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Executive Summary

The Ontario Network of Employment Skills Training Projects (ONESTEP) is a province-wide umbrella-organization that promotes community based employment and training (CBET) and provides a range of capacity building services that support the viability of organizations within the CBET sector. The Strategic Compensation Framework Project (SCF), supported by Employment Ontario is one of ONESTEP’s initiatives that responds to the human resources needs of our member agencies. The SCF project addresses compensation issues related to the recruitment and retention of highly skilled staff in the CBET sector by providing three deliverables: the bilingual compensation guide that will provide the key elements of an employer compensation framework; the evaluation and comparison of twelve key positions across the public, private and not-for profit employment sectors, which will be used to inform stakeholders on the variances in wage and job descriptions; and, online compensation tools that will facilitate job matching and establishing salaries in organizations.

This Compensation Guide is a handbook developed by ONESTEP to assist managers with an overview of human resources information to better understand the components of compensation and choices available when reviewing policies and practices for employing and retaining workers.

Managers have come to consider compensation as a key factor in their organizations’ competitiveness in attracting, recruiting and reducing staff turnover. Chapter 1 defines compensation including both its intrinsic and extrinsic rewards, and delves into the importance of internal equity and external competitiveness. Examples of inequities are addressed and questions for consideration are offered to help determine whether their organization actually practices internal and external equity.

Employee compensation which covers all forms of pay or rewards has become more complex in recent years and since compensation comprises the largest expense for most organizations it is important for managers to understand how to effectively manage compensation-related activities. Chapter 2 categorizes total employee compensation into Base Pay, Performance Pay, and Indirect Pay outlining both the advantages, and the disadvantages of each form of pay.

Job Evaluation is a tool that compares jobs and ranks them based on their relative worth to the organization. Because this process can play a central role in ensuring that an organization’s compensation system is internally equitable, legally defensible and externally competitive, it will be outlined over three chapters.

Chapter 3 emphasizes the important role of job evaluation in compensation systems. It describes the process of job analysis and provides guidelines for writing job descriptions. The four most commonly used methods of job evaluations are described and compared. They are: Ranking, Classification, Factor Comparison, and the Point Method.

Because the Point Method is the most applicable methodology of job evaluation for ONESTEP members, it has been chosen to be described in more detail in this manual. Chapter 4 further describes the Point Method. Using examples from Ontario’s Pay Equity Commission, this chapter outlines the first six of the seven steps of the Point Method: 1) conducting a job analysis; 2) determining
and defining compensable factors and sub-factors; 3) establishing and ranking the degrees of the factors and sub-factors; 4) weighting the factors and sub-factors; 5) checking reliability, and 6) communicating with employees.

The focus of the first six steps in Job Evaluation is on determining the relative worth of jobs within an organization from which a hierarchy of jobs is produced. The last step in the process is to construct a pay structure. Chapter 5 details the characteristics of a pay structure together with pay grades, pay ranges and broadbanding. Also briefly described are the criteria organizations typically use to advance employees through either pay ranges or pay grades.

Benefits are likely the single most misunderstood aspect of compensation administration; this stems both from their complexity and from the difficulty of controlling their costs. Chapter 6 describes the different types of benefits including mandatory government plans, pensions, health care benefits, income security, pay for time not worked and employee services. It also outlines various options that managers might consider when evaluating and modifying benefit plans offered to employees; for instance, suggestions are offered to help control health care costs such as flexible benefit systems, cost sharing, and health care expense accounts.

Linking compensation to performance has been found to be one of the most unclear and controversial issues particularly for not-for-profit organizations. Although most organizations have a performance appraisal system in place, few managers and employees believe that it effectively links pay to performance. Chapter 7 describes a case for and against financial incentives pointing out the frequent drawbacks of implementing an improperly designed and flawed performance appraisal system. This chapter goes on to briefly define Performance Appraisal including rater biases and outlines Performance Management as a relatively new practice in organizations.

Unions have had a direct influence on all organizations’ compensation policies and programs whether or not their employees are bound by collective agreement with an organization. Chapter 8 details the implications of unionization for the management-employee relationship and its impact on compensation systems.

Salary survey information is essential for setting wages that are competitive enough that an organization will be able to recruit and retain skilled employees. Chapter 9 outlines the uses of surveys, what to look for when interpreting published survey results, reasons to participate in a salary survey, and the limited circumstances in which an organization might consider conducting or commissioning a salary survey. This chapter also includes helpful online sources for collecting and analyzing survey data.

Compensation will only have the desired impact on attitude and behaviour when employees understand the pay and the benefit options that apply to them, and the associated policies and procedures. Well thought out compensation communication increases morale and employee satisfaction with their organization and decreases turnover. Chapter 10 emphasizes the importance of conveying information to employees in a transparent and well-explained manner. It outlines useful modes of communication along with feedback mechanisms to ensure that information is well understood, as well as pointing out some of the barriers to effective communication on compensation.
Chapter 1: Compensation and Internal & External Equity

A growing realization among not-for-profit organizations and their funders is that human resources performance is a key determinant of organizational effectiveness. As this effectiveness, in turn, depends upon organizations’ ability to recruit and retain skilled employees, these organizations’ compensation packages must be externally competitive and internally equitable. And, as complex as compensation is, further complications are budgetary limitations constraining not-for-profits from offering a more generous compensation package.

A compensation strategy that is aligned with an organization strategy helps ensure that managers can attract and retain high-quality employees. Designing such a strategy is itself a complex process with numerous decision points and multiple variables to consider.

Whether they are developing a compensation package for new or existing positions, it is important for human resources managers to consider their organization’s size and complexity, its fiscal capacity and the market rates for jobs requiring similar skills.

What is Compensation?

Compensation is the area of human resources management which involves making decisions about pay that are fair, equitable and competitive with current market rates; providing employees with incentives to improve performance; ensuring that benefits packages are cost effective and serve to motivate employees, and making certain that all compensation-related policies and programs comply with government requirements.

The HR Guide to the Internet defines compensation as a systematic approach to providing monetary value to employees in exchange for work performed. Compensation strategy is a set of tools used by management to further the objectives of the organization. It can assist in recruitment, improving job performance, achieving equity, promoting and enhancing job satisfaction, reducing turnover and improving relations with unions. And it can be adapted to changes in organizational needs, goals, and available resources.

Long 2006, page 126 categorizes compensation into extrinsic and intrinsic rewards.

Extrinsic Rewards are those rewards which are most visible, such as job security or opportunities for promotion. They may be further divided into direct rewards, including cash compensation such as base pay and performance pay and indirect rewards generally classed as non-cash, or benefit items, that protect an employee’s income or contribute to the employee’s standard of living.

Intrinsic Rewards are derived from the workplace itself and are valued internally by the employee. These include opportunities for personal growth, quality of work life, job satisfaction, challenges, personal and professional development opportunities, a sense of belonging, freedom to act, visionary leadership.

To sum up, total compensation is the sum of all the direct and indirect compensation elements used by an organization to compensate its employees.

www.hr-guide.com/data/G400.htm
INTERNAL EQUITY AND EXTERNAL COMPETITIVENESS
– DETERMINING PAY & BENEFITS

A central feature of a compensation policy is the balance between internal equity and external competitiveness. Employees will perceive their pay to be equitable if it is fair in relation to their peers in the workplace and in other organizations. Internal equity is achieved when compensation programs are applied consistently, horizontally and vertically, across an organization. Maintaining external competitiveness relies on comparative data from competing employers in the same labour market.

Kanungo describes the role equity plays in compensation:

Internal, external and individual/personal equity issues are key ethical concerns in compensation management. At the internal level, an organization’s pay structure reflects the values of jobs to the organization. At the external level, levels of compensation are in accord with those of the relevant labour market. At the personal or individual level, compensation matches their job performance. Perception of inequity at any of these levels will lead to employee dissatisfaction, which in turn will lessen the motivation to perform well. (Kanungo 65)

Importance of Achieving Internal and External Equity

Equity, in particular internal and external equity, is a crucial factor in determining pay rates. The fairness of a compensation policy can be assessed by employees’ pay levels in relation to those of their colleagues and employees in comparable jobs in the larger market. When pay rates are too low, the organization will face difficulties with recruitment and retention. By contrast, if they are too high, the organization may face financial difficulties.

The process of establishing pay rates, while ensuring internal and external equity, typically takes different measures:

- **Achieving Internal Consistency (Internal Equity)**
  Here the worth of each job within the organization is determined through the Job Evaluation process (job analysis, job descriptions, & job evaluations). This establishes the relative worth of a job in relation to the value of other jobs in the workplace.

- **Achieving External Competitiveness (External Equity)**
  Before comparing external market rates on a position, human resources managers need to set out the essential elements of existing compensation policies such as cash compensation and indirect pay. This mix is a central consideration when making comparisons to pay levels at other organizations. Another consideration in designing compensation strategies is whether to match, lag or lead the market. One common method for accessing information on pay rates for benchmark jobs in other organizations is through using or collecting salary survey information.
Inequities

Inequities exist within an organization when the salaries of employees are out of alignment. Organizational alignment occurs when appropriate pay differences exist between supervisors and the employees they supervise; employees in different grades; and, employees in the same pay grade with different levels of responsibility, qualifications and performance.

In addition, internal inequity is present when employees within a given organization with comparable qualifications, levels of responsibility, history, performance and length of time within the same salary grade are not paid at comparable rates.

And, external inequity exists when an organization’s pay rates are not in line with those of the relevant market. This can lead to serious employee recruitment and retention issues.

**EXAMINING EQUITY**

The process of assessing internal equity can serve to highlight many organizational problems. First compensation philosophies need to be identified and examined for fit with internal equity adjustment plans. Next, managers need to know whether the organization has the funds to implement such a plan. Questions that managers may need to consider are:

- Is the pay structure properly defined or is it inadequate?
- What are employees making in comparison to those with identical skills and equally important experience?
- How are employees compensated for internally developed experience versus external experience brought with them to the organization?
- Is length of service valued?
- What is the turnover rate and what, if any, impact does internal equity have on it?
- Is the organization unable to attract candidates to a position because it cannot maintain market-competitive salaries?
- Has the organization needed to increase compensation for a position, resulting in it being higher paid than the same type of jobs with more skills or responsibilities, thus throwing salaries out of alignment?
- Does the organization have consistent hiring and promotion practices?

From the perspective of motivating performance, managing internal equity is probably more important than managing external equity. Employees can more easily understand and obtain information on salaries and job performance standards within their workplace than in other organizations. Their perceived inequity can lead to morale problems and turnover. Conducting a job evaluation and the development of an equitable pay structure which is competitive with the external market rates can be used to attract and retain high performance employees.

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**External Competitiveness**
results from comparing and matching or exceeding the compensation rates of one organization to those of its competitors.

**Labour Market** is the geographical area from which an organization recruits employees and where individuals seek employment.

**Market Rate** is the rate of pay established for a “benchmark job” outside of the organization. It is determined through the collection of pay data gleaned from surveys of numerous organizations.

**Benchmark (or key) job** is a standard job from either within the organization or outside the organization used as a reference point for pay comparisons. These jobs have relatively the same job content and there is not much difference in their rates of pay.
Sometimes employees may decide to seek employment elsewhere because of better pay; rather than lose the employee to the competition, a counter offer may be made. In such circumstances pay increases can be used as a retention strategy. However, before implementing such increases, consider the following factors: Is the competing offer for the same level of responsibility? How does the total compensation package (salary, benefits, hours of work per week, etc.) compare to the existing compensation package? And, if this warrants an increase, how will the counter offer impact internal equity? Does the organization have the financial capacity to provide an overall increase to salaries? And, if it does not, how will this affect the morale of the other employees in the organization?

To correct salary inequities, managers may need to adjust their pay structure. Once funds are approved for this undertaking, determining the worth of all internal positions through job evaluation should be the first step in the process. Achieving external equity would be the next important measure to be taken and can be accomplished by comparing internal positions to ones in the external market. The comparison can be done through the collection of salary survey information and matching internal jobs with the survey’s “benchmark jobs”, followed by adjusting the salary to the market reference point of comparable jobs. Although this sounds rather straightforward, there are other factors that may affect pay decisions, one being, labour shortages. It may mean that in order to attract candidates which are scarce and in high demand a market salary adjustment may be warranted. In such circumstances, transparency of the pay structure and communicating the rationale behind compensation decisions will ensure that employees will perceive their compensation system to be fair and equitable.

www.auxillium.com/pay.shtml
Chapter 2: Forms of Pay

Because employee compensation comprises the largest grouping of expenditures for most agencies, managers with HR responsibilities need to understand the various types of compensation that are part of Total Compensation and how to manage these lines on the budget effectively. In keeping with the focus of this manual, this chapter will pay particular attention to the compensation issues most relevant to not-for-profits.

In recent years, compensation has become a far more complicated issue than setting pay levels. Strategic compensation policies reward employees’ past performance, allows the employer to remain competitive in the job market, maintain compensation equity among employees, align employees’ performance with organizational goals, control the compensation budget, help attract new employees and reduce the costs of employee turnover. For not-for-profits, strategic compensation policies need to be grounded in organizations' mission, vision and work, taking into account the size of the organization, its service area and financial capacities. They must ensure that their human resources is planned most effectively toward meeting organizational goals.

Total Compensation refers to all forms of pay or rewards going to employees as a result of their employment and can be broken down into three categories (Long 2006), Base Pay, Performance Pay and Indirect Pay. Although base pay remains the largest, most readily quantified component in most pay systems, indirect pay, often referred to as “benefits” constitutes a significant and increasing expenditure for many organizations. With good design and consistent administration performance pay plans can aid in motivating employees toward meeting strategic objectives.

Base Pay

Pay in return for time worked, and separate from output or results achieved, base pay is typically the largest amount on an employee’s pay cheque. Employees have their wages (for hourly pay periods) or salaries (for weekly or monthly pay periods) guaranteed by employers as part of the terms of their employment. When given a preference for how they would choose their form of income, most employees prefer having the security in that the largest proportion of their compensation is base pay. Trade unions have generally pushed for base pay as the primary pay component.

Performance Pay

Sometimes known as ‘performance-contingent pay’, ‘variable pay’, or ‘at risk pay’, performance pay can be classified as to whether the performance is related to individual employees, a work team, or the entire organization. Plans which highlight individual performance are the most effective in almost any setting for promoting improved performance and include piece rates, commissions, merit pay and targeted incentives. Work team performance plans include productivity, gain-sharing and goal-sharing. Organization performance plans include profit sharing and stock plans.

Compensation encompasses all forms of financial returns and tangible services and benefits received by employees as part of their employment.

Base Pay is compensation based on time worked, such as an annual salary or an hourly wage and it does not include pay benefits, overtime or incentive pay.

Performance Pay is a monetary onetime payment made to an employee, team or the whole organization for achieving results established at the beginning of a performance cycle.

Merit Pay is a monetary reward given in recognition of outstanding performance which increases base pay. It may be paid in a lump-sum or added incrementally to base pay.

Indirect Pay is part of an employee’s total compensation package, non-cash items or services provided to employees in return for their contribution to the organization (i.e., health benefits, paid time off). Sometimes the costs for the items are shared by the employees.

