. Completion of an ROE could be required only when the former employee needs it.

Government should consider payment options for requesting discretionary information if it is not required by statute. The applicable government department should be prepared to pay the business to collect, calculate and provide it. An information request should be accompanied by an explanation as to the reason for the request, whether or not the request is based in statute, and provide accessible contact points if business has questions or need more information.

## **Human Resources Management Challenges**

Small business owners spend most of their time building their companies and focusing on important business objectives. Unlike their counterparts in 'big' business, they often lack the time and resources to build infrastructure and processes that don't relate directly to these goals. With the focus on generating revenue, small business owners may have higher priorities that can lead to overlooking important human resources management matters.

A decade ago, few small businesses had formal HR departments. In recent times, however, formalized human resources practices have become more commonplace within many smaller operations. Implementing effective HR practices has been noted as being one of the most important success factors for small firms. According to a study by the University of California Center for Effective Organizations, employee management practices have a proven impact on the top and bottom lines, resulting in returns of up to 66% on revenues and 13% on equity.<sup>11</sup>

Another recent study conducted by the Gevity Institute, in partnership with Cornell University's Center for Advanced Human Resource Studies, further underscored the strong correlation between human resources management practices and growth in sales, profits and customer satisfaction. Small companies that used positive HR practices to promote employee growth and development were able to increase customer orientation of their staff by 29%. Businesses with 5 to 39 employees improved their overall performance by 15%, while those with 40 to 125 employees improved by 22%.<sup>11</sup>

Human Resource Management refers to the implementation of strategies and programs required to attract, motivate, develop, reward and retain the best employees to meet business goals and objectives. It consists of many tasks and requirements involved with recruiting, selecting, hiring, orienting, training and retraining, motivating, coaching, mentoring, counselling, recognizing achievement, empowering, communicating, evaluating, promoting, laying off, and terminating.

Effective human resources management can result in good communication between management and employees, higher employee morale, reduced employee turnover, more efficient operations, higher client satisfaction, increased profit, repeat business, reduced absenteeism, and improved employee skills.

It is noteworthy that HR policies in many small businesses are being driven by external circumstances and business 'environmental' change, rather than through planned development. Concurrently,

conceptual and empirical human resources research has been focused on large firms, and has provided little support for small businesses. SMEs remain the predominant employer in Canada, but little guidance and research is available to them in their quest to improve their human resource management.

SMEs face unique problems that make the application of large-business HR management models difficult or impossible. Some of the differences relate to attracting non-family members to small firms, career-path concerns, succession planning, the differing role of the business culture/environment in motivating and managing employees, lower levels of management specialization, and shorter timelines and greater flexibility involved in planning and implementing changes in SMEs.<sup>12</sup>

Conversely, while faced with less information and HR management models for small business, the number of government regulations has increasingly affected smaller businesses, requiring human resources adaptations in order to comply. These smaller operations may have been less subject to regulation in the past. Additionally, many large company managers who were laid off during recent large operation reorganization/downsizing have started small businesses, bringing human resource management practices with them.

Typically, many small business owners define HR as payroll, benefits and perhaps regulatory compliance. Many may not consider practices such as having formal appraisal processes and job descriptions, or linking compensation to business objectives. Some small business owners may look at HR management as a 'frill' given the magnitude of issues they are faced with every day. In reality, investing in HR is as important as any other aspect of business strategy. Business success can be largely dependent on attracting the right employees, managing them well and retaining the skills and loyalty to the business.

Human resources management is of increasing importance to small businesses given the competition to recruit skilled workers, a lagging educational system relative to labour market gaps, and inevitable widespread labour force attrition as the baby-boomers begin to retire in significant numbers. Small businesses can address some of their skills shortages by expanding their recruitment practices to target underutilized sources of labour, including immigrants, Aboriginals, persons with disabilities and older workers. Small business employers have, to date, given little consideration to recruiting workers from these underutilized groups, as they may lack information on the supply and calibre of these workers. In this context, valuing diversity takes on new importance, moving beyond a purely intellectual exercise to become a strategy to address skilled labour shortages.

Recent immigration policies have greatly internationalized the Canadian labour force. The federal and provincial governments can foster the hiring of foreign skilled workers by streamlining the immigration process and eliminating some of the barriers. In 2004, approximately 4 million people in Canada (13.4 per cent of the population) were visible minorities. By the end of 2016, it is projected that visible minorities will constitute about 20 per cent of the population. Small businesses should consider the potential advantages and challenges in tapping into this segment of the current, and future, workforce.

Many small business owners also remain reluctant to consider hiring older, experienced workers. Many of them have the perception that older workers are unable or unwilling to adapt to change. They are also worried about their skills being up-to-date on the latest technologies, and therefore not being as productive as younger workers. Small businesses should determine ways to identify and recognize the skills and experience of older workers, and also begin exploring phased or partial retirement and flexible work hours as a method to recruit, or retain, older workers.

With increasing investment in human resources management, SMEs will require their HR function to show returns on investment, and will be called upon to create meaningful measures of HR performance. Many small business employers lack information about the various employment-related programs and services that are available to them. Organizations responsible for the delivery of these programs need to better coordinate their communication efforts with local business organizations such as the Chambers of Commerce. The provincial and federal governments could assist the business community by making their programs more available and responsive to the needs of small employers.

## **The Need for HR Management**

Almost 98% of the 2.4 million businesses in Canada have fewer than 100 employees.<sup>13</sup> Most of these companies have little, or no, formal human resources management plan or strategies. The largest segment of these businesses, those with fewer than 25 employees, has essentially no HR advisors at all.

Research shows that the majority of business owners do not seek formal HR guidance or support, this in spite of complex legislation and the everyday challenges of management, discipline, performance monitoring, measurement, motivation and other routine HR tasks. Good HR advisors can provide legal or technical answers as to existing HR legislation, but may be limited in their guidance on how to actually implement good HR management. Managers may draw on actual past experience, and this may succeed up to a point, depending on the extent of their abilities.

Most companies consider adding formal HR staff when they reach 30-60 employees in size. Below that level, HR tends to be managed on a management or 'management team' approach based on skills they've developed and become comfortable with during the early business experiences. Employees are usually managed directly by individual managers, and as long as at least one manager is aware of current HR issues, and supported by the others, the system tends to work.

Hiring a full-time HR manager may not always be cost-effective. Even in large organizations, the average HR staff to employee ratio is 1:120. Most small businesses (20-40 employees) report needing less than one-half of a day per week of support from an HR manager/advisor to address issues on an as-needed basis. For many businesses, having a HR advisor/specialist, or an expert consulting group, available or on retainer can work well. More HR consulting firms are now offering this type of flexible support.

A single HR manager, with assistance in basic administration (e.g. paperwork, payroll) can usually support businesses with 40-200+ employees, with consultants brought in to help in handling critical situations. Internal managers, however, still represent the greatest challenge to creating and implementing effective HR practices. If they have difficulty accepting input and/or changing approaches to their HR management, then no amount of support, advice, or coaching will help much.

## **Human Resources Planning**

**H**uman resource planning is an integral component of strategic business planning. Most studies show, however, that the majority of small businesses do not have a human resources plan in place, and many require assistance in developing an appropriate HR plan.

Successful HR plans cover a wide range of 'people issues', including those related to recruiting, retaining, and motivating employees. Without an HR plan, small businesses often face employee turnover and inconsistent productivity.

Small business research has identified that effective HR strategy incorporate the following components:

- ▶ **Clear Business Goals** - HR requirements must be congruent with business goals. A business' operating plan requires clear, measurable business goals, while the human resource plan identifies the type of people needed to achieve those goals.
- ▶ **Appropriate Workforce Size** - Many businesses eventually find an ideal size, where the number of employees is appropriate given their revenues and costs.
- ▶ **Adequate Skills** - The business must have adequate coverage in terms of two basic skills areas:
  - Technical skills are the competencies, knowledge and educational requirements required to do the work
  - People skills are the required soft-skills essential to running a business. They include communication and customer service skills, and the ability to listen well and be empathetic
- ▶ **Knowledge of HR Related Costs** - The business must have a handle on the full costs of salary, benefits, training and the time required to implement human resources strategies. Employers must ensure that costs are in line with profits. Adding full-time staff isn't always necessarily. Other options include:
  - Buying equipment or technology to improve operational efficiencies
  - Outsourcing, which can be expensive, but is ideal for short-term project work
  - Employing part-time employees, although it can lead to scheduling difficulties
  - Hiring students who can work at lower rates, based on their experience, but more supervision may be required
- ▶ **Regular Review of the Plan** - Small businesses can quickly outgrow their human resources. Consequently, the HR plan should be reviewed annually.
- ▶ **Succession planning** - It is essential to prepare employees in anticipation of future growth opportunities or unexpected departures. This includes planning for turnover, balancing short-term labour fluctuations with part-time employees, and hiring retirees and co-op/summer students.

An HR plan often covers essential organizational design components, including workflow, job descriptions, compensation and reporting relationships. Research indicates that some of the following items should be included in an effective HR plan:

▶ **Business Skill Sets**

An inventory of the business' current skills sets should be completed and assessed, with any resulting gaps evaluated, and future recruitment efforts aligned accordingly. It is essential that the business have the skills it needs to grow, exploit market opportunities, and deal with challenges. Recruitment, rationalization, and development of the current workforce may be required, or outsourcing might be appropriate.

▶ **Training Strategies**

Technological change and globalization require employees to continually upgrade their skills. Closing current employee skills gaps can be considerably less costly than hiring new employees or outsourcing.

The HR plan should be congruent with the business' skills requirements, should lay out appropriate training strategies, and be linked to performance evaluation. The plan can also serve as a means to track the return on investment in training, and ensure that the training scheduling has a minimal impact on production.

## ► **Leadership**

Leadership should be dispersed throughout the company, with leadership viewed as a role rather than a function. Workers must be expected to exercise leadership within their spheres of influence. Leadership carried out at all levels of the business should replace hierarchical leadership wherever possible. All high-performing companies foster a culture that encourages individuals to exercise certain levels leadership. HR should focus on creating a business culture that endorses and recognizes leadership of all employees.

## ► **Employee motivation**

An HR plan should outline key strategies to motivate employees and support employee retention. Employers should strive to be creative with employee benefits, rewards and compensation.

## ► **Succession planning**

Most small business owners are aware that the population is aging and that this will have an impact on the available pool of labour and skills that will be available to small businesses, but many have not had the opportunity or the time to identify strategies or succession plans to address the issue.

Succession planning is integral to the human resource planning process. A sound HR plan is incomplete without clear succession planning strategies. Who will take over the company's critical activities when the current owner/manager is no longer around? Small business owners also have to consider key operational functions to ensure that all of the essential positions are covered. Managers and supervisors should be required to develop succession plans for their departments, which in turn should be linked to individual employee career development plans. It is important that the HR plan evolve over time with the business.

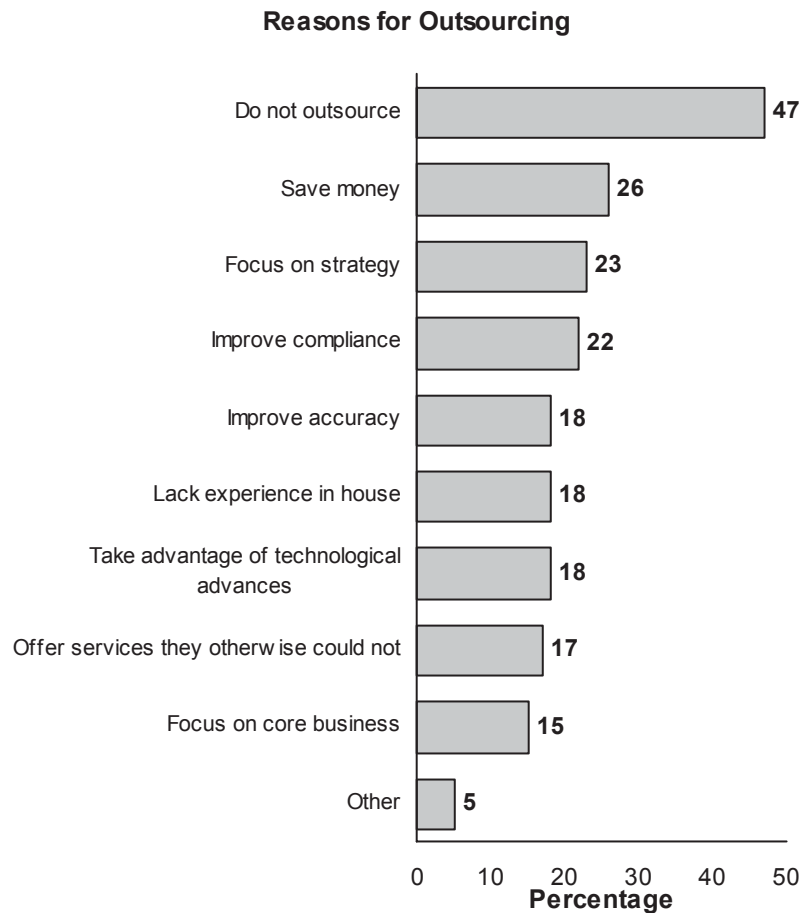
## **Outsourcing**

Outsourcing a business HR services can provide a full range of support and assistance, including policies and procedures, recruitment and staffing, compensation and benefits, and employee relations. Employers can achieve compliance with ever-changing legislation, while employees can access appropriate information without having to contact the company's in-house staff. This support releases a company's HR staff – or existing managers – to concentrate on other business issues. For example, systems can be established so that employees can go online and review/modify their payroll information or view their vacation entitlement. Outsourcing can also provide training in areas such as workplace harassment, employment standards, and employee conflict resolution.

Many small-business owners are now beginning to outsource some of their HR functions, including payroll and benefits, hiring and termination, and measurement of employee performance. The ever-changing and complex HR regulations are a primary reason for this trend, but companies can also realize reduced costs, streamlined processes, improved service, and better expertise by which to make important business decisions. Suppliers of HR services should be evaluated for both their HR expertise and for their competence in employing technology, especially involving private and confidential information which is a large part of HR management.

Additionally, HR outsourcing represents a potential way that HR functions can take on more of a strategic and influential role within the business. The decision to outsource HR services needs to be carefully considered, and will not be the best option for all businesses. Considerable effort will also be required to ensure a smooth transfer of HR responsibilities and then continuous monitoring of the 'quality' levels.

By outsourcing HR administration, HR activities can be shifted to focus more on policy and decision-making. In a 2003 survey by the Society for Human Resource Management (SHRM), HR professionals were asked their reasons for outsourcing. The breakdown of their responses follows.

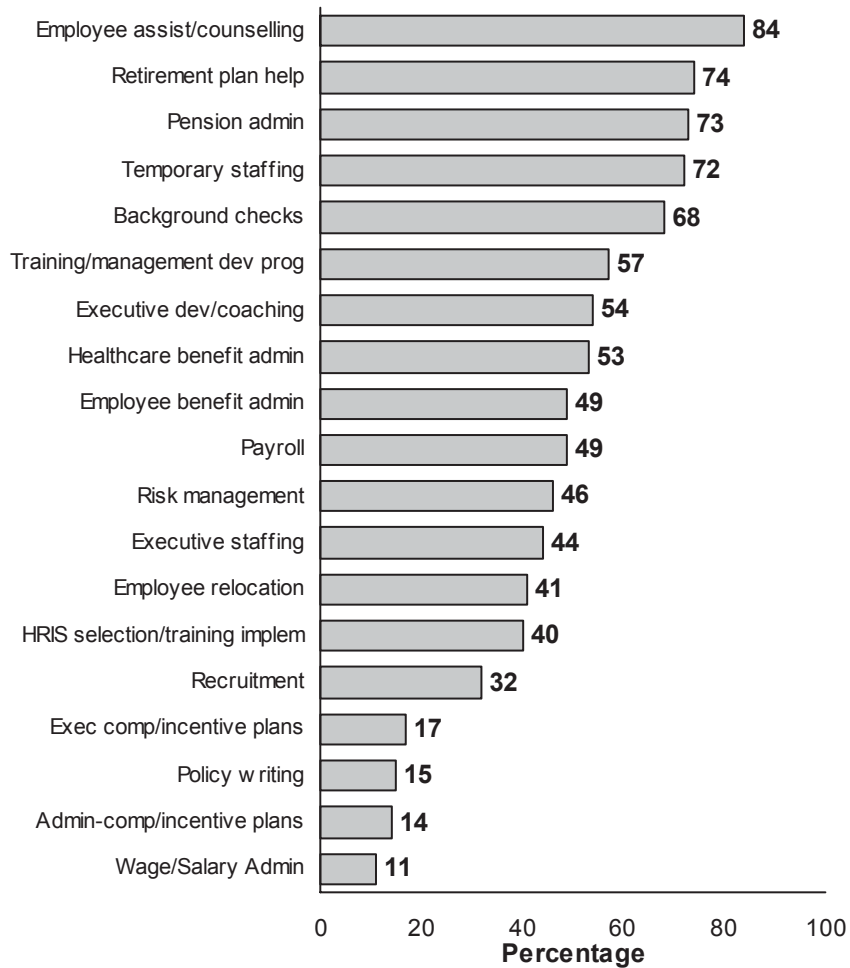


Similarly, according to a 2005 study from EquaTerra and Human Resource Executive magazine, the reasons for the growth of HR outsourcing included: gaining measurable HR cost savings; improving HR efficiency; improving business results/shareholder ROI; improving qualitative aspects of HR operations, such as recruiting, training/learning and employee development.