Compensation Mix may include a part of base pay and/or performance pay and/or indirect pay or a relative proportion of each.

Salary is direct compensation/pay calculated at an annual or monthly rate rather than by hour.

Wages are direct compensation/pay calculated by the hour.
In this sector, merit pay is often portrayed as performance pay. Surveys have shown that this form of compensation has some support if performance standards are perceived as objective and the performance appraisals that provide data for decision making improve job performance. This type of plan leads to permanent increases in base pay in recognition of past performance and can be used to move employees to a higher level in their pay range, however, its usefulness in aligning employee future behaviour with organization strategic objectives is somewhat limited.

**Indirect Pay**

The term indirect pay acknowledges that benefits are an integral and significant part of total compensation for most organizations and should be considered a component of employee pay in the same way as base pay and performance pay.

Averaging anywhere from 10 to 40% of a given organization's total compensation, indirect pay can be any employee related expenditure not included in base or performance pay that is a gain to the employee. The six main categories of indirect pay are as follows:

1. Benefits mandated by law, including employer contributions to the Canada/Quebec Pension Plan, Employment Insurance, and the Workplace Safety and Insurance Board;
2. Deferred income plans, more commonly known as retirement or pension plans;
3. Health-related benefits such as life, medical, dental, or disability insurance;
4. Pay for time not worked, such as holidays and leaves;
5. Employee services, ranging from employee assistance programs to food services;
6. Miscellaneous benefits ranging from provision of agency cars to purchase discounts on agency products or services.

Indirect pay systems vary as to whether they are fixed or flexible and as to whether the costs are borne by the employers, the employees or are shared. To be successful, management of indirect pay systems must consider union demands, the benefits other employers are offering, tax consequences, rising costs, and legal ramifications.
The Compensation Mix

To decide the relative proportion of base pay, performance pay and indirect pay to include in the compensation mix, a breakdown of advantages and disadvantages of each should be considered:

**Advantages and Disadvantages of the Compensation Mix**

<table>
<thead>
<tr>
<th>Component</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| **Base Pay** | • Flexibility  
• Recognizes job requirements  
• Highlights relative importance of jobs  
• Demonstrates commitment to employees  
• Can support managerial strategy  
• Simplicity | • Fixed pay commitment  
• Does not motivate task behaviour  
• Does not encourage citizenship behaviour  
• Not self-correcting |
| **Performance Pay** | • Highlights key work behaviours and motivates action  
• Acts as a control mechanism  
• Creates employee interest in performance  
• Can support managerial strategy  
• Can be linked to organization’s ability to pay | • Requires a clear system of goal setting, performance feedback and performance evaluation as well as managerial training in the system  
• Employees prefer predictable rewards  
• May raise compensation costs  
• May distort performance toward inappropriately behaviours  
• May have unanticipated consequences  
• More complex to administer than base pay |
| **Indirect Pay** | • Can aid recruitment  
• Removes an incentive for unionization  
• Favourable tax treatment for individual employees  
• Economies of scale in purchasing packages  
• Can provide rewards which are valued more highly than their cost  
• Provides employee security  
• Aids employer in acting humanely  
• Can support managerial strategy | • Costs can be substantial and/or difficult to control  
• Funders do not always reimburse employers for these costs  
• Rigidity  
• Difficult to develop efficient and effective benefits package  
• Administration and communication costly  
• Does not motivate task behaviour  
• May encourage undesirable behaviour |

(Long 2006 124)

**Determinants of Compensation**

Various factors affecting compensation include financial and equity considerations. To attract and retain qualified employees, managers must make certain that their pay rates are fair compared to positions within the organization and outside of it (internal and external equity). To achieve this, market rates are used, because they are perceived to be the most objective and valid guide for setting compensation levels. However, this falls short of ensuring equity within the organization. To facilitate internal equity, positions need to be evaluated consistently and fairly and classified into appropriate pay ranges.
Chapter 3: Evaluating Jobs (Part I)

In all organizations, managers have the expectation that they will be able to recruit and retain appropriately skilled employees who are able to perform the tasks and responsibilities outlined in their job descriptions. Employees want to be paid at levels that are fair and equitable in comparison to other jobs in the organization and in the marketplace. Job evaluation can increase the capacity of organizations to recruit and retain qualified employees at competitive rates of pay affordable to the organization; that is, job evaluation can ensure that both management and employees will have the perception that compensation is fair and equitable.

What is Job Evaluation?

Job evaluation is the systematic scoring and comparison of jobs along organizationally determined dimensions of job worth such as in the effort, responsibility, complexity, importance, skills and the working conditions of a job. One possible end product of job evaluation is a job classification structure in which jobs of similar value to the organization, no matter how different in other respects, are located at the same level on the job pay hierarchy. This job pay hierarchy provides the foundation for the development of pay grades and pay ranges. (Long 2006 243)

Job evaluation is the process of determining and quantifying the value of jobs. Significant aspects of the process include:

1. Determining the innate value of jobs
2. Determining the relative value of jobs
3. The use of external market information
4. The use of objective measurement instruments, and
5. Stakeholder participation and negotiation.

During job evaluation jobs are analyzed and compared according to their job descriptions. This process can be the foundation of an equitable and consistent system of compensation. And it also provides information for organizational analysis and human resource management.

Since job evaluation is critical both at the organization level and the individual level, care must be taken that the process is objective. Both job analysis and consequent evaluation should focus on the duties and responsibilities assigned to specific positions, and not the incumbent’s performance.¹

Why Do We Do Job Evaluation?

Job evaluation is a tool to compare jobs consistently and classify them into appropriate pay ranges. The process can ensure that an organization’s pay system is equitable, understandable, legally defensible, and externally competitive. Job evaluations can be used to help to attract desirable job candidates and retain high performance employees due to fair and equitable pay scales.

Methods of Job Evaluation

Job evaluation requires information to distinguish among jobs, usually on the basis of work activities and/or job required worker characteristics. The most utilized evaluation methodologies are:

1. **Ranking** involves creating a hierarchy of jobs by comparing jobs on global factors that presumably are common to all the jobs being evaluated.

2. The **Classification** method defines categories of jobs and slots jobs into these classes.

3. **Factor Comparison** involves job-to-job comparisons on several specific factors.

4. The **Point Method** compares jobs on rating scales which are comprised of specified factors.

Each of these methods is based on one or a combination of two general approaches: (1) an analysis of the job as a whole or (2) an analysis of the job’s individual components.

Steps in the Job Evaluation Process

Job evaluations typically follow these steps:

1. Review the choices of job evaluation methods such as job ranking, classification, factor comparison and point factor analysis and select the method most appropriate to meet the organization’s needs.

2. Gather information on each job within the organization, analyzing job content to make sure it is clear and understandable; job content can be revealed utilizing job questionnaires, job descriptions, interviews and/or work site visits.

3. Ensure that each job description lists pertinent accountabilities and responsibilities; revise or expand job descriptions using the information collected.

4. Evaluate each position utilizing the chosen method and link the ranked job to the organization’s existing compensation system or to a newly developed pay structure. The point system evaluates the skill, effort, responsibility and working conditions involved in the job; here, each of these factors is subdivided into sub factors to provide standards against which each job is rated to determine its relative worth.

5. Create the appropriate pay grades and pay ranges in the pay structure and along with policies and procedures setting out employee progress within the range.

6. Periodically review the job evaluation system itself, developing procedures for evaluating and modifying the system and the resulting compensation decisions.

**Job Evaluation** is a systematic process that compares jobs and ranks them based on their relative worth to the organization. It is used to create a job structure for the organization and establish compensation standards.

**Job Analysis** is the process of identifying and determining information about a job for the purpose of writing descriptions. Factors considered include duties, tasks, responsibilities, and skill requirements, among others.

**Job Description** is a written summary of a job which identifies the position and describes its tasks, major duties and responsibilities and minimum qualifications and abilities required to perform the job.

**Job Family** is made up of related jobs distinguished by levels of knowledge, skills, and abilities (competencies) as well as other factor required of the jobs.

**Job Class (Job Grade)** represents a group of jobs that are substantially similar, justifying a common name, similar selection processes and similar compensation.

**Ranking** is a simple job evaluation method that ranks jobs from highest to lowest based on the overall value of the job to the organization.

**Alternation Ranking (Paired Comparison)** is a job evaluation method that ranks jobs from two extremes – most important and least important – simultaneously. The most valuable and the least valuable jobs are ranked, then the second most valuable and the second least valuable, until all jobs in the organization have been ranked.
**Job Analysis**

Job Analysis is a process to identify and determine in detail the job duties and requirements and the relative importance of these duties for a given job. Job Analysis is a process where judgments are made about data collected on a job. (www.hr-guide.com) The purpose of job analysis is to provide the information necessary for preparing job descriptions and evaluating jobs. This information may be obtained through workplace observation and/or interviews, questionnaires, and activity logs.

Job analysis has been referred to as the cornerstone of human resources management. Organizations use information obtained by job analysis for a number of interrelated human resources functions such as recruitment, selection, and placement; organization planning and job design; training; grievance settlement; as well as job evaluation and other compensation programs. Having accurate, objective and verifiable information about jobs and their human resource requirements is essential for legal compliance.

In compensation, job analysis has two critical uses:

1. It documents similarities and difference in the content of jobs, and
2. It establishes an internally rational and aligned job structure.

In such a structure, if jobs have equal content, then in all likelihood, the pay established for them will be equal. On the other hand, differences in job content, along with the market rates paid by competitors, are part of the rationale for paying dissimilar jobs differently. (Milkolvich 2005 67)

**Why Perform Job Analysis?**

Potential uses for job analysis have been suggested for every major human resources function. Job analysis identifies the skills and experience required to perform specific jobs, clarifying hiring and promotion standards. Training programs and jobs themselves may be designed using job analysis data. In performance evaluation, both employees and supervisors look to the required behaviour and results expected in a job to help assess performance.

Job Analysis can produce the following types of information:

- Tools, materials, and equipment used to perform job tasks
- Methods or processes used to perform job tasks
- Specific duties related to a job, putting the position in context and sketching out broad responsibilities
- Critical tasks and key result areas of the job, including discrete outcomes of the job for which the person appointed will be held accountable and evaluated on.

**Methods of Job Analysis**

There are five main methods (employed individually or in combination) that can be used to obtain job information:

1. **Observation:** the researcher watches the employee perform the job, recording data on a standardized form. This method is only useful for simple, usually manual tasks for which the employee can be directly observed.
2. **Interviews:** a sample of employees carrying out a given job and/or their supervisors are asked a series of questions about the job, the essential tasks of the job, and the abilities required to perform it well.

3. **Questionnaires:** a standard questionnaire about the essential tasks of the job is administered to the employee and/or supervisor; these may vary as to whether they are open or closed, organization-specific.

4. **Activity Logs:** employees identify every activity in the course of work and the time spent on it during a set period.

5. **Functional Job Analysis:** using the generic descriptions in Canada’s National Occupational Classification, the analyst can choose to use this guide and adapt it to the needs of the organization.

*(Long 2006 418-421)*

**Job Descriptions**

Making use of the information collected in job analysis, standardized job descriptions outline *What* physical, mental, and interactional activities a job entails, *How* a worker utilizes methods, procedures, tools, and information sources to carry out a given job, and *Why* the job was developed (the necessary role it plays in the organization’s meeting its objectives). The well written, detailed job descriptions provide the foundation of any internally consistent compensation system.

**Job Description Guidelines**

Though there is no standard for job descriptions typically each contains the following information:

- Job Title, department and/or location, date of posting (job descriptions are typically used for existing jobs, although they can, at times, be adapted for a posting).
- Job Summary – job’s purpose or objectives
- Reporting and supervisory relationships, internal and external
- Authority of incumbent in terms of responsibilities for people, results, and organizational assets and nature and extent of direct supervision of others
- Duties and responsibilities in order of priority or importance, including work aids used in performing duties
- Mental and physical effort demanded by the job
- Working conditions
- Qualifications required to perform the job such as skills, training, education, abilities and certificates or licenses.

Each job description should portray the work clearly both so that the duties can be understood without reference to other job descriptions, and the job description function as a workable orientation tool for new employees. The document should indicate the scope of authority by using phrases such as “for the department” or “as requested by the manager” and include all important relationships. Utilizing action words, it should be specific as to the kind of work, the degree of complexity, the degree of skill required, the extent to which problems are standardized, the extent of the worker’s responsibility for each phase of the work, and the degree and type of accountability.

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**Classification** is a job evaluation method based on job descriptions into which jobs are categorized by class descriptions such as “managerial” or “clerical” to name a few. Jobs are classified by comparing each job to the existing job classes and/or job families of characteristically similar positions and selecting the pay grade that best matches them. This method is popular with the services sector.

**Factor Comparison** is a more complex job evaluation method in which jobs are assessed using a set of compensable factors (i.e., skill, responsibilities, effort and working conditions) and then ranked based on the value to the organization. Jobs are compared within the organization to the benchmark jobs and their rates of pay for each factor to determine job salaries.

**Point Method** *(Point Value; Point Evaluation)*, is a quantitative job evaluation process that assigns points to each job, based on compensable factors. These points are then scaled and weighted, and a total score tabulated for each job. A job's total points determine its relative value to the organization and its location in the pay structure.
Writing Job Descriptions that Comply with Human Rights Legislation

The purpose of human rights legislation is to ensure that employers do not discriminate on any of the prohibited grounds in any aspect or terms and conditions of employment. When assessing suitability for employment, training program enrolment, and transfers or promotions; and appraising performance, the only criteria considered should be knowledge, skills, and abilities, as required by the essential duties of the job. Though job descriptions with clearly identified job duties are not required under statute, they are a best practice in complying with Human Rights legislation since they document that job duties are determined, clarified, prioritized, and justified.

Even when an employee cannot perform one or more of the essential duties of the job due to reasons related to a prohibited ground, such as a physical disability or religion, an employer is expected to make ‘reasonable accommodations,’ unless doing so would present ‘undue hardship.’ (Dessler 147)

Comprehensive job descriptions are a key feature of internally consistent compensation systems, allowing for job analysis and for objective comparisons among positions. They are also essential analytical supports to recruitment and selection, training design, supervision, work performance, setting performance standards and helping to ensure that all organizational activities serve the needs of the organization.

JOB EVALUATION METHODS

The four most commonly used methods of job evaluation are: 1) Ranking; 2) Classification; 3) Factor Comparison; and 4) Point Method.

1) Ranking

Ranking is a relatively easy, uncomplicated and inexpensive method of job evaluation. Jobs are placed in order from highest to lowest based on the overall value of the job to the organization. The job’s value is usually assessed by a group of human resources and managers in terms of skill, effort (physical and mental), responsibility (supervisory and fiscal), and working conditions.

Variations on the ranking method include paired comparison, where the most and least valued jobs are selected first, then the next jobs are chosen and compared and continuing until analysis is complete, always one pair at a time; each job ranked against all the other jobs.