Not surprisingly, the more transaction-oriented an HR process was, the more likely it was to be outsourced. As well, process-oriented functions (e.g. benefits administration) were most likely to be outsourced, while some people-oriented activities (e.g. recruitment) were increasingly being outsourced as well.

In the previously cited 2003 survey by the Society for Human Resource Management (SHRM), HR professionals were also asked what functions they outsource. Their responses are summarized as follows:

## Functions Outsourced



Some small businesses have found that the most efficient HR strategies employ a combination of internal and external sourcing approaches. According to the 2005 Aberdeen Group study, *The HR Executive's Agenda: The 2005 Benchmark Report*, nearly all of the HR executives who responded (96%), outsource some portion of their human resource functions.<sup>14</sup> Companies that outsource at least one HR function outnumber those that do not outsource any, according to Veritude's *Workforce Insights Newsletter*. Yet, businesses that outsource some of their HR functions trail the number of companies that outsource other, non-HR activities.<sup>15</sup>

Since the inception of HR outsourcing in the US in 1998, the number of employees involved has increased to 3.7 million (as of March 2005). According to a 2005 report, *HR Outsourcing: Finding the Optimal Mix*, the majority of employers indicated that they expected to outsource more in the future, but are disinclined to outsource the strategic components of their HR function. They also reported that they tend to use multiple suppliers, and that vendor consolidation is not a priority. The report also indicated that most companies are taking an incremental approach to outsourcing, and are more likely to be exploring a selective, rather than a total, outsourcing strategy.

The overall market for HR outsourcing is forecast to continue to grow, exceeding 20 percent for the near future, though many companies continue to pursue outsourcing tentatively. According to researchers at the Everest Institute, the overall cost of HR outsourcing to small businesses fell by

over 25 percent from 2000 to 2005. Competition among vendors, economies of scale, and improved delivery models have helped lower the price of HR outsourcing contracts by more than a third on a per employee basis. As more small businesses outsource functions, the cost of service may fall further.

Many small businesses, however, still can not afford to use HR management consultants extensively, leading some to tackle HR management issues one matter at a time. "Small businesses don't have a lot of money to spend on expensive software products. HR outsourcing offers them a way to lower expenditures while getting the best functionality."<sup>16</sup>

Before small businesses retain outsourcing services, they should quantify their current service levels and costs. Companies may also need to look beyond initial cost savings and track how outsourcing affects employee satisfaction and business performance. The business should also use some form of performance metrics that link outsourced services to objectives to evaluate results.

Notably, a significant number of companies that outsourced HR activities reported dissatisfaction with the service quality provided by their vendors, and a growing realization that outsourcing alone was not the answer. Companies' expectations of their vendors included meeting established service levels within the financial terms of the contract. Overall, respondents did not feel vendors were delivering adequate service other than with respect to cost. Two areas of particular importance - project management and the ability to act as a change agent - received especially low ratings of 14% and 20%, respectively.

A noted strategy of selective outsourcing of HR functions gives businesses the opportunity to test the competency of the service provider before moving forward with greater assignments. This gradual, phased-in approach can solidify relations and experience between the business and the service provider, and makes for an easier transition to outsourcing in the future.

## **Recruitment**

In today's increasingly competitive labour market, employers who are able to find and keep valued employees have a large competitive advantage. Recruiting and retaining skilled staff is essential to business success. One of the greatest challenges for smaller businesses is attracting exceptional employees in a competitive business environment. Moreover, the survival and success of smaller businesses can be heavily dependent upon employing top-notch personnel.

Improving employee quality in small businesses may involve identifying and retaining above-average employees, developing existing employees, and improving the quality of new hires.

Human resources problems consume a lot of time in small and medium-sized enterprises. Most owners want employees who can adapt to changing market trends, technology and ways of doing business. Good employees must also be able to meet and exceed customer expectations, often doing more with less.

In a 2002 survey conducted by the Canadian Federation of Independent Business (CFIB), over the previous 3 years, 87.4% of respondents' nation-wide had hired employees. The most common recruitment methods employed in Ontario included: employee referrals (66.5% of respondents), newspaper ads (42.5%), and unsolicited applications (33%). Among Ontario respondents, only 23.2% had employed government programs to assist in the hiring process, while 55.5% predicted that it would be harder to find skilled labour over the next 3 years.<sup>17</sup>

The primary hiring challenges noted by Ontario businesses included: a lack of local candidates with the required education/experience/skill (62.1% of respondents); a lack of adequate resources to pay higher salary/benefits (28.5%); and the nature of the work (21.4%), including temporary, seasonal, and unappealing working conditions.<sup>17</sup>

Ontario respondents reported employing the following solutions in response to hiring challenges, including hiring employees who didn't meet the requirements (54.1% of respondents), passing some responsibilities onto other employees (34.9%), hiring temporary help (30.6%), functioning with fewer employees and/or ignoring new business opportunities (29.4%), and using additional overtime and/or longer shifts (27.3%).<sup>17</sup>

In order to optimize their recruitment efforts, small businesses should familiarize themselves with a variety of factors, including their hiring requirements, skills inventory, sources and requirements, the local labour market, and their optimal business size. Relative to optimal business size, if a business is larger than it needs to be, operations may be less efficient in terms of cost. If a business is too small, operations may be unable to meet customer demand as efficiently as possible. Optimal business size is usually where profit is greatest, as the optimal number of employees is directly related to overall costs and revenues.

Small businesses report benefits in existing managers and relevant staff in the process of hiring new employees, including recommending potential candidates, reviewing resumes, participating in interviews, and assessing overall fit of potential candidates with the business culture. A team recruitment strategy can simultaneously increase the pool of candidates for selection, augment the interview process, increase employee loyalty, build supportive peer relationships, and improve retention rates.

## **Skilled Labour Shortages**

In some sectors, skilled labour shortages are having a profound effect on the Canadian economy. Compounding the skills shortages problem is a phenomenon described as the 'demographic bomb': by the year 2026, about 1 in 5 Canadians will be 65 years of age or older. This aging of the population, combined with declining birth rates, will result in a shrinking workforce by 2010, with more people leaving the workforce than entering it.<sup>18</sup>

A 2003 Canadian Federation of Independent Business (CFIB) survey of Canadian small and medium enterprises (SMEs) revealed that there were already 250,000 - 300,000 vacant jobs among Canada's SMEs. Almost half of the respondents had difficulties finding qualified labour. The unfilled job rates were highest in newer and smaller SMEs. Chronic shortages of skilled labour have reached unprecedented levels over the last decade, affecting the abilities of some businesses to compete and grow.<sup>19</sup>

The impact of prolonged skills shortages on the growth and productivity of the small business sector may be considerable. Unlike larger businesses, small enterprises do not typically have dedicated human resources personnel to help them recruit and retain the skilled workers they need. They may also lack the infrastructure to deliver training in-house, and have less flexibility to deal with job vacancies.

This situation has particularly serious implications for rural communities, since small business forms the backbone of these rural economies. There is a serious lack of skilled trades' workers, for example, in many rural communities. The 2003 CFIB survey revealed that rural employers were concerned that there was not enough local training available for individuals who wanted to pursue apprenticeship

programs. The skilled trades were not seen as being promoted as a positive career option by parents and teachers and, as a result, youth were not being attracted to pursuing trades training.<sup>18</sup>

Input from the business community has noted that the technical training that is required to complete apprenticeship programs needs to be more accessible to small businesses located in rural communities. As well, there is a need for greater promotion of trades and technical occupations as viable career options for youth, and more options for people entering the trades if they are going through a career transition phase in their work life.

Given the competitive job market, one of the most important recruitment techniques a small business can employ is the marketing of the company. Creating awareness of the business is key to attracting top talent. Potential employees want to know that they will be working for an organization that has a good reputation.

For many small businesses, the competition for employee talent is high, and likely to become even more so with the large numbers of employees projected to retire in the next few years. In order to successfully compete for talent, a small business needs to develop a reputation as an 'employer of choice'. Company branding is seen as a factor to help small businesses become more aggressive in their strategies to attract and retain the right employees. In a tight labour market, a weak employment brand identity can hurt even the most creative hiring and retention strategies.

Small business must consider working towards differentiating their company in the labour market through the adoption of best practices in the areas of retention, recognition, reward, promotion, motivation, accountability, and flexibility in work-life balance. This involves implementing thoughtful job design, reasonable employee accommodation, personally rewarding work, a safe and healthy working environment, responsive scheduling, positive employee-supervisor relationships, and numerous other options including training and development opportunities, competitive pay and benefits, and job security.<sup>20</sup> The objective is to build a positive, public presence through advertising, job fairs, industry association activity and community involvement.

Small businesses report that an effective solution is the adoption of flextime, which refers to working arrangements involving flexible starting and quitting times, generally operating as a rescheduled workweek. When work is task/project-centered, employee performance can be measured by the satisfactory completion of the actual work, rather than the hours actually logged in the workplace. In fact, much of the work is often done at home or some other remote site.

Small business owners have frequently assumed that flextime can only be implemented by large companies. In reality, the opposite is often the case. Flextime remains relatively uncommon in today's workplaces, representing a potential recruiting advantage for smaller businesses. Many smaller businesses may be able to offer a legitimate flextime program, which can attract qualified candidates to these businesses.

Other solutions noted by small business include the use of part-time employees and job sharing (where two part-timers work as a team to perform one job). Businesses should keep both short and long-term requirements in mind when recruiting.

For small businesses that don't have dedicated HR departments, finding the right employees can be a time-consuming and frustrating experience. Aside from the usual approaches of newspaper ads, search firms/recruiters, and unsolicited applications from job seekers, small businesses have had to consider a variety of other recruitment sources. These include university and college campuses and student centres,

internet job placement sites, word of mouth referrals from existing employees and business colleagues, and local employment centres and service providers. The calibre of potential candidates can be improved by actively recruiting through a variety of sources, rather than depending solely on job ads or walk-in applicants. As was noted by many companies, the best employees are usually working already - somewhere else!

For some small businesses, the use of employment agencies for some tasks has proven positive. These agencies can help in handling recruiting and preliminary applicant screening and selection, even including psychological and aptitude testing, and background and reference checking. The largest employment agencies do not necessarily offer the best choice of candidates, and small businesses report advantages in using agencies that specialize in recruitment within specific sectors or occupations/professions.

Employing the right staff is of paramount importance to small businesses. Emerging challenges and opportunities will constantly pop up, and innovative solutions will have to be quickly formulated and implemented. Workloads will be expanding and unpredictable. Small businesses must proactively recruit, select, train and motivate new employees, and integrate them with existing staff. Before beginning the formal processes of recruitment, selection, and retention, however, extensive planning is recommended.

Many small businesses spend a lot of time defining competencies for each position, but the process doesn't have to be complex or lengthy. The use of a simple job description along with a set of behaviourally based interview questions has been used with good outcomes. The overall approach is to identify the job's core competencies and the characteristics of the best employees, and then evaluate applicants based on those criteria.

## **Employee Vs Independent Contractor**

Small business owners often hire 'independent contractors' - workers who are not classified as employees by the employer. This distinction between independent contractor and employee is crucial to the establishment of an employer's liability for payroll taxes during the relationship with the worker, and severance pay when the relationship ends.

Small business owners need to be aware of the legal and tax consequences arising from conflicting definitions of employee and contractor. An employer has fewer legal obligations when dealing with an independent contractor than an employee. Nonetheless, contract workers should be treated as valuable workers who must be compensated fairly in terms of both monetary and other considerations.

When paying an employee, an employer is responsible for remitting to the government all statutory payroll taxes and deductions (income taxes, EI, CPP, EHT, WCB). Conversely, an employer has no such responsibility when paying an independent contractor because independent contractors are responsible for remitting all payroll taxes and deductions themselves.

Similarly, ending a relationship with an employee places greater obligations on the employer. Generally, an employer cannot fire an employee without giving them adequate advance notice that they are to be let go. Failure to provide adequate advance notice may compel the employer to pay a considerable settlement should the situation be resolved by a court. Conversely, with regard to an independent contractor, an employer has only to give minimal advance notice of their intention to end the relationship (unless the contract provides otherwise).

Canadian courts and the Canada Revenue Agency often find employers have incorrectly classified employees as contractors. The existence of a contract describing an individual as an independent contractor does not necessarily mean that they are, in fact, contractors under the law.

The formal distinction between 'employee' and 'contractor' is an increasingly fine line. Tax officials and the courts often take a hard line against improperly classified employees, because it can reduce source-deducted income tax and other government revenues. The consequences of improperly classifying workers can be expensive, especially in a long-term working relationship.

When ruling on worker status, Canadian courts consider various factors, including the economic dependency of a worker on a single organization, the degree of control an employer has over the way in which the work is performed, and whether the worker is subject to the employer's company policies.<sup>21</sup>

Workers may be considered employees if the employer provides the premises where work is done, provides the tools or equipment used in completing the work; or exercises management, direction or control over the worker. If the relevant factors indicate an employment relationship, then that status will be in force even where payments are made to a personal corporation.

There are several key elements to an independent contractor relationship:

- ▶ Invoices should be required from an independent contractor based on production completed or time involved, rather than a flat, specified pre-determined amount;
- ▶ The independent contractor must use his or her own equipment and/or pay for the use of the employer's equipment;
- ▶ The independent contractor has the right to substitute another individual to perform the services;
- ▶ The independent contractor must not participate in employee programs e.g. benefit coverage;
- ▶ The independent contractor must perform services for more than one company;
- ▶ If the independent contractor has an office on the company's premises, then the company must charge rent;
- ▶ The independent contractor cannot use the company's business cards or letterhead or obtain signing authority on behalf of the employer;
- ▶ The company must receive appropriate legal and tax advice pertaining to the contract;
- ▶ Employers should negotiate the number of hours a contractor will require to complete a project, in addition to the per hour rate.<sup>22</sup>

By following these guidelines, small businesses can protect themselves through minimizing their potential liability to their company arising from a relationship with a contractor.

## **Retention**

Retention of existing employees is often a key to the success of small businesses. It is very difficult to try to grow a business if it is continually encountering turnover problems. Companies cannot ignore the human costs and responsibilities of doing business. Employee concerns may appear less important than the bottom line, but the cost of this neglect is potentially huge. The total cost of replacing an employee, counting direct and indirect costs, is estimated to be in the range of 70% to 200% of their salary.<sup>23</sup> The time and money invested in the recruitment and employee development processes are wasted if employee turnover continue to be a consistent issue for small businesses.

Small businesses report that some successful approaches to retention involve determining business requirements, hiring people who are a good fit, and maintaining a positive workplace environment. Treating employees with respect and dignity is noted as a high priority by business. Potential turnover issues should be anticipated and negative consequences avoided. Turnover records should be maintained and analyzed, and progress evaluated periodically. Employers can conduct exit interviews with employees to determine why they are leaving in order to identify potential issues needing resolution. Common issues reported by small businesses related to retention and employee turnover include excessive workload and hours of work, a lack of training or communication, uncompetitive wages, and personality conflicts. Applying 'best practices' within human resources management approaches can help with employee retention as well as overall operational management. A mix of retention strategies should be formulated in consultation with employees based on their ideas, insights and suggestions.

The following represents a summary of key findings and approaches that have been recommended and used by small businesses in the goal to retain employees:

### ► **Job Definition**

All jobs should have a written job description specifying the activities necessary to perform the job to required quality standards, and including both mandatory and preferred job skills and experience requirements. Job descriptions should be used for recruitment and selection.

Employees should have the opportunity to assist in the design of their own jobs, understand their job standards, and know what is expected of them. Job descriptions and standards should be reviewed by senior management, periodically evaluated, and kept up to date.

### ► **Employee Orientation**

Orienting new employees to their workplaces and jobs is one of the most neglected functions in many small businesses. The business should have a viable employee orientation program, and all new employees should complete it. Responsibility for new employee orientation should rest with the hiring manager. Managers must be knowledgeable with respect to the employee orientation process, and be involved in its continuous improvement.

An effective new employee orientation program will facilitate business productivity and employee retention, reducing turnover while achieving major cost savings. Businesses that have good orientation programs get new employees fully productive sooner, reduce new employee anxiety, reduce start-up costs, have better congruency between business requirements and employee skills, and have lower turnover rates. The process does require time, money and commitment, but effective employee orientation is essential to retention.

New employees must understand the company's policy with respect to hiring probation, and the performance of new employees must be reviewed on a timely basis, consistent with the company's probation period.

The most frequent complaints about new employee orientation are that it is boring, overwhelming, or that the new employee is left to fend for themselves. The result of inadequate employee orientation is often a confused new employee who is not as productive as they might otherwise be, and who is more likely to leave the company within a year.

## **D Performance Management**

The performance management system represents everything that is done with employees, from the time a position is created until the employee moves on. The performance appraisal/review process is only one part of the system; the focus should be on providing employees with regular, day-to-day feedback. Employees want to know their performance expectations, and how they're doing at meeting those expectations, on a regular basis.

Job standards are integral to the performance appraisal process, which in turn provides the basis for salary adjustments. Recognizing and rewarding positive performance is an important component in the process. Performance must be assessed realistically, systematically, regularly and fairly, and employee self-evaluation is an important part of the process. Employees must understand the performance standards of their position.

The performance management system should be focused on employee development, clear expectations, accountability, responsibility, and negotiation to meet both the employee and employer's needs. The work environment should assist employees in developing organizational as well as personal goals.

Managers should set goals for employees that will enable them to grow both professionally and personally, and coach them along. Managers must also be involved in the continuous improvement of the performance appraisal system.