Another ranking method, slotting, can be used once a hierarchy of jobs has been created. New jobs are compared with the hierarchy of existing jobs, and simply “slotted” into the most appropriate level.
<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple, easy to understand, easy to communicate results to employees.</td>
<td>Difficult to administer as the number of jobs increases.</td>
</tr>
<tr>
<td>Very effective when there are relatively few jobs to be evaluated (less than 30).</td>
<td>Relies too heavily on “guesstimates.” Cannot always get evaluators to agree on rankings. Does not establish the relative size of the interval between jobs or differences among ranks. Ranking results cannot be explained, which makes them difficult to replicate and leaves them open to charges of inequity. Jobs’ value and complexity are often assessed on the basis of individual ranker’s opinion. Ranking cannot be used by employers covered by pay equity legislation. Very time consuming; not feasible if there are a large number of jobs.</td>
</tr>
<tr>
<td>It is the simplest of the job evaluation methods to explain.</td>
<td>Since there is no standard used for comparison, new jobs have to be compared with the existing jobs to determine the rank, making it necessary to repeat the process for each new job created; existing jobs must be re-ranked to accommodate the new position. Pay equity requires that four categories of factors must be taken into account when evaluating jobs – skills, effort, responsibility and working conditions the whole job approach does not do this.</td>
</tr>
<tr>
<td>Computer databases can make it possible to use paired comparisons in both small and large organizations</td>
<td>Use of adjacent ranks suggests that there are equal differences between jobs, which is very unlikely.</td>
</tr>
<tr>
<td></td>
<td>Ranking can be done in the absence of comprehensive job descriptions; the validity of this approach depends on evaluators knowing all the jobs; the larger and more complex the organization, the less likely this is to be the case.</td>
</tr>
<tr>
<td></td>
<td>Rankers are accustomed to keeping the ‘whole job’ in mind and merely rank the jobs, resulting in different bases of comparison among raters.</td>
</tr>
</tbody>
</table>

2) Classification

The Classification or Grade Method is a simple, inexpensive and flexible method which has been very popular for the job evaluation of public services positions. Its purpose is to create and maintain a pay system using pay grades that are equitable and fair across an organization.

In classification, jobs are categorized by class descriptions such as managerial, professional, and clerical; descriptions of “benchmark jobs” are used for clarification. Jobs are classified by comparing each job to the existing job classes and selecting the pay grade that best matches them.

To ensure equity in job grading and wage rates, a common set of job grading standards and instructions is employed. Because of differences in duties, skills and knowledge, and other jobs, job grading standards are developed mainly along occupational lines.

The standards do not attempt to describe every work assignment of each position in the occupation covered. The standards identify and describe those key characteristics of occupations which are significant for distinguishing different levels of work. They define these key characteristics in such a way as to provide a basis for assigning the appropriate grade level to all positions in the occupation to which the standards apply.
### Advantages

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple, straightforward, inexpensive, capacity to be flexible enough to encompass a large number of jobs.</td>
<td>Classification judgments are subjective.</td>
</tr>
<tr>
<td>The grade/category structure exists independent of the jobs. Therefore, new jobs can be classified more easily than in the Ranking Method.</td>
<td>The classification structure may have biases that would adversely affect certain groups of employees (females or minorities).</td>
</tr>
<tr>
<td>Job classification is simple once categories are established. Jobs can be assigned and reassigned to categories as responsibilities change within the existing system.</td>
<td>Some jobs may fit within more than one grade/category.</td>
</tr>
<tr>
<td>Since the basis for a particular job rating is documented, the results are easier to defend than those derived by simple ranking.</td>
<td>Job classification is subjective and decisions rely on the judgment of the job evaluator; jobs might fall into several categories or jobs with similar titles may be quite different from each other.</td>
</tr>
<tr>
<td>Classification is common practice among organizations; acceptance can be easy to secure among managers and employees.</td>
<td>Whether grade descriptions contain the four essential factors required for pay equity and the breadth of the job classes is sufficient determines whether this method is acceptable for pay equity purposes.</td>
</tr>
<tr>
<td>Because managers and employees are used to thinking of jobs in terms of classes and grades, disagreements over compensation administration are made easier to solve. Most organizations that classify jobs into grades do so to ease the task of building and operating pay structures.</td>
<td>Descriptions of pay grades must be fairly general in order to encompass several types of jobs, so there still may be disagreement about the exact grade placement for each job.</td>
</tr>
</tbody>
</table>

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**Job Class (Job Grade)** represents a group of jobs that are substantially similar, justifying a common name, similar selection processes and similar compensation.

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### 3) Factor Comparison

Used less frequently than other methods because of its complexity, factor comparison is a quantitative method in which evaluators identify and determine the worth of several major factors against which all jobs in a job class can be assessed. Examples of compensable factors are: skill, responsibility, effort and working conditions.

This method is similar in some ways to the ranking method. Each job is ranked for each of the several compensable factors. Job evaluators rank jobs that have similar responsibilities and tasks according to points assigned to compensable factors. Jobs across the organization are then compared to the benchmark jobs and rates of pay for each factor to determine job salaries.

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www.hr-guide.com/data/G412.htm
<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>The value of the job is expressed in monetary terms.</td>
<td>The pay for each factor is based on judgments that are subjective. Using a rate of pay for each factor may encourage raters to be influenced by whether a job is high paid or low paid in determining its position in the organizational hierarchy.</td>
</tr>
<tr>
<td>Can be applied to a wide range of jobs.</td>
<td>The standard used for determining the pay for each factor may have built in biases that would affect certain groups of employees (females or minorities).</td>
</tr>
<tr>
<td>Can be applied to newly created jobs.</td>
<td>Compensable factor comparison is a time-consuming and subjective process.</td>
</tr>
<tr>
<td>Customized job ranking.</td>
<td>Very complex to use and or train others to use. Its many and varied steps make it difficult to explain and lessen the possibility of acceptance by all parties.</td>
</tr>
</tbody>
</table>

Once employees, union representatives, and managers have been trained in the use of the job comparison scale, visual as well as numerical job comparisons are easily made. The use of a monetary unit in the basic method has the advantage of resulting in a wage structure along with a job structure, eliminating the pricing step required in other plans.

4) Point Method

The point method (also referred to as the point-factor, point evaluation and point value method) in which the value of jobs is expressed as a score is the most commonly used system of job evaluation. It was used in Onestep's Strategic Framework Compensation Project to evaluate the twelve key jobs in the not-for-profit community based employment and training sector.

Analysts identify key job characteristics (compensable factors including skill, responsibility, effort and working conditions) that occur at different levels in the jobs, weight these factors, and assess how much of each factor is present in a given job by assigning a certain number of points to each job for that factor. Points for each factor are added to produce a total for each job. This sum of point values represents the relative “worth” of the position compared to all other positions in the organization.

A carefully worded rating scale is constructed for each compensable factor. This rating scale includes a definition of each factor, several divisions called degrees (also carefully defined), and a point score for each degree. The rating scales may be thought of as a set of rulers used to measure jobs. The point totals are used to create a list of jobs in order of their job value. This list of jobs is then transformed into a set of pay grades and pay ranges, based on internal equity or on the market rates of certain key or ‘benchmark” jobs.

Designing a point method plan is complex, but once designed, the plan is relatively simple to understand and use. Numerous ready-made plans developed by consultants and associations exist. Existing plans are often modified to fit the organization.

Chapter 4 elaborates on the Point Method


5 Dave Redekopp, Human Resources Development Canada and the Canadian Coalition of Community Based–Training, A Study to Investigate, Analyse & Organize Community-Based Training Roles in Canada, (Toronto: December 2000).
<table>
<thead>
<tr>
<th><strong>Advantages</strong></th>
<th><strong>Disadvantages</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Once the scales are developed, they may be used for a considerable period. Only major changes in the organization demand a change in scales. Job changes do not require changing scales. Also, raters for point method plans increase in accuracy and consistency with experience.</td>
<td>Subjective perceptions. Compensable factors and the associated points assigned might be given more importance than others in the process. The job evaluator must be aware of such biases and ensure that they are not represented in points assigned to jobs that are traditionally held by minority and female employees.</td>
</tr>
<tr>
<td>Perceived as less arbitrary than other methods because the job evaluator assigns the total points for each of the compensable factors before these factors become part of the equation.</td>
<td>Developing a point method plan is complex; universal factors, sub factors and degree statements need to be developed all of which are resource intensive, requiring long timelines for installation, consensus among raters and significant clerical support.</td>
</tr>
<tr>
<td>Because point method plans are based on compensable factors relevant to the organization, acceptance of the results is likely and factors chosen can be those that the parties deem important.</td>
<td></td>
</tr>
<tr>
<td>Point method plans facilitate job pricing and the development of pay structures.</td>
<td></td>
</tr>
</tbody>
</table>

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www.hr-guide.com/data/G414.htm
Chapter 4: Job Evaluation (PART II)
Scoring the Value of Jobs

Because of its applicability to the needs of our membership, ONESTEP has selected the Point Method to outline in detail in this manual. This chapter defines the term compensable factor, explains the criteria used to select factors, sub-factors and levels (or degrees) and with examples from Pay Equity Commission Case Study, how to determine weightings. By the end of the chapter, readers should have a basic understanding of the process of evaluating key jobs.

Point plans make explicit the criteria (compensable factors) for evaluating jobs. These factors are scaled to reflect the degree to which they are present in each job and weighted to reflect their overall importance to the organization. Points are then attached to each factor weight with the point total for each job determining its value compared to the other evaluated jobs.

Job evaluation differentiates among the values of jobs within a workplace by developing a measuring scale for each factor, and weighting these factors according to their importance to the organization. The organization then determines how much of each factor is present in each job, generating a point total for each. The resulting job hierarchy is sometimes tested against the market and any necessary revisions are made to the system of job evaluation. Once the system is finalized, jobs are scored to derive a final hierarchy of job scores which then serve as the foundation for the base pay structure.

Each job’s relative value, and hence its location in the pay structure, is determined by the total points assigned to it.

**WHAT IS A COMPENSABLE FACTOR?**

As they are the most important job characteristics by which organizations establish relative pay rates, compensable factors should be both job-related and further agency strategy. In job evaluation they are measured by degree statements and assigned a value depending upon their value to the organization.

Compensable factors describe job requirements, as opposed to personal experience, characteristics or performance of the incumbent, providing the legal means to justify pay differences. Typical compensable factors, derived from Ontario’s Pay Equity Act, include skill, effort, responsibility, and working conditions, and are found in most jobs. Under pay equity legislation organizations are required to use the four categories in evaluating jobs. Employers can also use other specific factors of particular relevance, sometimes known as sub-factors from each of these factor categories.

For example, the Pay Equity Commission uses the following four factors and ten sub-factors: **Skill** includes the sub-factors 1) Knowledge; 2) Interpersonal skills/Contacts; and 3) Problem-Solving/Judgment. **Effort** represents 4) Mental effort, and 5) Physical effort. **Responsibility** incorporates 6) Personnel Policies, and Practices; 7) Information Resources, 8) Financial Resources, 9) Material Resources. **Working Conditions** refers to the work 10) Environment. Notice that the sample factors are not all inclusive. For example, they do not include several

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that relate to the work typically done by ONESTEP agencies, (i.e. responsibility for the economic well-being, training and case management of people who may be disadvantaged in finding jobs).

The four main factors/categories can encompass just about any characteristic that an organization would want to measure. Some factors are generic, while others may be more specific to the organization.

You may want to follow along with the Pay Equity Commission’s case study as it provides an excellent example of Factors, Sub-factors and Levels (also referred to as degrees). Go to Contents of Space Toy Co. (STC) “case study – Section 5 – Job Evaluation.\(^2\)

**Steps to a Point Method**

**Step One: Conduct a Job Analysis**

As in all job evaluation methods (as noted in Chapter 3), Job Analysis is the first step in the Point Method. Once job analysis is completed and a job description is written or sample benchmark jobs are chosen, the content of the jobs is core information for identifying and selecting compensable factors.

**Step Two: Determine and Define Compensable Factors and Sub-Factors**

The four main compensable factors, skill, effort, responsibility and working conditions are common to most jobs. Organizations in Ontario must utilize these factors in the job evaluation systems to comply with pay equity legislation.

Employers can use specific criteria relevant to their organization (sometimes known as sub-factors) for each of the factors. The number of sub-factors that should be used must be enough that they capture all the key aspects of work that are important to the organization, but not so many that they start to overlap or add very little additional value to the system.

After selecting the factors and sub-factors, it is essential to develop a clear definition of each one. The definitions must clearly convey the meaning of each factor and sub-factor and clearly differentiate it from one another.

**Step Three: Establishing the Degrees and Scaling the Factors & Sub-Factors**

After the compensable factors and sub-factors have been chosen for use in job evaluation and defined, a number of ‘degrees’ (sometimes called ‘levels’) are established for each factor and sub-factor, resulting in a measurement scale. These degrees represent gradations in the extent to which a certain factor is present in a particular job being rated. Each degree (or level) needs to be carefully defined and in a specific order.

Referring to the example below\(^3\), Skills is the factor, knowledge is the sub-factor. This subfactor measures the level of experience, formal education and basic skills necessary to meet the requirements of the job. Skills and knowledge may be learned from both on-the-job or off-the-job experiences and/or education.

\(^2\) Ibid

Level 1: Job calls for little or no acquired knowledge. Job tasks may require knowledge in one area …

Level 2: Job tasks call for some acquired knowledge. Understanding of the job tasks may be acquired through some specific courses …

Level 3: Job tasks call for a higher level of acquired knowledge obtained through higher levels of required schooling or self-study …

Level 4: Job tasks call for some specialized acquired knowledge. Understanding of the tasks is acquired progressively through required schooling …

Level 5: Job tasks call for specialized acquired knowledge. Understanding of the tasks may be acquired progressively through highest levels of required schooling

Step Four: Determine the Weight of Every Compensable Factor & Sub-Factor

Once the degrees have been assigned within the job evaluation system, the factor/sub-factor weights must be determined. Different weights reflect differences in importance attached to each factor/sub-factor by the organization. The next step in the point evaluation method involves ranking compensable factors and their sub-factors by assigning weights to each according to its importance relative to the other factors and sub-factors within the organization. Assigning these weights makes it possible to compute point values for each position within a job structure. This builds the foundation for an internally equitable and consistent compensation system.

Factor and sub-factor weights are based on judgment and knowledge of what is important to the organization. In the committee approach, the procedure is to have committee members (1) study factor/sub-factor and degree definitions, (2) as individuals, separately rank the factors and sub-factors in order of importance, (3) as a group develop a consensus on ranking, (4) as individuals distribute all the 100 percentage points among the factors, and (5) once more as a group achieve consensus. The resulting consensus makes it likely that the job evaluation will be accepted within the workplace. Another approach to assigning weights is to evaluate benchmark jobs and the points assigned are correlated with an agreed-upon set of wage rates. Regressing this structure of pay rates on the factor degrees assigned to each job yields weights that will produce scores aligned with agreed-upon wage rates.

Whether developed by committee decision or by other methods, the rating scales are often tested by evaluating a group of benchmark jobs. If the results are not satisfactory, several adjustments are possible. Benchmark jobs may be added or deleted. Degrees assigned to jobs may be adjusted. The criterion – the pay structure – may be changed; or the weights assigned to factors may be changed. In any of these ways, the job evaluation plan is customized to the jobs and the organization.
A Basic Weighting Formula\(^4\)

The formula is based on a total of 100\% (1000 points). The 100\% / 1000 points are divided among the four factors.