Employees should have the opportunity to review their performance appraisals with the next higher level of management, if applicable, and the chance to provide input regarding the performance of their manager. Managers' performance appraisals should, in turn, be influenced by their subordinates' performance. Managers must address poor performance directly with corrective action, avoiding procrastination.

## **D Employee Recognition**

An effective employee recognition program is simple, immediate, and powerfully reinforcing. Employers should try to establish employee recognition and reward programs that build positive morale, and reward the behaviours that result in desired business outcomes.

An effective employee recognition program will incorporate certain elements, including established criteria as to what constitutes meritorious performance, eligibility extended to all employees, reward extended to any employee who performs at the standard stated in the criteria, and early recognition in order to reinforce the desired behaviours. Supervisors must apply the criteria consistently. The successful achievement of individually-negotiated goals must be viewed by the company as equally difficult relative to other criteria for the achievement to be perceived as a success.

People also respond to recognition that is random and provides an element of surprise. If a reward becomes a "given", then its effectiveness will eventually be diminished. Employers should avoid programs where managers "select" the people to receive recognition, such as "Employee of the Month". This type of program may be viewed as "favouritism" or "it's your turn to get recognized this month". This is why programs that single out an individual are rarely effective.

## ► **Internal Communications**

Effective internal communications are key in any small or medium-sized business. Research shows that the major weakness in organizations is communication. Companies that make internal communications a priority are more likely to reach their objectives, resolve conflicts quickly, and improve employee productivity. Employees who are better informed are more satisfied, feel more involved, and contribute more to the business' success.

An open communications policy supports a positive employee relations culture. Internal communication tools include company newsletters, intranet sites, small group meetings, suggestion boxes, employee surveys, posters, and orientation material for new employees.

Internal communications are essential in times of change, as they help maintain openness with employees, and clearly indicate what is required of them in the face of new business developments. The employer must ensure that there are adequate resources to effectively communicate the change to employees. Poor communications can even derail efforts to implement positive change.

Employers should communicate with employees on a regular basis, and information should not be withheld. Employees must always be informed before outside parties. Managers and supervisors should be trained in listening skills and giving feedback. Line managers who tend to focus on bottom-line results often need to be reminded of the importance of ongoing communications with staff. Employee motivation is impacted by how well line managers communicate with staff.

## ► **Motivation**

Small businesses are faced with the challenge of motivating employees and inspiring loyalty. These businesses must provide adequately satisfying jobs and ongoing training, and do anything else that makes them more competitive.

Employee motivation can be achieved without incurring high costs. Small businesses can offer innovative benefits/rewards, like flextime, downtime, and the possibility of working at home.

A business' top performers may be a little more demanding than the average employee; and are more likely to leave if they feel they're not getting enough consideration. Their input should be solicited, excellent performance rewarded, and micromanaging avoided.

Generation Y (ages 18 – 25) employees expect employers to challenge them and give them ample opportunities to grow professionally. Additionally, studies indicate that approximately 36% of these employees don't see themselves in the same job 2 years down the road.<sup>24</sup> Meeting the demands of this new generation of employees is now a challenge for small and medium-sized businesses, particularly with an upcoming Canadian labour shortage.

## ► **Time Management**

More Canadians are working longer hours than they did a decade ago, and many are feeling overwhelmed. A recent Statistics Canada study found that more than a third of Canadians cited “too many demands on hours” as the most common source of stress in the workplace.<sup>25</sup> Persistent work overload means higher stress and poorer health.

Work overload also takes its toll on organizations, not just on individuals. Companies are struggling

with rising costs arising from higher rates of absenteeism, more errors, diminished levels of innovation, lower employee morale and job satisfaction, and skyrocketing health benefit and long-term disability costs.

In response, some employers are developing tools and processes to reduce waste and redundant tasks, while other businesses have modified their work cultures, focusing on results rather than on rewarding “face time”. An increasing number of businesses have adopted policies and procedures promoting flexible working hours, child and eldercare, information referral services, and leaves of absence for family reasons. Other approaches used include improved time management support, training on new technologies, and ensuring that people have the necessary tools to do their jobs.

One effective approach is to concentrate on hiring individuals who are appropriate for their jobs in the first place; a poor job fit results in high stress, poor health, long hours and poor productivity.

## ► **Work-life Balance**

Small business owners need to understand that employees are more likely to be productive if their work/life issues are supported. Moreover, employees are more likely than ever to expect flexibility from their employers with regards to work/life balance. Employees are loyal to companies that integrate work/life issues into their culture and work environment.

Although more companies are currently providing job sharing and flextime, the overall message remains that life and work must remain separate. Employers' reluctance to adopt work/life balance options for their employees is based on an erroneous assumption that they'll lose time and money. The truth, in fact, is just the opposite.<sup>26</sup>

The successful implementation of work/life programs can be achieved through the clarification of management expectations along with the simultaneous provision of maternity/paternity leave, flexible scheduling, and opportunities for telecommuting. Consistency among different managers/ departments within the business is essential.

Work/life issues should never be resolved without a consideration of the company's objectives. However, as long as everyone accepts that “face time” is less important than the quality and timeliness of the work itself, a lot of power can be delegated to the individual employee.

## **Compensation & Benefits**

The variety of benefits that are offered by many small businesses today is extensive. Medical and retirement benefits are relatively common, but less conventional benefits often help to set a company apart while establishing a positive reputation in the marketplace. An effective benefits package can increase employee retention, raise productivity, and positively impact the bottom line.

On average, organizations spend 41 cents on benefits for every dollar of payroll, or 29 percent of the total employee compensation package.<sup>27</sup> Research reported in the journal *Personnel Psychology*, however, suggests that employees only understand, and utilize, between 31 and 68 percent of the cost of the benefits they receive.<sup>27</sup>

Employees undervalue their benefits for a variety of reasons, including poor communication by the employer, limited choice in benefits options, and ignorance of the market value of benefits. Many small businesses have overcome this lack of appreciation by providing their workers with greater selection of benefits.

A creative, overall compensation strategy can help a small business attract better employees, retain current employees, and increase productivity. Some approaches used have included competitive salaries, non-cash benefits (perks!), a positive working environment, and performance-based remuneration. Many progressive companies have compensation strategies that link salary, bonuses, profit sharing, and non-cash benefits to performance.

A 1995 survey by the Richard Ivey School of Business revealed that leaders at Canada's fastest growing small businesses thought salary should be limited to 65-75 per cent of employee compensation, with the rest coming from performance-related initiatives, including profit sharing, employee stock options and share ownership plans, additional medical and insurance coverage, pension plans, and group registered retirement savings plans (RRSPs).

Group RRSPs are becoming a popular small business option. While small businesses are rarely able to match the benefit plans offered by large companies, they can set up group RRSPs relatively easily. Group RRSPs are a form of defined contribution pension plan, with funding provided by all of the company's employees.

## **Workforce Development And Training**

*"Small businesses must ensure that the educational skills of both their managers and employees keep up with the changing demands of a volatile, knowledge-intensive and highly competitive economy. When they hire, they want to know that the people they are hiring have the skills they need. And those who want to start new businesses want to know that they can acquire the skills they will need to run it."*

*Industry Canada*

Ongoing employee development through training and education is essential to the long-term profitability of a small business. Investing in employee skills development has helped lead many small businesses to increased productivity.

Research bears out the specific benefits that a small business receives from training its workers, including increased productivity, improved efficiency, reduced turnover, decreased supervisory requirements, and an enhanced ability to use technology. Employee development can lead to the overall creation of a more efficient and effective company, including the development of adequate staffing for expansion and for replacement of employees who are promoted or leave.

Training is often considered to be only for new employees, but ongoing training of current employees is key to a business' ability to adjust to rapidly changing requirements. With the inevitable retirement of baby-boomers and their departure from the labour market, employee training is becoming an increasingly important HR issue. Training supervisors to replace retirees is becoming an urgent issue for many small businesses, and many manager/owners are unprepared to deal with succession and retirement planning.

For small businesses, the primary obstacles noted to providing training are a lack of adequate time and money. While businesses of all sizes have trouble providing workplace training, small businesses in particular often need to employ different approaches. Potential solutions noted include technology-based learning, distance learning, and the use of on-the-job mentoring.

Research has covered many aspects of workforce training and education. A summary of some of the key elements that have been of benefit to include in a small business training program include:

- ▶ Employee performance appraisals are used to identify training needs.
- ▶ Organizational competencies are continually monitored and targeted by training and development plans.
- ▶ Training and development plans meet the career development needs of employees at all levels in the company.
- ▶ The success of training programs is objectively measured, including measurement by quality systems where appropriate.
- ▶ Senior management allocates sufficient resources to ensure the success of training and development programs.
- ▶ Employees are involved in the development of training programs.
- ▶ Managers and supervisors are evaluated on the career development progress of their staff.
- ▶ Training and development planning is integral to the business planning process to limit the impact of skills shortages.
- ▶ Training and development plans address both the technical skills and management development needs of the company.

Across Canada, training continues to be an important issue for small businesses in terms of availability, affordability, commitment and time. Numerous reports and research have indicated the state of training for SME's and the availability of skilled labour. Below is a profile of some of the main research findings.

- ▶ SME's provided training primarily to new hires, but also expended significant training resources on all employees, including those with new responsibilities. Entry-level (no experience) employees required the most training, followed by low- to mid-level employees (2-5 years experience).
- ▶ SME's reported that it takes, on average, several months to a year or more for a new employee to reach full productivity, and several days to several weeks of training are required annually to keep existing employees working at full productivity.
- ▶ The vast majority of SMEs provided some training to their employees. Approximately 50% of SME's employed both formal and informal training, while almost as many conducted informal training only. Informal training consists of on-the-job training, tutoring and mentoring. On average, Ontario small businesses provided a new employee with 112.7 hours of informal training, and 22.7 hours of formal training.
- ▶ Employers' reasons for conducting training included rapid integration of new hires, increased productivity, upgrading current employee skills, implementing new technologies, and improved employee retention.
- ▶ The most effective training methods (in descending order) were: tutoring with another employee, one-on-one tutoring with a trainer, workshops/seminars, and classroom courses. A significant percentage of respondents cited private sector trainers/consultants as the best training providers, followed by product suppliers.
- ▶ The most important employee skills cited by Ontario respondents included technical, customer service, computer, marketing, management, communication/writing, and e-commerce/internet skills. Almost half of the SME's in some research findings anticipate that they will be increasing training over the next 3 years.<sup>29</sup>
- ▶ The main obstacles to training were lost time due to training, training costs, a lack of local availability of required training, and employee resistance.<sup>29</sup> Compared to three years previous, a clear majority of Ontario SME's reported that their training costs had increased, while a third reported no change.
- ▶ Over half of Ontario SME's feel employers should be primarily responsible for training and skills upgrading, but also indicated that lower payroll and other taxes (e.g. EI premiums), and/or tax credits, would encourage them to provide more training. Over a third of employers reported that better partnerships with the educational system would encourage greater provision of training.<sup>29</sup>

- ▶ Only about a fifth of Ontario respondents had employed e-training (training through electronic technology – online, DVD). The primary reasons for not using e-training were a lack of applicability to the business, and a lack of awareness.

## **Skill; Development**

There is an imperfect match between the supply of, and demand for, training and skills development in Canada. The best evidence of this is the fact that there are thousands of vacancies for skilled jobs while unemployment rates in many parts of the country remain relatively high. Canada needs a highly flexible skills development infrastructure that responds to evolving small business needs and adapts to changing market conditions. This skills development infrastructure must be sensitive to, and closely integrated with, the dynamics of the workplace and the labour market.<sup>28</sup>

Business and government need to collaborate to improve skills development in Canada. Provincial and regional Small Business Skills Advisory Groups should be established to facilitate consultation between the small business community, government, and educational/training institutions on labour and skills issues. The business community needs to have avenues available to provide input into the development and delivery of work skills programs and services. This effort would involve streamlining skills development programs offered by government as a way of eliminating duplication, cutting costs, and improving relevance.

*"All training for small businesses in Canada should move toward a more effective and flexible training infrastructure that responds to small business requirements as they evolve. That means a skills development infrastructure that responds to market signals, training that is shaped by real business needs, and training that is delivered in the most effective location."*

*Industry Canada*

There is a need for a convenient means by which small businesses across Canada can access pertinent information on training and skills development. Small business owners need to understand the role of improved managerial and employee skills in growing their companies.

Small business employees often require a complex array of skills that can vary by business. Demand is also growing for the skills associated with the emergence of the new economy. Training for these jobs of the future will require a high degree of entrepreneurial development, in addition to more conventional skills.

There are several reasons identified as to why many Canadian small businesses have neglected skills development. First, small business managers find that time demands do not allow them to train employees, and many are unfamiliar with an actual training process. Second, managers often tend to have broad expertise rather than the specialized skills needed for training and development activities. Third, skills development has also been seen to suffer if management is sceptical about the value of training.

*"Skills development initiatives must be focused at the local level. Community-based institutions such as local labour force development boards should be relied on to better match the supply of and demand for workers with particular skills. The federal government must eliminate duplication and competition with private sector training programs."*

*Industry Canada*

The following represents a summary of input from small businesses into various aspects of the training and workforce development systems, both in Ontario and Canada.

- Reform of the government's role in skills development has been suggested as providing a significant opportunity to achieve savings that could be reinvested in required skills training. Training offered under Employment Insurance (EI) could be better linked to the real requirements of small business. Training programs should better promote labour market flexibility and mobility, rather than create or reinforce current labour market rigidities. Skill building initiatives seem to work best when they are led and implemented at the community level. It has been recommended that the government's role should be as a catalyst and facilitator, and it can help by contributing information, materials and technical assistance, especially with regard to best practices in skills development.
- Where possible, government should not compete with private sector providers of training and skills development. Sector councils, labour force development boards, and co-op and apprenticeship programs are already having an impact on the skills development marketplace. Government should restrict its role to encouraging such initiatives where there is a significant demand for them.

*"The federal government must work closely with provincial and territorial governments, educational authorities, business and labour to extend the apprenticeship model into new trades. It should support efforts to increase the percentage of the labour force that takes advantage of apprenticeship programs, to attract younger people into apprenticeship programs, and to encourage greater harmonization among the provinces and territories in the trades that are recognized as apprenticeable".*

*Industry Canada*

- A properly functioning, Canada-wide apprenticeship system could have a positive impact on small business. More effective apprenticeship programs could enhance efforts to retrain workers for the jobs that are in demand. Many apprenticeship program problems reflect the inability of different levels of government, businesses and unions to work together effectively. Consequently, of 169 apprenticeable trades in Canada, the majority are not recognized in all 12 provincial and territorial jurisdictions. Small business groups feel that all provincial jurisdictions should agree to, and adhere to, the same set of trades and standards.
- Small businesses would benefit greatly from having comprehensive and easily accessible information about skills development opportunities. A Business Skills Development Network could provide increased access to affordable, expert advice on skills development assessment, planning, and implementation, as well as comprehensive information regarding skills development opportunities and training models.
- While government should not be involved in the delivery of training, it can play an important role in information dissemination, including promotion of training and skills development, development of national training and skills standards, and sharing skills development and best practices information.
- Training standards provide a set of benchmarks against which trainers and the delivery of training can be evaluated by businesses. However, there are no Canadian national standards for trainers, nor is there any process whereby businesses can provide input on what training standards are required or how they might be defined.

Training standards are seen as essential in establishing a national skill base. A Training Sector Council could be used to establish partnerships between private and public educators. The interests of private-sector trainers should not be obscured by the influence of the universities and community colleges.

- The private sector and government must work together to promote a better understanding of the competitive advantages arising from improved workplace skills. Skills are extremely important in the new, emerging, knowledge-based economy, but many people remain unaware of it. The reality is that lifelong learning is essential to keeping skills relevant. Small business owners need to appreciate the extent to which appropriate skills can improve their bottom line.
- The current adult workforce will continue to represent the majority of the Canadian labour force for the foreseeable future. In the new economy, the skills that workers acquired in their youth will not carry them throughout their entire working career. Consequently, the key to the security of the Canadian workforce, and the overall competitiveness of the Canadian economy, is upgrading the skills of adult workers.
- Sectoral partnerships are an effective way of addressing skills and labour shortages, meeting emerging skills requirements, and establishing the basis for continuous learning. Sector Councils work with industry partners to develop human resource solutions that are specific to the sector or industry. By facilitating collaboration and collective action on skills issues, sector councils promote economies of scale in addressing human resources challenges, which benefits all industry partners. The sectoral approach ensures that the skills being developed are relevant to employers' needs.
- The objectives of sector councils should include:
  - understanding and defining human resource issues;
  - promoting human resources planning and development within sectors;
  - anticipating skills shortages and labour market trends;
  - assisting in the recruitment and retention of workers, including facilitating mobility and labour market transitions;
  - achieving consensus, commitment and cooperation among key sectoral players on workplace skills issues;
  - improving collaboration with educational/training systems to ensure that skills development reflects business requirements, and facilitating school-to-work transitions;
  - encouraging the private sector to invest in solutions that address skills shortages, including promoting lifelong workplace learning.<sup>28</sup>
- Educational institutions develop curricula that are responsive to business requirements, and which lead to expanded enrolments and effective relationships with industry. Many small business owners feel that many educational/training institutions are currently putting too much emphasis on academic training and not enough on basic skills. Consequently, they are not providing potential employees with the skills they need to function effectively in a small business environment.