### Factor Formula (100\% divided between 4 factors)

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>PERCENTAGES</th>
<th>POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKILL</td>
<td>35%</td>
<td>350</td>
</tr>
<tr>
<td>EFFORT</td>
<td>20%</td>
<td>200</td>
</tr>
<tr>
<td>RESPONSIBILITY</td>
<td>35%</td>
<td>350</td>
</tr>
<tr>
<td>WORKING CONDITIONS</td>
<td>10%</td>
<td>100</td>
</tr>
<tr>
<td>TOTAL VALUE FOR THE SYSTEM</td>
<td>100%</td>
<td>1000</td>
</tr>
</tbody>
</table>

The basic formula is expanded by dividing the percentage given to each factor between its sub-factors. For example:

### Subfactor Formula (100\% divided between 10 subfactors)

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>PERCENTAGES</th>
<th>POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKILL</td>
<td>35%</td>
<td>350</td>
</tr>
<tr>
<td>Knowledge</td>
<td>15%</td>
<td>150</td>
</tr>
<tr>
<td>Interpersonal skills/Contacts</td>
<td>12%</td>
<td>120</td>
</tr>
<tr>
<td>Problem solving/Judgement</td>
<td>8%</td>
<td>80</td>
</tr>
<tr>
<td>EFFORT</td>
<td>20%</td>
<td>200</td>
</tr>
<tr>
<td>Mental Effort</td>
<td>12%</td>
<td>120</td>
</tr>
<tr>
<td>Physical Effort</td>
<td>8%</td>
<td>80</td>
</tr>
<tr>
<td>RESPONSIBILITY</td>
<td>35%</td>
<td>350</td>
</tr>
<tr>
<td>Personnel, Policies and Practices</td>
<td>12%</td>
<td>120</td>
</tr>
<tr>
<td>Information Resources</td>
<td>10%</td>
<td>100</td>
</tr>
<tr>
<td>Financial Resources</td>
<td>8%</td>
<td>80</td>
</tr>
<tr>
<td>Material Resources</td>
<td>5%</td>
<td>50</td>
</tr>
<tr>
<td>WORKING CONDITIONS</td>
<td>10%</td>
<td>100</td>
</tr>
<tr>
<td>Environment</td>
<td>10%</td>
<td>100</td>
</tr>
<tr>
<td>TOTAL VALUE FOR THE SYSTEM</td>
<td>100%</td>
<td>1000</td>
</tr>
</tbody>
</table>

### Levels Formula (percentages divided among 4 to 6 levels)

**Skill** (35\% divided between three sub-factors)

<table>
<thead>
<tr>
<th>SUB-factors</th>
<th>WEIGHT</th>
<th>POINTS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge</td>
<td>15%</td>
<td>150</td>
<td>30</td>
<td>60</td>
<td>90</td>
<td>120</td>
<td>150</td>
</tr>
<tr>
<td>Interpersonal skills/Contacts</td>
<td>12%</td>
<td>120</td>
<td>24</td>
<td>48</td>
<td>72</td>
<td>96</td>
<td>120</td>
</tr>
<tr>
<td>Problem solving/Judgement</td>
<td>8%</td>
<td>80</td>
<td>16</td>
<td>32</td>
<td>48</td>
<td>64</td>
<td>80</td>
</tr>
</tbody>
</table>

\(^4\) Ibid
**Step Five: Applying and Checking for Reliability**

A job evaluation system is deemed to have reliability when the same point scores for each factor for a given job are produced by different persons applying the system. Once it is established that a system has reliability, it is applied to all the jobs covered by job evaluation, and a hierarchy of jobs which lists the jobs in order of their value in the organization is produced.

It is important to note that the external market has zero effect on Pay Equity requirements and that a more usual method of assigning pay rates is internal equity based on linear regression. Once equity is achieved, external benchmarks can be used to raise the entire pay structure, not merely some jobs or some levels.

**Step Six: Communicate with Employees**

During the period of job evaluation and afterwards, there is a need to communicate regularly with employees about the process and to make available documentation that explains how the organization’s jobs were evaluated. These measures aid in promoting a sense that the process is fair and equitable, especially in relation to their own jobs.

Job evaluation manuals help ensure organizational consistency and ongoing functional adaptation to change. They document methods used, compensable factors chosen, levels or degrees established for each factor/sub-factor and the means by which weights were determined, approaches to pay structure, parties involved and processes used to convert the point values into dollars. That being said, these manuals must only be used in combination with job evaluation training otherwise publishing the entire job evaluation manual may be misused and can lead to people “evaluating” their own jobs and coming up with much higher scores than would be the result of a thoughtful and consistent committee that used the same criteria for all jobs.

**Step Seven: Determining Base Pay Structure**

will be discussed in Chapter 5: Job Evaluation (PART III) The Pay Structure.
Chapter 5: Job Evaluation (PART III) The Pay Structure

As outlined in Chapter 4, the first six steps in job evaluation establish the relative worth of all the jobs in an organization or group from which a hierarchy of jobs is produced. In the seventh step which is discussed in some detail in this chapter, the established hierarchy lists out the most valuable jobs to the least valuable to the organization. The pay structure (salary structure) that follows sets out the pay grades (or levels) and the pay ranges, along with the criteria for salary movement within the pay structure.

There are two basic approaches to constructing a pay structure. In the first, every job that has a different total of job evaluation points will be treated separately and will, in effect, become a particular pay grade. The other approach is to group jobs that have similar value in the organization (certain range of point values) into pay grades.

For an organization to be able to recruit and retain employees who have the skills required and who perform well, compensation levels need to be competitive with those in the broader marketplace. An effective pay structure will reflect the values of the organization as expressed in the job hierarchy and the market rates of comparable jobs. In the not-for-profit sector, most associations collect data on wage rates. Human resources managers need to take this data and decide the degree to which they have the fiscal capacity to match or exceed the market rates. In some situations, organizations may not have the financial means to do either and might aspire to a level such as 10% or 25% below the market rate.

Pay Grades

A pay grade is a grouping of jobs of the same or comparable value to the organization. Each job within a pay grade will have the same pay range, that is, minimum, midpoint and maximum. The first step in building flexibility into the pay structure is to group different jobs that are considered substantially equal for pay purposes into a pay grade.

Grouping jobs into pay grades (pay levels) offers several advantages. It eliminates the administrative duplication of having separate rates and pay ranges for each and every job. It allows the grouping of similar jobs into the same pay grades, permitting employees’ duties to be slightly changed without requiring changes in pay rates. Albeit, if the responsibilities change enough, the job might need to move to another pay grade/level. Pay grades also contributes to the stability in the pay system by allowing small job changes without having a job re-evaluation, providing the small changes are not shown to change the overall score enough to move the job to a different pay “grade.” Pay grades also make it easier to justify and explain pay rates to employees creating a perception of fairness and equity.

The number of pay grades required within an organization is related to the size of the range of points or salaries for the organization as a whole. The larger the ranges of salaries, the less pay grades will be needed. Generally speaking, if a range is too narrow it is difficult to reward good employee performance without promoting them to a job in the next higher pay grade.
PAY RANGES

A pay range is the continuum of pay rates from minimum to maximum within a pay grade. A pay range maximum is the upper limit of what the employer pays for that type of work and the minimum is the lowest amount. The higher end of the range can be used to attract experienced, higher-paid employees when the starting salary within a particular range would be too low, given their level of experience. These ranges also make it possible for managers to recognize performance differences among employees within grades or for those with different levels of seniority.

When human resources managers establish pay ranges, they need to consider: how to determine the midpoints of the ranges; how to determine the range spreads from minimum to maximum of each pay grade; whether ranges should be permitted to overlap and how employees should progress through the ranges. Some organizations have a minimum of three steps or increments whereas others may have as many as ten or more. When there is an overlap in the range, an employee in the lower pay grade can actually earn more than one in a higher grade. If there were very small spreads in each pay range, there would be little or no overlap. As range spreads increase so does the overlap. One way to avoid problems with employee dissatisfaction is to create pay ranges that are always lower than the midpoint of the next one (refer to sample pay structure below).

BROADBANDING (BANDS)

Broadbanding is the condensing of multiple pay grades into several broad and wide-ranging grades each with a sizable range. It may be comprised of four or more grades consolidated into a single band with only one maximum and one minimum pay rate. With fewer pay grades (reduced into a few bands) the point totals for the jobs in a particular band may be very large. The spread of pay ranges is greater with less overlap with other ranges. A manager can move employees within the band to gain experience without promoting or making a pay adjustment. Although this provides the flexibility to categorize job responsibilities more broadly, it may lead to biased decision making and inconsistent practices within the organization. Another drawback is that there is very little difference between the point totals of the job at the low range of the band and the one that is at the higher range of the lower band yet the pay difference is substantially more creating an inequity within the organization.
Pay/Salary Structure

<table>
<thead>
<tr>
<th>Grade</th>
<th>Points</th>
<th>Minimum</th>
<th>Midpoint</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>92-108</td>
<td>$25,130</td>
<td>$27,922</td>
<td>$30,714</td>
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<tr>
<td>2</td>
<td>109-127</td>
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<td>29,728</td>
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<td>27,836</td>
<td>31,632</td>
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<td>4</td>
<td>148-177</td>
<td>28,927</td>
<td>33,636</td>
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<td>178-209</td>
<td>31,039</td>
<td>36,517</td>
<td>40,169</td>
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<tr>
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<td>210-244</td>
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<tr>
<td>7</td>
<td>245-286</td>
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<td>336-399</td>
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<td>1201-1405</td>
<td>97,508</td>
<td>121,885</td>
<td>134,074</td>
</tr>
</tbody>
</table>

Movement through the Salary Structure

Managers move employees through pay ranges based on some or all the criteria of experience, seniority, and performance. Some organizations add further criteria of education/training. Movement between grades results from promotion which is usually offered to employees who are high performers.

One of the problems often linked with a pay structure (that has been revised through job evaluation) and may require adjusting in the pay structure are outliers: Employees below range who are “green circled” and have priority for raises; and those above range who are “red circled” and would have no raises allowed until the range catches up to the employee’s current pay. There is not a hard and fast formula to balance the internal equity of such jobs but lends itself to a matter of judgment and having appropriate salary administration policies for dealing with individual salary cases that fall outside the pay ranges.

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www.hr.uottawa.ca/compensation/salary/support/year.php
The dollar values occupy the vertical axis (Wage Ranges) and the organizational scorings the horizontal axis (Job Evaluation Points). Thus, pricing a job structure involves a series of techniques and decisions applied to the points where the vertical and horizontal values meet.

**Promotion** is an advancement in which an employee moves to a higher level position that usually requires further skills, education, experience and knowledge and pays a higher salary.

**Red Circle Rate** is the pay rate for a position that is higher than the maximum rate for a job or pay range for a grade.

**Green Circle Rate** is the pay rate that is lower than the minimum pay rate for a job or pay range for a grade.
Chapter 6: Designing Your Benefits Package

Benefits are a form of indirect pay within a compensation system. They are rewards (other than wages, salaries or performance-related payments) that employees receive in return for their continued service to the organization. They are designed to protect employees and their families from loss of income due to health problems or other work-related financial disruptions, and can improve the employee's general quality of life through special programs and services in the workplace. They can include retirement plans, health insurance, life insurance, disability insurance and vacation. Some benefits, such as Employment Insurance, Workers' Compensation and the Canada Pension Plan, are compulsory, government-mandated programs.

Benefits administration has become a highly specialized HR function, requiring detailed knowledge of employment and tax laws in a quickly changing marketplace for benefits products (Long 2006). The strategy and design of benefit packages are important to the recruitment and retention of qualified employees. However, as much as this is the case, benefit packages must consider the organization's ability to pay on an ongoing, sustained basis. (Long 2006). Continuing escalating costs associated with providing benefits have forced changes to benefit packages, and options such as flexible benefit plans have become common in organizations.

There are many types of benefits and various ways to classify these. For example, CPP is both a government-sponsored benefit and a contribution toward most employees' future retirement income. (Long 2006)

This chapter will focus on benefits and issues in benefits administration that are most relevant to not-for-profit organizations.

TRENDS IN CANADA

Some organizations are trying to change the commonplace view among employees that benefits are an entitlement rather than a form of earnings. One means of encouraging this to change is to implement flexible benefits packages; when weighing their options, employees are made aware of costs and values. (Long 2006 445)

In the 2007 Sanofi-Aventis Healthcare Survey, employees valued their benefits plans so highly that 61% of respondents suggested they would forego a yearly $20,000 cash allowance in favour of keeping their health benefits. Despite this, there is some sense that many employees still do not understand the costs to organizations for providing benefits. Even with escalating costs and the increasing complexity of managing the benefits system, many organizations continue to see benefits as essential to comprehensive compensation packages and have explored options to cost share with employees because they realize that employees would be willing to pay to maintain benefits rather than lose them or see them reduced.

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COMMON TYPES OF BENEFITS AND SERVICES
(Milkovich 2005 229) (Long 2006 425)

1. Mandatory Government Sponsored Benefits
   a. Canada/Quebec Pension Plan
   b. Employment Insurance
   c. Workers’ Compensation
   d. Provincial Health Insurance Plans

2. Private Pension Plans
   a. Defined Benefit Pension Plan Contributions
   b. Defined Contribution Plan Payments
   c. Hybrid Pension Plans
   d. Early Retirement and Voluntary Separation Packages

3. Health Care Benefits:
   a. Supplemental Healthcare Insurance
   b. Dental Insurance
   c. Vision Care

4. Income Security
   a. Life and Accident Insurance
   b. Short-Term Disability
   c. Long-Term Disability

5. Pay for Time not Worked [Pay for time off is not always required by law and at the discretion of the organization.]
   a. Vacation Time and Vacation Pay/Mandatory/(ESA)
   b. Public Holidays/Mandatory/(ESA)
   c. Paid Rest Periods/Mandatory/(ESA)
   d. Leaves of Absence
      i. Sick Leave
      ii. Compassionate and Bereavement Leave
      iii. Jury Duty/Mandatory
         [But the organization doesn’t have to pay.]
      iv. Educational/Sabbatical Leaves
   e. Severance Pay /Pay in Lieu of Notice/Mandatory/(ESA)
   f. Supplemental Unemployment Benefits
   g. Deferred Income for Leaves

6. Mandatory Time Off, With or Without Pay [But the organization doesn’t have to pay.]
   a. Pregnancy Leave/Parental Leave/Mandatory/(ESA)
   b. Personal Emergency Leave/Mandatory/(ESA)
   c. Family Medical Leave/Mandatory/(ESA)

Indirect Pay is part of an employee’s total compensation package, non-cash items or services provided to employees in return for their contribution to the organization (i.e., health benefits, paid time off). Sometimes the costs for the items are shared by the employees.

Benefits are any form of indirect payment due to an eligible employee (or his/her beneficiary) under an employee benefit plan. These payments can include pension, medical and/or dental coverage.

Benefit Ceiling is the maximum amount paid for specific benefit claims.

Benefits Deduction is the deduction from an employee’s pay to cover all or a portion of the premium of his/her benefits package.

Cafeteria Plan (Flexible Benefits Plan) is a customized benefits plan in which an employee may choose the benefits best suited to his/her needs. In most cases a common core package is mandatory, with elective programs available at the employee’s discretion. The employee may also choose to contribute for additional coverage.

Deductible is a subtraction of a specified amount of money ($25 or $50) on a benefit claim that is taken off just once at the beginning of an annual term.

Premium is the periodic amount under a contract of insurance in respect to benefits paid by the employer and/or employee to keep a policy in force.

4 ESA is the acronym for the Employment Standards Act (Ontario)
7. Employee Services
   a. Employee Assistance Programs
   b. Childcare services/Eldercare service
8. Miscellaneous Benefits

Mandatory Government Sponsored Benefits

The Canadian and Ontario governments both sponsor benefit programs for employees requiring employer and employee contributions. As well, they have legislated minimums for vacations and holidays. www.cra-arc.gc.ca/E/pub/tg/t4001/t4001-e.html.

Canada/Quebec Pension Plan (C/QPP) is a mandatory, government-sponsored pension plan for working-age Canadians, with equal contributions from both the employer and employees. These pensions or benefits are available only to individual contributors or their dependents, and contributors may choose to begin retirement benefits any time after the age of 60. Beneficiaries of this program can receive retirement, survivor and disability pensions or death benefits. This program is completely funded by contributions and receives no subsidy. www.hrsdc.gc.ca/en/isp/cpp/cpptoc.shtml Milkovich.

Employment Insurance is a compulsory Canadian government program, funded by both employers and employees. It pays workers facing unemployment or work interruption with income replacement for a limited time period only after a waiting period and in certain circumstances. To qualify, employees must have worked a minimum number of hours in the previous year, not have chosen to leave a job voluntarily (except under limited conditions) or they have to qualify for pregnancy leave, parental leave or short-term disability. www1.servicecanada.gc.ca/en/ei/menu/eihome.shtml.

Workers’ Compensation is a mandatory, no-fault government insurance program that compensates employees for pay lost when injuries and diseases occur due to the workers’ jobs. In Ontario, the Workplace Safety and Insurance Board (WSIB) provides income, medical and other benefits to injured employees and their families, no matter which party is at fault. Premiums are paid solely by employers, and the amount of these premiums varies according to industry and by individual organizations’ costs. The system does not allow organizations and employees to sue each other for damages or costs related to workplace injury. Employees cannot be obliged to contribute to a compensation fund or to waive rights to benefits. Benefits are not taxable for employees. www.wsib.on.ca/wsib/wsbsite.nsf/public/homepage.

Provincial-Health Insurance Plans pay healthcare providers directly for listed health and hospital services with no direct fees to the patients. Typically these plans are funded through payroll taxes. For example, Ontario’s Employer Health Tax (EHT) is paid by the employer, and individual health taxes or premiums are payable by individual residents. An example of the latter, the Ontario Health Premium, is collected through the income tax system.

Private Pension Plans

Pensions provide a regular source of income to people at a specified age, to their spouses or dependents at the employees' or former employees' deaths or when the employees are adjudicated to have disabilities that prevents them from working.

Canada's *Income Tax Act* 5 gives employees incentives to save for retirement, and organizations' incentives can support such plans. Organizations can deduct contributions to such plans on behalf of employees as regular business expenses, and these contributions are not taxable to the employee. Within limits, the pool of pension plan contributions in the plan can grow and accumulate without taxes until it is distributed as pension payments to individuals.

Organizations can choose not to implement pension plans for a variety of reasons6. Some argue that they have met their responsibility to help employees plan for retirement through their contributions to CPP/QPP. Others suggest that money put into pensions could be better put to reinvesting in their organization or that the regulations surrounding pension plans make the plans too costly for their organization.

For those not-for-profit organizations that decide to offer pension plans to their employees there are three general types of pension plans available:

*Defined Benefit Pension Plans* maintain a fixed level of income to the employee from the time of retirement to their death or that of their surviving spouse. The level is normally a percentage of the employee's annual working income and is affected by the employee's years of service and participation in the plan.7

*Defined Contribution Plans* specify the employee's and the organization's contributions, which are invested to provide retirement income that is based on the accrued value of employer and employee contributions. These are also known as “money purchase plans” in which contributions are held in an investment trust. When an employee retires, the pension can be paid out based on the amount of capital in the trust at that time; as such, there is no assurance of what payment levels will be before the time of retirement. These plans tend to be more portable for employees than defined benefit plans.

Both defined benefits and defined contribution plans can be contributory, requiring contributions from the employee. Both employer and employee contributions to either type of plan are subtracted from allowable contributions to group RRSPs.

*Hybrid Pension Plans* have characteristics of both defined benefit and defined contribution plans. In some plans, organizations match employee contributions. Usually contributory plans are established as group RRSPs, making employee contributions tax deductible. Earnings on the plan are not taxed until they are paid out as income.

*Early Retirement and Voluntary Separation Packages* are designed to eliminate the need for dismissals during organizational restructuring by giving long-term

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6 Ibid.

7 The costs of providing such plans can escalate beyond the capacity of the pension fund to service it creating "underfunding".

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**Employee Benefits** are part of an employee's total compensation package, other than pay for time worked, provided in whole or in part by employer payments (includes life insurance, vacation, worker's compensation, pension, paid time off, etc.).

**Flexible Spending Accounts** or **Health Care Expense Account** is an employer deductible tax-favoured employee benefit that allows employees to use employer-provided health care credits to purchase a wide array of health care services. Employees have separate spending accounts with an allotted maximum to fund allowable health care services.

**Fixed Benefit Plan** is a benefit plan that is provided to all eligible employees with the same array of benefits.

**Flexible Benefit Plan** allows employees to choose the benefits they prefer. Employees are allotted a fixed amount of money and permitted to spend that amount in the purchase of benefit options. Employees can also top up or buy benefits with their own salary.

**Long-term Disability Plan** is an employer sponsored plan that provides income protection in the event of a long-term illness or disability that is not work-related.
employees incentives to leave the organization. Typically organizations will offer such incentives for a limited time, and the financial incentive can be a combination of pension benefits and cash payments awarded for years of service. These incentives are legal ways to reduce workforce size, but the acceptance by the employee must be voluntary.

Health Care Benefits

Health Care Benefits provide coverage for disability, and prescription drugs, as well as dental, optical and other needs that may be highly valued by employees. Supplemental Healthcare Insurance is frequently offered by Canadian organizations. Because of government-provided health insurance, the costs to Canadian employers for providing health insurance is markedly lower than it is for their American counterparts. However, some services have never been covered under Canadian public programs and the cost of private insurance has risen, mainly in response to rising drug costs.

Many organizations provide their employees with supplementary health care insurance. This type of insurance protects employees against medical costs stemming from accidents and illness. Dental and Vision Care are often insured under separate plans.

Dental Insurance has grown popular because there is no public dental coverage and procedures can be costly. Such benefits are deductible as an employer business expense and are not taxable to the employee. These plans have the effect of encouraging employees to take care of their dental health, which can affect their overall health and reduce sick time.

Vision Care has grown in popularity especially since routine eye exams are no longer covered for most working-age residents of Ontario. Typically in the Vision Care plan, eye examinations are covered as well as a fixed amount for eyeglasses, contact lenses and laser surgery.

Income Security

Life and Accident Insurance, long-term and short-term disability insurance protects against or compensates for income because of illness, disability, or death the cause of which is not work-related.

Life and Accident Insurance, which is common to most benefit plans, will typically pay annual salary multiplied by a specified number of years. Because of economies of scale, group insurance can usually be provided at lower rates for all employees including new employees no matter their health status (although not always). Dependent life insurance may also be included in the package with premiums paid by employees or employer or a combination of the two. Benefits administrators need to decide on policies, on the payment schedule, whether benefits continue past retirement, and the amount of employee contribution. A common employee benefit is group term life insurance, providing death benefits to survivors, and sometimes including accidental death and dismemberment benefits.

Short-term Disability or “Salary Continuation” plans replace all or part of an employee's earnings when the employee is away from work because of illness or injury that is not work-related. If an absence goes beyond one or two days, some employers require a medical certificate. Benefits stop when the employee returns to work or qualifies for long-term disability.
Long-term Disability Insurance protects employees’ income if they cannot work because they become disabled for reasons that are not work-related. Usually coverage is two-thirds of the monthly income, with a four-month waiting period. This amount continues until the employee returns to work, reaches retirement age, or dies.

If long-term disability insurance premiums are paid by the organization, benefits will be taxable; if they are paid by the employee and are not deducted as an expense, payments are not taxable.

In organizations without short-term disability, employees may collect EI until long-term benefits start. EI has a waiting period, so income during absences would not start immediately.

Tax Status of Pension and Health Benefits (Long 2006 432)

Most benefits are either tax deductible or tax exempt.\(^8\)

<table>
<thead>
<tr>
<th>Benefits Type</th>
<th>Employer Contributions Deductible by the Employer</th>
<th>Employer Contributions Taxable for the Employee</th>
<th>Employer Contributions Deductible by the Employee</th>
<th>Purchase of Benefit Subject to Premium or Sales Taxes</th>
<th>Fund Income is Taxable</th>
<th>Benefit Payouts Taxable for Employees</th>
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<td>N/A</td>
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<td>N/A</td>
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<td>No</td>
<td>Yes(^b)</td>
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<td>Long-Term Disability Insurance</td>
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<td>No</td>
<td>Yes(^c)</td>
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<td>No</td>
<td>No(^e)</td>
<td>N/A</td>
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Pay for Time not Worked

This includes any payment for time when employees are not on the job. It is mandatory for organizations to pay for minimum annual vacations, statutory (public) holidays, and rest breaks. Some organizations go beyond these levels and pay for additional holidays, additional vacation time, sick leave, personal and educational leaves. This can be the largest benefits expense for organizations because of the amount of time off employees can receive.

Vacation Time and Vacation Pay are considered to be essential to an employee’s well-being. Under Ontario’s Employment Standards Act (ESA) employees must receive at least four percent of their wages as vacation pay. For each 12-month vacation entitlement year employees earn two weeks of vacation time. These must be scheduled in one or two-week blocks, unless employees request their vacation time be scheduled in other ways depending on the organization’s policies and practices. Subject to an employee making the request in writing and an employer agreeing in writing, vacation can be taken in periods as short as one day at a time.

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“Vacation buying or selling” is relatively new practice where organizations allow employees to ‘buy’ additional vacation days by forgoing pay. As well, employees can ‘sell’ vacation days they do not wish to use back to the organization. The buying and selling do not apply to the minimum 2 weeks or 4% vacation entitlement. ESA – www.labour.gov.on.ca/english/es/.

There are Eight Mandatory Public Holidays in Ontario in each calendar year with an additional one planned to start in February of 2008. These are an entitlement no matter how long employees have been at a job. At a minimum, public holiday pay is usually regular earnings plus vacation pay payable during the four work weeks prior to the holiday, divided by 20. In addition, some organizations give their employees two or more “floater” or “personal days” that can be used for ‘religious observance’ and can be moved around each year. Both salaried employees and those paid hourly wages are paid for public holidays.

Rest Periods are mentioned in employment standards legislation (ESA), but employers are not required to pay for them. Typically, organizations will pay for two rest breaks of 15-20 minutes per day although this is not required by law. What is legally mandated is a minimum one half-hour unpaid eating period free from work after no more than five consecutive hours. www.labour.gov.on.ca/english/es/pdf/fs_hours.pdf.

Leaves of Absence are provided to employees in Ontario for reasons of pregnancy, parental leave, personal emergency and family medical issues. Some organizations offer full or partial pay for all or part of these leaves; mandatory leaves are taken without loss of seniority or benefits. Organizations need to have clearly stipulated procedures and policies for such leaves. Even when leaves of absence are unpaid, they can be costly to organizations in terms of lowered productivity and the need to find and train replacement workers.

Sick Leave or Personal Leave is sometimes paid to employees for short-term illness-related absences from work although there is no requirement to pay for either of these. Some plans are formal and limit the number of such days per year and/or month, although in some cases unused days can accumulate beyond a year. Some organizations may stipulate that such time taken must be made up during time off or vacations. Other organizations may try various ways to save costs of absenteeism by buying back unused sick time, or creating awards for employees who do not use their allotted time and/or conducting special checks on employees who are absent for more than a specific number of days during a year.

With Bereavement Leaves employees may take work time to attend the funerals of qualified family members (this can be paid or unpaid depending on the organization’s policies and practices).

For Jury Duty organizations are legally required to give employees the time off with or without pay and must re-instate the employee to his/her or a comparable position at not less than his or her wages, benefits and seniority status at the time the leave of absence began.

With Educational /Sabbatical Leaves some organizations permit or encourage employees to take paid or unpaid educational leaves. Typically paid leaves are granted on the basis that the employee will return after the time away or repay the cost of their leave.
Written Notice and Severance Pay and/or Pay in Lieu of Notice are required when an employer terminates an employee who has been serving more than three continuous months, is not on a term contract that has expired and who has not been fired for just cause. The amount of notice required relates to the length of employment and the number of employees terminated within the most recent four weeks. During the notice period, organizations must provide benefit contributions whether employees have received payouts in lieu of notice or are working through the notice period. The Employment Standards Act specifies the minimum amounts to be paid. Companies whose total payroll is more than $2.5 million per year who terminate employees who have been with an organization more than five years are required to pay Severance Pay in addition to providing notice or pay in lieu of notice. www.labour.gov.on.ca/english/es/factsheets/fs_termination.html.

With Supplemental Unemployment Benefits some organizations will top up Employment Insurance benefits for pregnancy and parental leaves up to a percentage or all of the employee’s regular pay. These plans need to be registered with the Canada Employment Insurance Commission.

Deferred Income for Leaves. The Income Tax Act has created some opportunities for employees to defer income taxes while putting aside money for the leave. Once an employer has registered a sabbatical leave plan with the Canada Revenue Agency, employees may put aside a portion of their earnings each year, for a period of three to five years prior to the sabbatical. This has two tax advantages: (1) the deferred salary fund can accumulate tax-free until the funds are withdrawn. (2) the total amount of tax paid is reduced because income is “smoothed”, taxed at less than that of a full year salary.

Mandatory Time Off – With or Without Pay

Under Pregnancy Leave and Parental Leave requirements, birth mothers can take 17 weeks of pregnancy leave and 35 weeks of job-protected parental leave. Other new parents can take up to 37 weeks of leave. If each parent of a newborn child elects to take the maximum allowable job-protected leave at separate times, a child could have a parent at home for up to 89 weeks. Maternity and parental benefits are employment insurance payments from the Employment Insurance program and can be supplemented by the employer. www.labour.gov.on.ca/english/es/factsheets/fs_preg.html.

Personal Emergency Leave is stipulated in the ESA as an unpaid leave for a maximum of 10 days per calendar year. The job is protected until the employee’s return. These leaves are allowed for illness, injury and other emergencies and urgent matters. These leaves are available to employees of organizations who regularly have a minimum of 50 employees. However, even though it is not legally mandated for smaller organizations, most allow this type of leave.