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# ■ SUMMARY OF KEY ISSUE & RECOMMENDATIONS

## Key Issue

## Recommendations

### I Regulatory And Information Burden And Compliance

#### A Regulatory Burden

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|---|---|
| <p>1 Regulatory burden has many negative consequences for small businesses, including increased costs (due to compliance), reduced competitiveness (due to increased inefficiencies, impeded innovation, and limited flexibility), lost production time, and increased administrative requirements. This leads to reduced profitability and limited business expansion.</p> | <p>Governments should reengineer their regulatory systems to focus on customer service excellence and to replace complicated calculations with reasonable estimates. Governments should coordinate their information requests. Regulations should be based on outcomes, giving small businesses the flexibility to determine how best to meet government information requests. In terms of regulatory reform, the actual number of requirements should be considered, not just the number of regulations, which on its own isn't indicative of the actual burden regulations place on business. Ineffective regulations that adversely affect SMEs should be removed, and regulatory flexibility implemented (including self-regulation). SMEs should investigate the possibility of outsourcing some of their compliance burden.</p> |
| <p>2 Regulations are often unclear concerning interpretation, timing of compliance, reporting and enforcement. They are often redundant, and incompatible with prevailing market conditions, best business practices, efficient administration, and requirements of other jurisdictions and regulating bodies.</p>  | <p>Regulators should better communicate regulations, providing straightforward advice in a timely manner. The appeal process should be simplified to respond to regulations, their implementation, and treatment by government field inspectors. Regulatory limits should be established to prioritize regulations and inject restraint into the regulatory process. New, proposed regulations should be subject to third party scrutiny to determine if they are truly required, that affected parties are consulted, and that unintended consequences are anticipated.</p>  |
| <p>3 Penalties for non-compliance are disproportionately high.</p>  | <p>Penalties should be brought into line with the nature of the non-compliance, taking into account the lack of clarity often inherent in the communication, interpretation, and implementation of regulations.</p>   |
| <p>4 The costs to the economy resulting from regulatory burden (approx \$30 billion annually) are significant: lost jobs, lost investment, lost opportunities and lost entrepreneurial initiative, as some businesses never start at all. Consumers see higher prices and less choice.</p>  | <p>Regulatory reduction efforts should be focused where they will have the greatest economic impact, including HR regulations pertaining to employment standards, workers compensation, and safety. Regulation reform should be given political importance by establishing a Ministry of Regulatory Oversight which would be responsible for considering the macro implications of regulation and ensuring that reform remains a government priority.</p>   |

## Key Issue

## Recommendations

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| <p>5 Regulatory burden also significantly costs government, due to the associated administrative and bureaucratic requirements. Regulators struggle to understand, communicate, and enforce rules, taking resources away from other priorities.</p>                              | <p>Government should consider the potential savings to be achieved through regulatory reform, and reduction of paperwork and fee administration, which represent major costs to the public sector. The regulatory burden should be measured and tracked over time, and publicly reported on a regular basis, encouraging accountability.</p>   |
| <p>6 Regulatory burden does not distinguish small business from big business. Regulation has a disproportionately greater, and dramatically more negative effect on small businesses, putting them at a competitive disadvantage relative to their big business competitors.</p> | <p>Canada and Ontario should consider the establishment of a small business charter on regulations, similar to those in the USA and the European Union. The purpose of the charter is to ensure that governments always consider the impact of regulation on small businesses, recognizing that small businesses face a higher compliance burden relative to big businesses. There should be a process for periodic assessment and revision of regulations affecting small business.</p> |
| <p>7 Governments do not appreciate business' costs to comply with information requests.</p>  | <p>Information should not be a free commodity to government in every circumstance, which will limit non-essential information requests. Small businesses should be compensated for certain discretionary information requests.</p>   |
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## B Information Burden

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| <p>1 There is little recognition in government of how its information demands represent a problem for small businesses.</p>          | <p>Regulators dealing with small businesses should be given customer service training, with emphasis placed on understanding the importance of small business to the economy, as well as the risks and difficulties faced by small business owners. When government requires business to provide specific information, it should eliminate penalties for honest mistakes.</p>  |
| <p>2 Information requests are often too complex, too frequent, too expensive, redundant, and require unrealistic response times.</p> | <p>Small businesses require a system that involves less time, is less frequent and reflects the realities of cash flow. Governments should reengineer their regulatory systems to replace complicated calculations with reasonable estimates. Basic employee and taxation data should be provided to a single access point from which different government departments could obtain their required information. Filing requirements for Records of Employment (ROEs) and Statistics Canada surveys need to be simplified. An ROE should only have to be completed when the former employee needs it.</p> |
| <p>3 Records retention requirements are unrealistic.</p>   | <p>Government should review all record retention requirements and reduce them wherever possible.</p>   |
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<b>Key Issue</b>	<b>Recommendations</b>
4 Workers' Compensation premiums are too high, are rising too rapidly, and don't reflect actual risk.	Legislation of a short-term waiting period before benefits are paid out would help reduce rates by limiting short-term claims and cutting down on abuse.
5 Remittances of employee deductions are required on a too-frequent basis.	Replace monthly remittances with quarterly payments. The Canada Revenue Agency (CRA) and Human Resources and Skills Development Canada (HRSDC) should re-engineer the payroll tax remittance system.

## **II Human Resources Management In Small And Medium Enterprises**

### **A General**

1 Small businesses are focused on generating revenue, and they consequently lack the time and resources to build infrastructure and processes, including HR management.	Studies have shown that implementing effective HR practices is one of the most important success factors for small companies. There is a strong correlation between HR management practices and growth in sales, profits, and customer satisfaction. Investing in HR is as important as any other aspect of business strategy. Small business should make investment in HR management a priority.
2 SMEs remain the predominant employer in Canada, but little guidance is available to them for managing their human resources. SMEs face unique problems that make the application of big business HR management models difficult or impossible.	Research needs to be conducted on pragmatic HR management models appropriate for small businesses. These need to be developed from the ground up, and not be just adaptations of big business models.
3 HR management is of increasing importance due to the shortages of skilled labour, a lagging educational system relative to labour market gaps, and growing attrition as baby boomers retire.	Small businesses can address some of their skills shortages by recruiting from underutilized labour sources (e.g. immigrants, Aboriginals, disabled persons, and older workers). Small businesses should not only recognize the skills and experience of older workers, but should also explore both flexible work hours and partial/phased retirement to both recruit and retain them.
4 Many small businesses lack information about the various employment-related programs and services available to them.	Organizations responsible for the delivery of these programs need to better coordinate their communication efforts with local community-based organizations. Government should work with the business community to make these programs more relevant to employers.

**Key Issue****Recommendations**

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| 5 | The vast majority of small business owners seek no formal HR guidance or support, in spite of complex legislation and the challenges of HR management. | Most small businesses need less than half a day per week of support from an HR manager/advisor. This support is increasingly available from HR consulting firms. |
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**B Human Resources Planning**

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| 1 | The majority of small businesses do not have an HR plan in place, often resulting in turnover, inconsistent productivity, and reduced profitability, even with increased sales. | Small businesses should develop an HR plan, incorporating clear business goals, an appropriate workforce in terms of size and skills, a knowledge of all workforce costs, regular plan review, and succession planning.   |
| 2 | Some small businesses often can't afford to hire full time staff.   | Alternative options include buying equipment or technology to increase operational efficiency, employing part-time employees and/or students, and outsourcing.  |
| 3 | Small businesses need to prepare employees in anticipation of future growth, turnover, and unexpected departures.   | Small businesses should plan for turnover, and balance short-term labour fluctuations with part-time employees, retirees, and co-op/summer students.  |
| 4 | Small businesses often lack the business skill sets they require to grow and prosper.   | A current business skills inventory should be completed and assessed, with any resulting gaps evaluated and future recruitment efforts aligned accordingly. Outsourcing may be appropriate, but training existing employees to close current skills gaps, if possible, is the most cost-effective strategy. |
| 5 | Many small businesses have not addressed the issue succession planning and pending shortages due to an aging population.  | A succession plan is integral to the HR planning process. In addition to the small business owner, managers should also develop succession plans for their respective departments.  |
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**C Outsourcing**

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| 1 | Currently, small businesses are primarily not outsourcing HR administration, which would allow HR activities to be focused on policy and decision-making. Instead, what is being outsourced is HR-related transactional work. Consequently, the opportunity to improve strategic HR , service, and competency, is being squandered. | Small business owners should begin to consider outsourcing their HR administrative activities, and not just transactional functions, in order to optimize the benefits of outsourcing. |
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**Key Issue****Recommendations**

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| 2 Many small businesses can't afford to use external HR management consultants extensively. | Small businesses should also evaluate the quality of the outsourcing services they receive through some form of performance metrics that link outsourced services to objectives. |
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**D Recruitment**