Family Medical Leave is an unpaid leave of up to eight weeks within a twenty-six-week period during which an employee’s right to return to the job is protected. Employees may take this leave if qualified health practitioners have certified that family members or other individuals considered as family have serious medical

9 Death, injury, illness, medical emergency of or urgent matters relating to: a spouse, a parent, step-parent, foster parent, child, step-child, foster child, grandparent, step-grandparent, grandchild or step-grandchild of the employee or the employee’s spouse, the spouse of an employee’s child, a brother or sister of the employee, a relative of the employee who is dependent on the employee for care or assistance.
conditions and that death is likely within the twenty-six week period.

In the event that two or more employees may qualify for the same leave in order to care for a single individual, the eight weeks of leave must be shared between the employees. In some specific types of cases, subsequent leaves to care for the same family member may be permitted. 10

**Employee Services**

*Employee Assistance Programs (EAPs)* provide supports and services to employees to aid them in dealing with personal problems that have the potential to affect their work performance; these formal employer programs can provide employees with counseling and/or treatment programs for mental health, marital/family problems, work/career stress, legal issues, and substance abuse. The programs can help both reduce absenteeism and disability costs. EAPs can provide diagnosis, counseling, and referral for advice or treatment when necessary.

*Childcare/Eldercare Services* can help to meet employee childcare/eldercare needs through information and referral services, financial assistance, emergency care, on-site or off-site care, and can provide non-taxable subsidies to care centres to reduce the costs to employees. These supports, along with counseling, education programs and flexible work arrangements, have become valuable to maintaining productivity among a workforce facing growing responsibilities for dependent care.

*Other benefits and services* can include use of the organization’s vehicle, product or service discounts, employee savings plans, tuition reimbursements, provision of work clothing or equipment, travel expenses and employee expense accounts. Expense accounts are not supposed to be a benefit. They are meant to cover actual expenses. If they are a perk, they are expected to be taxable.

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10 One way of helping both the employee and the employer to deal with the need for short-term absences is through a flexible-hours or a flexible-workplace program.
Factors Influencing Choice of Benefits Package (Milkovich 2005 220)

**EMPLOYER FACTORS**
1. Relationship to total compensation costs
   - Are benefits worth their cost or would it be better to put the money towards another compensation component
2. Costs relative to benefits
   - Cost-centered approach, decisions on level of benefit expenditures acceptable now and in the future
3. Competitor offerings
   - Benefits must be externally equitable
4. Role of benefits in:
   - Attraction
   - Retention
   - Motivation
5. Legal Requirements
   - Compliance with all aspects of the law

**EMPLOYEE FACTORS**
1. Equity in benefits: fairness historically and in relationship to what others receive
2. Personal needs for benefits as linked to:
   - Age
   - Sex
   - Marital Status
   - Number of Dependents

Given the continuing escalation in the cost of employee benefits, organizations would do well to evaluate the effectiveness of their benefits management. Specifically, how does an organization go about selecting appropriate employee benefits?

**CONSIDERATIONS FOR IMPLEMENTING A BENEFIT PACKAGE**
According to Long, 2006, organizations have to consider a number of issues when designing benefits:
- Ensuring that benefits can be a factor in achieving compensation objectives
- Deciding on a process for designing the package
- Deciding on a benefit system and which specific benefits to include
- Optimizing each type of benefit for coverage
- Funding, eligibility and flexibility, and finally
- Setting out procedures for administering, communicating, evaluating, and adapting the benefit package.

**Relationship to Total Compensation Costs**
According to the Mercer Human Resource Survey, benefits plans are a significant expense for Canadian organizations, which continue to search for ways to manage these costs.

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Registered Retirement Savings Plan (RRSP) is a tax deductible voluntary individual retirement plan funded by the employee's own earnings. Some organizations dedicate part of their employee's salary for an RRSP. The responsibility for making the RRSP contribution lies with the employee.

Group Registered Retirement Savings Plan (Group RRSP) is an employee pension plan where each employee has their own individual plan but it is set up and administered as a group plan by the employer or the union. The contributions are made through payroll before income tax is deducted and the earnings of the plan accumulate on a tax deferred basis.
Mandatory Employer-Related Costs – MERC’s (Employment Insurance, Canada/Quebec Pension Plan, Workers’ Compensation, and Vacation Pay) plus remaining benefits can range from 12% to 40% or more of payroll costs. Due to the substantial expense, benefits need to be seriously considered for their impact on compensation costs and whether monies spent can be put to better use. (Milkovich 2005 215)

Evaluating employee benefits requires taking into account that they are part of the total compensation package and ensuring that to be externally competitive, benefits offered to employees must be relative to those of other organizations in the sector. Moreover, assessing the culture of the organization and implementing benefits that meet employee needs while discarding those that are not as relevant will help contain costs associated with benefits. For example, a young, childless workforce will probably not value expensive life insurance.

Another consideration is looking at the longer-term outcome of implementing particular benefit plans. For example, while there is a trend toward employer-funded workplace wellness programs, many organizations do not see the value of adding more expenses to healthcare. However, research demonstrates that there can be a significant return on investment from programs such as smoking cessation, weight loss, nutrition, and stress management, resulting in a healthier, more productive workforce.

Organizations are moving away from defined-benefit plans with uncontrolled risks to defined contribution plans that give employees choice and limit the organizations’ risks. With the increasing life expectancy, defined-benefit plans may become a source of unforeseen costs to the organization; the funds that were allocated to the pension fund may not be sufficient to meet the obligations of the plan.

Controlling Health Care Costs

To control health care costs, organizations are taking measures such as employee-directed health plans. In such plans, an amount of money is allocated for each employee to pay for all or a portion of their health care expenses. Information regarding the cost and quality of health care services along with online access to their account enables them to track their expenses and progress toward meeting their deductibles.

The rising cost of benefits was identified as a major issue by 57% of the respondents in a 2004 Compensation Trends and Projections Survey. Furthermore, 95% of the respondents in a 60-Second Survey in May 2004 expressed a medium or high level of concern about rising pension and benefits costs. This trend in rising costs is expected to continue for at least a decade.

Milkovich (2005) advocates that administrators should control benefit expenses with a wide-ranging, cost-centered approach. Administrators should negotiate benefits on a cost rather than package basis so that they are less likely to be locked into escalating costs that become progressively more difficult to control. He also suggests that organizations review their benefit systems for cost containment possibilities. The most prevalent practices include setting probationary periods.

12 Ibid
www.professionalreferrals.ca/article
before employees can receive benefits, limiting maximum payment levels, instituting co-insurance payments by employees, implementing or increasing deductibles, coordinating benefits among spouses or lowering administrative costs through competitive outsourcing.

Outsourcing is the biggest recent trend in benefits cost containment. Contracting with outside services to administer their benefits programs allows greater centralization, consistency, and control of costs and benefits.

Ideas on Cost Containment

1. Evaluate existing underwriting and explore financing through employee contributions.
3. Assess whether brokers are providing services worth their costs. Under the Canadian Life and Health Insurance Association Disclosure Guidelines (2005), brokers are required to disclose to clients exactly how they are compensated.
4. Audit claims to find errors and trends.
5. Ensure that employee, spousal and dependent information is sufficiently current so that benefits can be coordinated with a view to savings.
6. Adopt a workplace wellness campaign to generate returns in the form of a better employer-employee relationship and lower some health-related costs.
7. Review deductibles so that employees pay a more significant share of costs.
8. Cap dispensing fee reimbursement so that employees will either shop at lower-cost pharmacies or share in costs.
9. Introduce co-payments, limit reimbursement amounts and/or have employees share the costs of premiums to lower costs to employer and educate employees.

It would be worthy to note that although many of these measures are cost effective, they also have downsides for employees. For example, long probationary periods can mean that employees don’t get dental work done until they can do it under a benefits plan. By then, the dental problems could have led to absenteeism and to more extensive measures at a higher cost.

Benefit costs can sometimes be controlled without a major effect on employee benefits. Some organizations will group together with others for reasons of economy of scale and a greater ability to negotiate with insurers. Joining plans provided by Industry Associations, Chambers of Commerce and Boards of Trade can be a good way to achieve these efficiencies. And, associations within industries are not the only option. Some groups within local areas establish health insurance networks.

Hybrid Pension Plan is a pension plan that combines elements of the defined benefit pension plans and the defined contribution pension plans.

Employee Assistance Programs (EAPs) are employersponsored services to help employees with personal problems that affect job performance (stress, substance abuse, family problems, etc.).

Pay for Time Not Worked refers to employee benefits that cover a variety of circumstances in which employees receive pay even though they are absent from work.

Workers’ Compensation is a legally required government-sponsored plan, employer-paid no fault insurance plan that provides income and benefits to victims and their dependents of work-related accidents or illnesses.

Canada/Quebec Pension Plan (C/QPP) is a government-sponsored pension plan, mandatory for all employed Canadians and funded equally by employers and employees.

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When choosing a package, it is useful to check references from other organizations that have used the service. While cost is a question, quality of service is an issue, as is the ability to keep customers satisfied for the long term.

Within the organization, administrative errors can be time consuming and costly. For example, a common mistake is not signing up employees before they require proof of insurability. Even within smaller organizations it is important for benefit administrators to be properly skilled and be current on plan rules.

**Entitlement versus Consumerism**

According to a Sanofi-Aventis Healthcare Survey, "Benefits are serving as a proxy or a marker for a good workplace." Noted as well is that employees are showing that they are becoming more aware of the value and costs of benefits. 78% of those who responded thought they had a role to play in containing costs; 62% said they would pay personally for critical illness insurance, and 59% said that they would pay for enhanced pharmacy coverage. These responses suggest a movement in thinking from "entitlement to consumerism." In consumerism employees make choices on aspects of their benefits that go beyond those in flex plans to include where and when they use their benefits.

**CONTAINING COSTS**

**Cost Sharing**

Cost sharing with employees is an alternative to other more complicated forms of containing costs. Management decides what portion of costs it can afford and negotiates with employees or union representatives on how to share costs on benefits.

Healthcare benefits offer the biggest challenge to benefit administrators. Organizations can meet this challenge in several ways, including increasing employee contributions by raising employee premiums, raising deductibles, lowering company co-insurance levels, instituting or lowering annual maximums on some services, or even eliminating coverage for spouses, private hospital rooms or other benefits.

Another area for lowering costs is to restrict the number of drugs covered by the plan or encourage the use of generics. Here, new drugs would not be covered unless they could be shown to be more effective than older or generic drugs at a comparable cost.

Organizations are moving away from paying the entire cost of benefits. Many require employee contributions of varying proportions toward health insurance. Some employees are covered under the plans of other family members; if they are asked to contribute even a small proportion of their own employer’s cost, they will be encouraged to opt out in favour of receiving coverage under the other plan.

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www.benefitsCanada.com


18 Ibid
**Flex Plan/Cafeteria-Style Plans**

“Cafeteria plans” or flex plans that offer extensive lists of benefit options in exchange for a fixed amount to spend have grown more popular.  

Flex plans provide a means for organizations to identify employee benefit preferences and for employees to show clearly which benefits mean most to them. Employees are individually allotted a fixed amount to spend on purchasing benefit options, which allows organizations to better manage benefits and, in turn, costs.

**Fixed versus Flexible Benefit Systems**

According to Long (2006 442), in traditional fixed plans all employees within a workplace receive the same coverage. This type of package has the advantages of simplicity, economies of scale, relatively low administrative costs, and ease in communicating to employees. However it does not allow for differences among employees in the way they value particular benefits. And its costs tend to grow. When organizations try to add new benefits to meet newly identified needs, they usually do not tend to drop older benefits from this type of plan.

In *Semi-Flexible Benefit Systems* there is a “core” set of benefits which functions as a base to which employees can ‘add on’ (at their own expense) different types of coverage whereas, in a ‘modular plan,’ employees are given the choice among multiple fixed benefits packages which are of comparable cost to the employer.

In *Flexible Benefit Systems* employees have more control on the spending of benefits funds provided by the employer as well as their own contributions. In a fully flexible plan there is no ‘core’ or ‘standard’ benefits package. Employees receive a set of ‘flexible credits’ they use to ‘purchase’ the combination of benefits they choose. For example, an employee can select several different levels of coverage for each of a list of numerous benefits. They can also use real cash (after-tax earnings) to purchase higher amounts of particular benefits after their ‘flexible credits’ run out. Unused flexible credits are not typically taken in the form of cash; however, if an organization allows this, the cash drawn becomes taxable income.

*Pro-flex* plans are another possible solution designed for organizations facing escalating benefits costs, especially health insurance costs. Employees purchase their original coverage using designated buy-back credits (which is based on the fixed cost of the insurance at the time the plan is implemented). Although managers may provide an annual increase in credits to employees depending on their organization’s budget, employees may find that over time the increases in credits do not always keep up with the increases in actual benefit costs. This type of plan allows managers to create an awareness of increasing benefits costs with employees and give them the choice of what to cut from benefit packages.

Traditional benefits packages which cover both spouses automatically can duplicate benefit coverage. With coordination of benefits between spouses, one spouse might drop coverage and use benefit credits either to raise their level of benefits, add new benefits or even opt for the cash.

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www.companybenefits.ca
Shortcomings of the flexible plan are the increased costs in implementation and administration, fewer economies of scale, misunderstanding among employees, poor choices by employees, employee dissatisfaction and conflict with employees and unions.

Giving employees control over their choice of benefits may result in insurance providers facing adverse selection where employees sign up for costly options in disproportionate numbers, driving up the costs of these benefits. This can ultimately drive up the costs for all parties.

Research indicates that flexible plans do not decrease costs as much as had been hoped. However, employees tend to place higher value on flexible benefits.

**Health Care Spending Accounts**

A Health Care Spending Account is a benefit that allows employees to purchase an extensive range of health care services using employer-supplied credits. Generally these benefits are not taxable to the employee and are a deductible by the employer. They can be tailored to different classes of employee. They suit employees’ individual and family needs. For all their flexibility, they complement rather than replace a more standard health plan.

With Health Spending Accounts, employees can access approximately 35 healthcare services not available through standard benefit plans or their provincial government plan. These can range from cosmetic surgery, special vision care, MRI scans and orthodontics to wheelchair or wellness programs and even fertility treatments. These must meet Canada Revenue Agency’s guidelines on Health Spending Accounts. Some providers give employees Interac-like cards so as to make payments for services from the Health Spending Account easier. Deposits to individual Health Spending can be made monthly, quarterly, on a semi-annual basis or yearly. From the start of the plan, organizations need to decide whether employees can carry over unused credits from one year to the next.

For the most part, flexible and semi-flexible employee benefit plans seem to be best options suited to the diverse needs of employees as well as to the financial means of many organizations. They provide the flexibility to offer a wider assortment of benefits, and the costs can be managed by organizations.

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Chapter 7: Linking Pay to Performance

When deciding whether to implement a performance-based compensation system within an organization, managers need to consider whether it will or will not be effective in enhancing their employees' performance and satisfaction. This chapter will address some of the typical drawbacks and benefits of linking merit pay to performance appraisal and will provide an overview of the performance appraisal and management process.

Defining Merit Pay

As noted in earlier chapters, many not-for-profit or public organizations consider merit pay to be a type of performance pay, which by definition is not the case. Performance pay does not increase the base pay whereas merit pay does. By evaluating employees' performance on a scheduled basis and, if merit warrants, granting an increase to base pay, merit pay is often assumed to be a useful mechanism for recognizing and encouraging continuing good performance.

The concept of merit pay has been around for as long as people have been working for pay and has long been used as a mechanism for calculating salary increases. Most employers would agree that higher levels of employee performance should result in higher pay levels. Employees, in turn, appreciate the recognition and increased pay provided to them by merit plans. However, formal performance-based pay plans cannot be assumed to be effective merely because they are implemented; and, tying performance appraisals to merit pay has the potential for creating inequities in pay. Without careful implementation and without ongoing evaluation as to their effectiveness, appraisal processes can fail to have positive effects on employee motivation, creating mistrust in the performance appraisal process itself and undermining the other functions associated with this process. For example, the focus on salaries may divert attention from feedback on employee performance, rendering the process ineffective particularly when the feedback is unfavorable and difficult for the employee to hear. Moreover, giving positive reviews and then paying everyone the same even for different degrees of performance can have an equally negative motivating effect.

Frequent Drawbacks to Performance Pay Plans

While financial incentives such as merit pay can help organizations to motivate, reward and retain valued employees, improper design and flawed implementation can detract from their usefulness. These negative effects can create an environment of mistrust, frustration, resentment and perceived and actual inequity. These pitfalls can include favouritism (to be discussed in more detail later in this chapter), goals and performance expectations that are not specific to each employee, inequitable assignment of goals, insufficient resources for managers to monitor and document performance, inadequate management training, ineffective feedback, unrealistic employee expectations on rating levels, the sense of employee disempowerment at being left out of the final decision making, the reluctance of managers to give a rating that would adversely affect salaries, and the tendency for members of historically disadvantaged groups to receive proportionately smaller shares of merit awards.1

Merit Pay is a monetary reward given in recognition of outstanding performance which increases base pay. It may be paid in a lump-sum or added incrementally to base pay.

Performance Pay is a monetary onetime payment made to an employee, team or the whole organization for achieving results established at the beginning of a performance cycle.

Performance Appraisal (Performance Review) is a process in which a manager evaluates an individual's past performance and sets goals for their future.

Halo Effect is either the positive (or negative) rating of an employee on one trait will bias the other traits positively (or negatively).

Error of Central Tendency is when all employees are rated as “average” with no really high or low performers.

Leniency Bias results from raters being too lax in evaluating employee performance. And by contrast, Strictness Bias is just the opposite; it results from the rater being too harsh in the evaluation of performance. Both of these biases tend to occur mainly in work environments where standards are vaguely expressed.

Recency Effect refers to ratings that are affected strongly by the employee’s most recent actions. Recent actions – either good or bad – are most likely to be remembered by the rater.

In additions to these pitfalls, organizations have associated merit pay with the yearly salary increase. In these dysfunctional situations increases due to cost of living, experience/seniority, and merit are lumped together so that each employee appears “to get something.” This has the contradictory effects of both devaluing the efforts of outstanding performers (giving them the incentive to seek better pay elsewhere) and overvaluing the performance of marginal performers (giving them no specific feedback or incentive to improve).

The consensus in the literature is that performance appraisals should be carried out, but that they should be independent of merit pay systems.\(^2\) For example, organizations may want to reward top performers through promotion or reclassification if their skill has them doing higher-level work but steer away from any form of across-the-board increases. It is important to note here that merit pay is not synonymous with across-the-board increases; it is, in fact, just the opposite; only those with high merit should get high increases.

Even though performance appraisals have been shown in the research to be somewhat lacking as a motivation tool, it is not practical to eliminate them completely as managers still need to review employees’ work-related behaviours, and both employees and managers need feedback on their levels of performance. A well-designed performance appraisal should be tailored to fit the nature of each type of work in an organization so that it can be used as an effective feedback mechanism. Prior to developing a new appraisal or implementing an existing performance appraisal system, some consideration should be given to the some of the potential system’s underlying assumptions to determine whether the organization’s policy and practices are based on the ‘myths’ or ‘realities’ associated with performance appraisals.\(^3\)

<table>
<thead>
<tr>
<th>Performance Appraisal Myth</th>
<th>Performance Appraisal Reality</th>
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<tbody>
<tr>
<td>One appraisal process can effectively serve several functions at the same time.</td>
<td>Appraisals can tend to be overloaded with too many functions with one function undercutting another (for example, the focus on the financial rewards of merit pay interferes with people hearing the feedback.)</td>
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<tr>
<td>A one-size-fits-all coaching structure works well for all supervisors and employees.</td>
<td>Supervisors have different supervisory styles; and employees have varying individual preferences and needs for feedback, coaching, and development.</td>
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<tr>
<td>The organization and supervisors are responsible for employees’ feedback, ensuring their development, and raising performance levels.</td>
<td>Empowerment is often promoted as an organizational value, yet appraisal makes the supervisor, not the employee, the driver of improvement and feedback from employees may be restricted by the supervisor’s value system.</td>
</tr>
<tr>
<td>Appraisal processes can objectively and reliably assess individual performance.</td>
<td>Evaluative processes are largely subjective; just-in- ratings provided for a single purpose will be more valid and reliable than multi-use ratings</td>
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</tbody>
</table>

\(^2\) Ibid

### Performance Appraisal Myth | Performance Appraisal Reality
---|---
Ratings motivate employees and let them know where they stand. | Ratings typically don’t always provide information that portrays the employee performance accurately; they can lead to demotivating them because nearly everyone expects to be rated highly and have their efforts appreciated.

Feedback, development, and performance opportunities should only be annual events (or quarterly events). | Feedback and improvement opportunities need to be available all the time, not once a year. (Events and situations should provide learning opportunities through feedback, development, and improvement).

There is a tendency for employees to withhold effort without special incentives. | People are intrinsically motivated to perform well when the work is meaningful; that is, pay is not a motivator, but can be a powerful de-motivator when it is inequitable.

Inspecting individuals’ performance improves individual and organizational performance. | Improvement results from identifying causes of poor performance and from planning specific steps for improvement.

Appraisals are required by law or are necessary to assure legal documentation in support of dismissals. | With a few exceptions, the law does not require appraisals; appraisal evidence tends to help employees in legal actions at least as much as it helps the employer; just-in-time written comments will provide more reliable performance indicators.

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**The Case for Performance Appraisals**

Despite many of the drawbacks in practice to performance appraisals, many organizations continue to conduct them. When they are carried out independently of performance pay determination, appraisals can:

- Be an effective mechanism for improving performance by giving management the opportunity to intervene to change employee behaviour
- Motivate employees to set goals that are better aligned with organizational objectives
- Aid in identifying training and development needs
- Be useful in career planning and promotion
- Facilitate communication between employees and managers
- Provide non-monetary recognition for good work behaviour
- Identify external impacts on performance
- Provide data for organizational improvement

From the perspective of employees, performance appraisals provide an opportunity to know how they are doing and where they stand with management. The appraisal is a chance for employees to:

- Gain non-monetary recognition
- Have good information for personal career planning
- Identify support they require
- Resolve problems and concerns
- Receive reassurance and appreciation.4

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**Defining Performance Appraisal**

Performance Appraisal is the process by which organizations compare employee job performance to goals and to established standards. It is a structured formal

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www.hays.ca/employers/giving-performance-appraisals.aspx
interaction between the employee and supervisor, usually through a series of conversations and/or written materials intended to evaluate, recognize (reward) and develop an employee’s performance. It is a periodic interview done annually, semi-annually or quarterly to identify weaknesses and strengths as well as opportunities for improvement and skills development. This knowledge can be used to improve the performance of the organization as a whole.

**STRUCTURE OF PERFORMANCE APPRAISAL AS A CYCLICAL PROCESS**

The Performance Appraisal Process can be seen as having four steps:

1. **Analysis,**
2. **Evaluation,**
3. **Objectives,** and
4. **Skill Development.**

Analysis begins with formal and informal information gathering on an employee’s performance; sources can include feedback from the employee, feedback from the manager and feedback from others (360°) such as senior staff, managers or clients and can take written or verbal form. The next part of analysis is “Developing Conclusions”. Here employee achievements are identified in respect to results, objectives, accomplishments and goals. Managers will ascertain how the employees made achievements, which skills they used successfully and which skill improvements would have made for a higher level of achievement.

In the Decision Making phase (referred to as the Evaluation phase) of the appraisal process, a number of choices with regards to the rating needs to be made. Managers must decide whether to use numbers, words or both, the size of the evaluation scale, whether to rate against expectations or peer performance, whether ratings from employees will be treated as confidential and whether this evaluation will feed into compensation and career progress processes.

The Objectives Setting or Work Plan portion of the appraisal process needs to be oriented to results; that is, the work plan and accomplishment/achievements should be tightly aligned. Here the objectives must be expressed specifically and include measures of success, that if met, point to a job well done. Intermediate milestones, actions and steps can be helpful.

Skill Development considerations are key to the effectiveness of the Performance Appraisal process. Managers need to decide which skills are of greatest value; whether employees will be appraised on performance on each skill or whether weakest and strongest will be highlighted, the best means of skills development, and measures of success.

Before implementing a Performance Appraisal system, senior staff would be wise to seek prior feedback on the process from managers, beta test the process with a small group of employees and managers, attempt a partial rollout in the first year, followed by a full rollout the next year. Next, develop a communication plan, address any apprehensions as they arise and finally establish a training program.

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A wide range of performance appraisal methods are in common use such as narrative essays; comparative standards (such as simple ranking, paired comparison, forced distribution), graphic rating scales and absolute standards (such as critical incidents, Behaviourally Anchored Rating Scales [BARS], Management By Objective [MBO]).

Rater Biases

A problem with subjective measures is the opportunity for bias. Bias is the (usually unintentional) distortion of a measurement and it can undermine the usefulness of appraisal tools. The most common rater biases include the halo effect, the error of central tendency, leniency and strictness biases, personal prejudice and the recency effect.

In the Halo Effect either the positive (or negative) rating of an employee on one trait will bias the other traits positively (or negatively).

The Error of Central Tendency is a byproduct of raters not wishing to distinguish between employees on the basis that their performance is “effective” or “ineffective.” As a consequence these raters will avoid checking the very highs or lows and instead place their marks near the centre of the rating sheet, making employees appear to be “average.” Sometimes this tendency is encouraged by human resources departments requiring raters to justify extremely high or low ratings.

Leniency bias results from raters being too lax in evaluating employee performance. And by contrast, strictness bias is just the opposite; it results from the rater being too harsh in the evaluation of performance. Both of these biases tend to occur mainly in work environments where standards are vaguely expressed.

Personal Prejudice (that is, a rater’s dislike for a person or group), may bring about a distortion in ratings. Managers should pay close attention to prejudice in appraisals since it prevents effective evaluations and violates antidiscrimination laws.

In the Recency Effect, ratings are affected strongly by the employee’s most recent actions. Recent actions - either good or bad - are most likely to be remembered by the rater.

Correcting for Bias

When subjective measures must be used, human resource specialists can reduce the distortion from biases through training, feedback and the proper selection of performance appraisal techniques.

Performance Management: Going beyond Performance Appraisal

Performance management is a relatively new concept in comparison to per-
formance appraisal. Performance appraisal focuses on the performance of individual employees, but performance management can be expanded beyond individual employees to encompass groups and organizations, all having aspects in common.

Employee performance management is a process of creating a positive, effective work environment through goal setting, feedback, encouragement and support, and rewards for success in which employees perform to the best of their abilities.

It is a whole work system that begins when a job is defined and ends when an employee leaves the organization. The process includes:

- Planning work and setting expectations
- Continually monitoring performance
- Developing the capacity to perform
- Periodically rating performance in a summary fashion
- Rewarding good performance.

**Performance Management’s Five Key Components**


7 Ibid
Chapter 8: Unions

Unions have shaped the labour market to such a degree that most organization’s compensation policies and programs have been affected whether or not they are bound by collective agreements. In organizations bound by collective agreements, managers need to follow contract provisions when determining wages, benefits, hours of employment, work conditions and grievance settlement mechanisms. By contrast, managers in organizations that are not unionized may not have such requirements but may seek a close match to many of the compensation policies of organizations that are unionized to ensure that they not only are able to recruit and retain appropriately skilled employees but also to maintain a union-free environment. This type of practice which is explained in more detail later in this chapter is referred to as the “spillover effect” or the “union threat effect.”

Unions exercise leadership within the broader labour force, ensuring that legislative and regulatory provisions concerning workplace matters such as health and safety, overtime hours and leaves are communicated and are enforced. As well, their effect on their non-unionized counterparts is such that within sectors where a significant proportion of organizations are unionized, non-unionized employers will sometimes match the compensation packages of unionized workplaces to avoid the potential costs of certification. In addition to the higher wages and benefits associated with unionization, the costs of negotiation, the potential losses due to work stoppage and grievance procedures can be quite considerable.

Seven years into Confederation the Canadian Parliament passed the Trade Unions Act, the country’s first legislation governing unions. Since that time, labour relations evolved into the statutes and regulations that are currently in force. Today, an array of laws at the federal and provincial levels currently regulates labour relations. Collective agreements significantly affect the ability of managers to direct and control the various functions of human resources management. Provisions of collective agreements govern pay, hours of work and working conditions; any amendments to the provisions require consent of the union. Compensation arrangements with individual employees have to be signed off by the union. Seniority generally takes precedence over performance in determining compensation levels for jobs in unionized environments. As well, the range of performance appraisal methods available to managers is somewhat limited. Job evaluations will typically require union representation on advisory committees. Managing within a unionized environment has become something of an HR sub-specialty. Managers need to be aware of the details of their employees’ collective agreements, trends within unionized workplaces and current labour relations law. (Belcourt 552)

A summary analysis of 114 different studies highlights the difference unionization makes to levels of compensation.1 (Milkovich 329). Workers in unions typically enjoy wage levels from about 10% to as much as 20% higher than workers in equivalent positions in non-unionized workplaces.2,3

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Union is an organization of workers whose purpose is to maintain or improve the conditions of their employment through negotiations and a legal contract (collective agreement).

Spillover Effect (Union Threat Effect) pressures non-union organizations to take measures to avoid unionization. Non-union employers match or exceed compensation packages and working conditions offered to unionized organizations.

Trade Unions Act falls under federal legislation however each province has its own employment laws giving workers in both the public and private sectors the right to organize and bargain collectively. Union rights are officially guaranteed and anti-union discrimination is prohibited.

Collective Bargaining is the process where the union and management come together to discuss and negotiate the terms and conditions of employment for the employees in the bargaining unit.

Collective Agreement is a contract, negotiated between an employer and a union, that states terms and conditions of employment for unionized staff.

Strike is a work stoppage that takes place when the union is unable to negotiate a collective agreement. Bargaining members refuse to continue working for the employer until the employer agrees to the terms or conditions of employment.
WHY WORKERS JOIN UNIONS

Employee motivation to join unions falls into two main categories: 1) job dissatisfaction and 2) the perception that unionization will improve employment. These rewards include better compensation, a more open environment for discussing issues, increased job security, safeguards against unfair treatment and the opportunity to gain senses of identity/unity.