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| 1 One of the greatest challenges for small business is attracting exceptional employees in a competitive business environment. Small businesses often have specific recruitment challenges, including a lack of local candidates with the requisite education/skills/experience, inadequate resources to pay competitive salaries/benefits, and jobs that are unappealing due to working conditions or the nature of the work (e.g. temporary, seasonal). | In order to optimize their recruiting efforts, small businesses first need to determine their hiring requirements, skills inventory, skills requirements, candidate sources, the local labour market, and their optimal business size. Once these factors have been determined, small businesses can respond in an appropriate way. This may involve purchasing advanced technology, outsourcing production and/or certain functions, employing part-time employees, or even, in some cases, scaling back operations to maximize profit.   |
| 2 Chronic shortages of skilled labour have reached unprecedented levels, and are exacerbated by the “demographic bomb” i.e. attrition due to the aging of the Canadian workforce. The impact of prolonged skills shortages on the growth, productivity, and competitiveness of the Canadian small business sector is profound.  | Representatives from business, government, and education need to come together to address the problem of skilled labour shortages. The technical training required to complete apprenticeship programs needs to be more accessible to small businesses located in rural communities. There is a need for greater promotion of the skilled trades and technical occupations as viable career options for youth.   |
| 3 Smaller businesses face particularly difficult challenges in attracting skilled labour in a competitive job market. They typically lack the advantages of dedicated HR personnel, the infrastructure to deliver in-house training, and less flexibility to deal with job vacancies.   | Small employers should create a public image in the community, building a public presence. A small businesses should develop its reputation as an “employer of choice” through marketing and “employment branding” - differentiating the company in the labour market through the adoption of best practices in retention, recognition, reward, promotion, motivation and flexibility in work-life balance, including the adoption of flextime. Small businesses can investigate a variety of recruitment sources, provide job placements for cooperative training programs, and employ applicable government programs. Other solutions include the use of part-time/temporary employees, and job sharing. |
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**Key Issue****Recommendations****E Hiring**

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| 1 | Small businesses need to become proficient in hiring given that the internet is the fastest growing recruitment source. Online recruiting can provide inexpensive, worldwide access to employees.  | Using the Internet for recruiting involves the use of specialized recruitment sites, newsgroups, electronic publications, and the business' own website. Employers should establish a presence on web sites aimed at employees of interest.  |
| 2 | Small business owners need to be aware of the legal and tax consequences arising from conflicting definitions of "employee" and "independent contractor". Employers have fewer legal obligations when dealing with an independent contractor vs. an employee, including liability for payroll taxes and severance pay. | Employers should consider various factors if they want to ensure workers qualify as independent contractors. These include economic dependency of the worker on a single organization, the degree of control the employer has over the way the work is completed, whether the worker is subject to the employer's company policies, and if the employer provides the premises, tools, or equipment used by the worker. |

**F Retention**

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| 1 | It is very difficult to grow a business that is encountering turnover problems. The time and money invested in the recruitment and employee development process are wasted if employee turnover becomes an issue. The total cost of replacing an employee is in the range of 70% - 200% of their annual salary. | Successful approaches to retention involve determining business requirements, hiring workers who are a good fit, and maintaining a positive workplace environment. Informal conversations, formal exit interviews, staff satisfaction surveys, and planning for change can all be employed to address turnover problems. |
| 2 | Orienting new employees to their workplaces and jobs is an underutilized task in many small businesses. An effective, new employee orientation program will facilitate both business productivity and employee retention.   | Every small business should have a viable employee orientation plan, and all new employees should complete it. Managers should be knowledgeable with respect to the employee orientation process, and be involved in its continuous improvement.   |
| 3 | Many small businesses lack performance management systems.  | Performance management systems should be established. Recognizing and rewarding positive performance is an important component of retention. Managers should be involved in the continuous improvement of the performance appraisal system.  |
| 4 | Many small businesses lack employee recognition programs.   | Employers should try to establish employee recognition and reward programs that build positive morale, and reward behaviours that result in desired business outcomes.   |

**Key Issue****Recommendations**

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| 5  | Research indicates that a lack of communication is a major weakness in many SMEs.   | Employers should establish an open communications policy (including the implementation of internal communications tools) which supports positive employee relations, and is essential in times of change. Employees who are informed are more satisfied, feel more involved, and contribute more.   |
| 6  | Work overload is common in small businesses, and takes a toll on both the business and its employees, including higher rates of absenteeism, more errors, less innovation, lower employee morale and job satisfaction, and increased health benefit and long-term disability costs. | Overworked employees do many things poorly. It may be more productive to ask staff to accomplish fewer things effectively. Effective responses include the hiring of employees who are appropriate for their jobs in the first place, reduction of waste and redundant tasks, improved time management, adoption of new technologies, and ensuring employees have the necessary tools to do their jobs. |
| 7  | Employers often treat training as a “one-shot deal”.  | Employers should provide training on a continuous basis so the employees can constantly upgrade their skills.   |
| 8  | Turnover problems often arise because employees see no congruity between their goals and those of their employers.  | Employees need to view their jobs as a means of achieving financial, professional and social goals. Employee job security should be a primary management objective.   |
| 9  | Many small businesses have inadequate compensation strategies that impair their ability to attract and retain qualified employees, and compromise productivity.   | A creative compensation strategy can help a small business attract better employees, retain employees and customers, and increase productivity. The best strategy combines competitive salaries, non-cash benefits, a positive working environment, and performance-based remuneration.   |
| 17 | Employees only understand and utilize between 31% and 68% of the cost of the benefits they receive.   | Employees undervalue their benefits for various reasons, including poor communication by employers, limited choice in benefits options, and ignorance of the value of benefits. Employers can overcome this lack of appreciation by providing greater benefit choices and information.  |
| 18 | Small business owners cannot offer pension plan benefits because of the costs, complexity, and time involved in the administration of these plans.  | Small businesses can set up Group RRSPs relatively easily. Group RRSPs are a form of defined contribution pension plan, with funding provided by all of the company’s employees.  |
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**G Workforce Development & Training**

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| 1 | Training is often not afforded adequate importance in many small businesses. | Senior management should allocate sufficient resources to ensure the success of training and development programs. Managers’ and supervisors’ performance evaluations should incorporate the career development progress of their staff. |
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**Key Issue****Recommendations**

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2	Training plans are not always consistent with actual training needs.	Training and development planning should be integral to overall business planning, and address both technical skills and management development needs. Training requirements should reflect organizational competencies, employee performance appraisals and career development needs.
3	Employees do not always perceive training programs as relevant.	Employees should be involved in the development of training programs.
4	The efficacy of training programs is often unknown.	The success of all training programs should be objectively measured.
5	For small businesses, the primary obstacle to providing training is a lack of adequate time and money.	Potential solutions include technology-based learning, distance learning, and on-the-job training and mentoring. A combination of solutions may work best.
8	With the pending retirement of baby boomers, the need for managers and supervisors to replace retirees is an urgent issue, but many small business owners are unprepared to deal with retirement and succession planning.	Training programs should include management and supervisory training as required, and as an integral part of retirement/succession planning.
8	E-training represents a viable strategy for many small businesses, but most are not using it.	The primary reason for not using e-training is a lack of awareness. Small businesses need to familiarize themselves with this strategy to evaluate its applicability to their operations.
9	Small businesses need to develop greater capacity to deliver effective on-the-job training.	Small businesses need to work in partnership with industry/trade associations and educational institutions to ensure optimal training approaches. Government needs to play a larger role in assisting small businesses with effective tools to facilitate their investment in training.
10	Many small business managers need additional training in developing the skills associated with the new economy.	In addition to conventional skills training, small business jobs in the new economy will also require a high degree of entrepreneurial development.
11	Government should not compete with private sector providers of training and skills development.	Sector councils, labour force development boards, and co-op and apprenticeship programs are already currently having an impact on skills development in Canada. Government should restrict its role to encouraging these initiatives.
12	Co-operative education programs should be expanded, offering small businesses the opportunity to hire and develop youth who might become valued employees later on.	Government should promote and facilitate the expanded use of co-operative programs by key stakeholders, including secondary and post-secondary educational institutions and SMEs.

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**Key Issue****Recommendations**

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13 There are no Canadian national standards for trainers, nor is there any process whereby businesses can provide input on what training standards are required or how they should be defined.	Canada's public and private sector educators should organize themselves into a Training Sector Council, which could market training and set its own training standards.
14 Skills are extremely important in the new, knowledge-based economy, but many people are unaware of the reality that lifetime learning is essential to keeping skills relevant.	The private sector and government should work together to promote a better understanding of the competitive advantages arising from improved workplace skills.
15 The key to the security of the Canadian workforce, and the overall competitiveness of the Canadian economy, is upgrading the skills of adult workers.	Sector councils represent an effective way of addressing skills and labour shortages, meeting emerging skills requirements, and establishing the basis for continuous learning. They work with industry partners to develop HR solutions specific to the sector.

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