REASONS FOR NOT JOINING A UNION

Employees may also choose not to join unions for a number of reasons. They may feel that the costs of membership such as dues outweigh any potential benefits. They may find current compensation levels and working conditions already match those of unionized firms. They may be satisfied with or prefer the organization’s current management practices. Their employers may try to discourage unionization with psychological, social or economic measures. Their employers may sponsor to some degree a non-union form of employee association (which serves the interest of the employer moreso than the employee).4

RIGHT TO ORGANIZE

Provincial and federal labour laws protect employees’ rights to engage in union activities at the workplace and prohibit managers from threatening, dismissing or disciplining them for any union-related activity.

TYPES OF UNIONS

Craft Unions (representing those workers practicing the same craft or “trade”) and Industrial Unions (usually representing most of the workers eligible for union membership in a company or industry) have been the main types of unions in the history of the labour movement. In recent decades the General Union (representing workers in a variety of skilled occupations and/or industries) has emerged. An example of an industrial union which evolved into a general union is the United Steelworkers which now represents administrative support staff at the University of Toronto.

LABOUR RELATIONS

Labour Relations is the relationship between the employer and its employees within a particular organization. This includes negotiations for a collective agreement and the application and interpretation of the agreement on a day-to-day basis once it has come into force.5

COLLECTIVE BARGAINING

The negotiations between employers (or their representatives) and unions, the recognized representatives of employees, to reach mutual agreement about employment terms are known as Collective Bargaining.


5 Ibid.
All employees within the bargaining unit are covered by the collective agreement whether or not they choose to join the union. At the end of negotiations a contract is signed by management and the union, which establishes the terms of employment for a given period. Managers and employees cannot have lockouts or strikes during the life of the collective agreement and there must be compulsory inclusion in the agreement of a requirement for arbitration of outstanding grievances.

**Administering the Collective Agreement**

Grievances can be filed by either employees or employers who believe that the provisions of the collective agreement are not being followed. The four stages to the resolution of grievances are 1) the informal stage with attempts to resolve the grievance without it being put in writing 2) the written grievance 3) higher level bilateral discussion and 4) arbitration by an agreed-upon third party.

**Strikes and Lockouts**

The union may exercise its right to strike and management can exercise its right to lock out those employees who are unionized when the end of a collective agreement is reached or by an agreed-upon extension deadline. If negotiations continue past deadlines, the union membership sometimes will agree to work until the agreement is achieved.

In many unionized organizations, the relationship between management and unions is not an adversarial one. Both parties are able to achieve gains desired - for management, meeting the organization's goals, and for employees, receiving fair and equitable compensation. Measures can be taken to improve this relationship such as open-door policies; prior consultation on issues pertinent to the union; demonstrating genuine concern for employees' well-being, forming joint study committees, holding joint training programs, meeting regularly and involving outside mediation. (Dessler, 662)

**The Spillover Effect**

No estimation of the extent to which unions have affected the broader labour market is valid without taking into account the “spillover effect.” In this dynamic, managers in non-unionized workplaces offer comparable wages, benefits and working conditions to those of unionized firms.

Unions have a significant impact on the compensation of both unionized and non-unionized organizations raising the level of wages and benefits and creating an overall awareness of workplace health and safety. In a unionized setting, employers are more likely to involve their employees (or their union representatives) regarding changes to compensation policies and practices. However, unionization does not always work in favour of the individual employee, particularly those who are high performers and are looking for rapid career advancement. Their opportunities for promotion in a unionized position may be somewhat reduced due to union seniority provisions in the collective agreement. It is essential for managers to understand how unions operate and be thoroughly familiar with labour relations because it may mean the difference of working effectively with the collective agreement process or dealing with time consuming problems around grievances; and, if not in a unionized environment it may be an issue of preventing unionization of the organization.
Chapter 9: Using Salary Surveys

Salary surveys are a consultative tool that employers and associations use to obtain salary information that is useful in determining the competitive wage rates needed to attract and retain competent employees. Employers can use surveys in different ways; as well as establishing a competitive salary structure, they can use the surveys to support their job evaluation system. When job evaluation and survey data are used jointly, internal and external equity are mutually reinforced. The focus of surveys tends to be on collecting base salary information and they can also be an effective means of researching trends in the design of benefits packages and pay systems.¹ Pay structures tend to be strongly influenced by practices in the sector, the organization size and local labour market conditions.

In North America, Europe and most of the other industrialized countries there are numerous organizations for profit and not-for-profit which specialize in conducting salary surveys and can provide data information on such things as on the cost of living, the cost of employee relocation and inter-regional variations, along with information about job evaluation.² However, small to medium-sized community-based agencies do not usually have the resources to carry out comprehensive external salary surveys, let alone commission such studies by outside organizations. Within the not-for-profit sector, large-scale, wide-ranging surveys tend to be the prerogative of associations and sector councils.

This chapter explains how to identify salary surveys which are relevant to the needs of organizations within the not-for-profit sector, and specifically within community-based agencies. It also provides information on the meaning of some survey terms and discusses the value of survey participation.

What are Salary Surveys and What Purpose Do They Serve?

Employers use salary surveys to compare pay levels in their organizations with those of similar jobs in outside organizations within the relevant labour market.³ These surveys are usually carried out by or for large organizations, specialist firms, associations and government, in some cases on a routine basis. They may emphasize particular jobs, regions, size of organization or sector. Since the data collected is based on current information, it is valid for a limited time period; usually a year or possibly two, if a valid inflation factor is added.

The types of data gathered in salary surveys can include aspects of compensation such as base pay, performance pay, general increases, merit pay, ranges from minimum to maximum, entry-level pay, benefits, working hours, job qualifications, geographical location and whether positions were filled internally or externally.

Survey information is useful to employers in many ways. It can be used to show whether an organization's compensation levels are aligned with market rates, to

³ Ibid.
allow compensation levels to be adjusted to market levels, to track sector trends in compensation packages, to develop pay structures, to assess issues in compensation management, to calculate human resources costs of other organizations and to research information just prior to negotiations with unions.4

**What Do I Look for in a Survey?**

Published reports on wage and salary surveys offer comprehensive access to information about compensation levels in the labour market at a relatively low cost. Accessing these sources is relatively less costly than carrying out in-house research and has the increased reliability associated with large-sample surveys.

When analyzing survey data, managers need to identify and focus on those jobs covered in the survey which most closely match the jobs in their own organization. The only way to do this with any precision is to review the brief job descriptions attached to the survey; job titles alone do not provide enough detail to ensure true matches. Having identified comparable jobs, managers should make certain that pay rates are described in a comprehensible way within the survey; for example, the different types of pay (base pay, performance pay and indirect pay) should be reported separately. Internal benchmark jobs should be selected from the survey jobs that have been found to be comparable.

Once the benchmark jobs are compared, salary survey results should include a summary of the data analysis. A basic report on survey results needs at the very least to show job title and the average or median salary for each job in the survey. Typically, though, survey reports should show more detail.

Managers need to assess the potential value of a survey from a number of perspectives. They need to find out if it is current enough, if it covers comparable jobs, organizations and geographic areas, if the sample size for each job is large enough and if it indicates total compensation for each position along with breakdowns for different types of pay, benefits, bonuses, etc. As well, managers need to ensure that data on pay levels are not distorted by organizations at either high or low-paying extremes, that respondents have formal compensation systems in place, that competitors in the labour market are covered. Finally, to increase the likelihood of getting the best picture of the labour market, managers should use data from more than one survey.

**Understanding Terms**

*Benchmark (or key) job* is a standard job from either within the organization or outside the organization used as a reference point for pay comparisons. These jobs have relatively the same job content and there is not much difference in their rates of pay.

*Salary Survey* is a gathering and summarizing of compensation information paid by employers for various jobs in the labour market. Salary information is often used to price benchmark jobs, and it is used to compare salary levels in an organization to external jobs.

*External Equity (External Competitiveness)* is the fairness in relation to the total compensation in other competing organizations or in the relevant labour market.

*External Competitiveness* is the comparing of compensation rates of one organization to those of its competitors.

*Labour Market* is the geographical area from which an organization recruits employees.

*Benchmark (or key) job* is a standard job from either within the organization or outside the organization used as a reference point for pay comparisons. These jobs have relatively the same job content and there is not much difference in their rates of pay.

The *mean* is the average pay calculated by adding up all the pays for benchmark jobs and dividing the sum by the number of benchmark jobs. This measure is most sensitive to unusually high or low pays.

The *median* is the discrete number at the middle of the range of benchmark jobs; for this number half of the jobs are above and half are below. Medians are not “the average” pay. The median is less sensitive to salary extremes than the mean.

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Percentiles are the rank of values expressed as the percentage of values at or below that score. The 25th percentile or the first quartile is the rank below which 25% of salaries fall; the 50th percentile, or the second quartile is the rank below which 50% of salaries fall; the 75th percentile, or the third quartile is the rank below which 75% of salaries fall.

The middle 50 percent or the interquartile range is the distance between the first quartile and the third quartile, that is, the range of data between the highest 25 percent and lowest 25 percent of the reported data. This mitigates the tendency of the mean to be distorted by extremely high or low values. Similarly, the upper quartile is the 25% of highest paying jobs and the lower quartile is the 25% of lowest paying jobs.

A job grade or pay grade is a grouping of jobs of the same or comparable value to the organization. Each job within a pay grade will have the same pay range – minimum, midpoint, maximum. Movement to another grade is through promotions or demotions.

The mean rate reported in the salary survey is the midpoint: halfway between the minimum and the maximum; it typically would be used for payment for an employee who is competent at performing the job duties.

Minimum rate is the lowest level of pay; employees meeting the minimum qualifications for the job are entitled to the minimum rate.

Maximum rate is the highest pay rate reported within a pay grade. Typically, the incumbent whose performance or attributes exceed those in the job description and organizational goals for the job would receive this rate.

**Participating in Salary Surveys**

Organizations are frequently asked to participate in salary surveys which can present a dilemma to managers. On one hand, no external survey data would be available without participants and the validity of data is improved with increased participation. Of more direct benefit, if other employers within an organization’s sector are participating, participating in a survey allows for direct comparison with competitors’ compensation for given jobs. As well, it is normal practice for participating organizations to receive discounts on the final report. On the other hand, the costs to the organization in terms of time and fees need to be weighed against the potential benefits of access to data.

In addition, managers considering whether to participate in a compensation survey need to assess whether they can meet the response deadline and if the benchmark descriptions are a fit with those of their organization. They need to review earlier reports and ask follow-up questions to decide if the data will be current enough, if the sample size will be sufficiently large, if the analysis will be thorough and if the results will be in a clear format.  

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CONDUCTING SALARY SURVEYS

Detailed compensation survey design and methodology are beyond the scope of this manual. As noted in previous sections, there is a great deal of published information available. Managers need to scan and review existing research to ensure that a customized survey will not amount to a costly exercise in duplication. That being said, there are instances where conducting a compensation survey might be seen as desirable. If no appropriate existing salary information is available, customized surveys, whether conducted in-house or commissioned, can give managers an extremely useful tool for recruiting and retaining the best-skilled staff at optimal levels of compensation.

WHERE DO I FIND SALARY SURVEYS?

While cost is always a factor in choosing salary surveys, affordability is of particular concern to those managers in community-based agencies with limited funding. Survey data can be found on the internet, government sites such as the Statistics Canada Labour Force Survey, union publications. It can also be found in commissioned surveys and analysis, joint surveys with other employers, and through an association or through an in-house customized survey.

Useful Online Sources for Collecting and Analyzing Salary Survey Data

This section lists websites which can be useful for managers in community-based organizations in Canada who are seeking salary survey data that is already published or available by subscription or who wish to conduct or commission a survey. Some sites offer information at no cost. Others require payment.

- Canadian Society of Association Executives (CSAE) at www.csae.com
- Economic Research Institute at www.erieri.ca; and, www.salariesreview.com
- Human Resources Internet Guide at www.hr-guide.com
- Peter T. Boland & Assoc. Inc. at http://ptbaconsulting.com/NonProfitSurvey.html
- Statistics Canada’s Labour Force Surveys are available at www.statcan.ca
- Toronto Board of Trade at www.bot.com
- Vault Employer Research at www.vault.com
Chapter 10: Communicating Compensation

Communication is central to achieving any organization’s strategic objectives. As much as it is management’s prerogative to set compensation levels, this role will have positive effects on employee morale if it is exercised in an open, consultative fashion. Communicating the rationale behind compensation systems helps ensure that employees have solid understanding of these systems. They should know their compensation packages and the decision-making process which determined it. And they should also have a good grasp of the array of benefits available to them.

Organizations that communicate most effectively are more likely to report turnover rates below those of their competitors. Communications systems that ensure employees are well-informed about their own compensation, that they understand the decision-making process, and feel free to give frank feedback results in positive employee attitude to working in the organization.

The process of communication is complete when the sender ascertains through feedback whether the receiver has understood the communication. Open communication tops the list of qualities of a great workplace, one where employees have the opportunity to comment, share ideas and provide input. Not being listened to lowers employee morale, creating an incentive to seek work elsewhere. The consensus in the literature is that employee satisfaction of their compensation is directly related to their understanding of the organization’s compensation policies and practices. (Long 2006 466)

Open, two-way communication requires a willingness to listen as well as inform, and to present both good and bad news with sufficient context for the news. It requires adherence to a consistent set of messages about the organization and its vision for growth, and frequency in getting those messages out across multiple channels.

A MATTER OF TRUST

One of the best tools for building trust is transparency which can be accomplished by openly sharing how the pay program was developed, how it is designed to operate and what its philosophical underpinnings are meant to be. Management should be explicit about their reasons and decisions regarding compensation issues. This transparency will alleviate negative speculation and demonstrate good-faith efforts of administrators to improve compensation. The purpose of communicating compensation systems to employees is to inform them of policies and procedures and the rationale behind them; it is not necessary to provide employees with a detailed calculus for determining pay levels.

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2 Ibid


Fairness or a sense of justice with employee pay is critical to their satisfaction with the organization. Internal equity is far more important than external equity. Employees need to know if they are paid fairly for their efforts compared to their colleagues and to employees in other organizations. Furthermore, employees need to know that when they identify inequities, there is an appeal procedure in place for adjustments or, at the very least, a sound explanation justifying the pay. Very often when employees raise issues, even if they disagree or the issues do not get changed, they are satisfied to accept the outcome because of their perception of the fairness in the process and that fairness is based on their confidence that management uses a systematic, unbiased approach to establishing pay levels and related policies.

**MODE OF COMMUNICATION**

Good decisions that are poorly communicated can lead to employee dissatisfaction. Employees are more likely to accept decisions if clear information is communicated in a timely manner, if the channels of communication work in both directions, and if employees are well informed about their compensation packages. Communications plans also need to incorporate the most appropriate media to enhance employee understanding. In the past, newsletters and meetings were the most common methods of organization-wide communication, but with the widespread use of computers, the internet and intranets, organizations are increasingly using electronic means to communicate compensation policies and information. Email, homepages and other means of electronic communication have the advantages of speed, lower cost and the capacity to keep information current as changes occur.

The internet has provided employees access to comparative data on pay rates within any geographical area, within their industry and often within their own organization, giving them the ability to question the information their employers put forward. Only compensation systems that are consistent, comprehensible and that represent clear, well-designed pay structures and benefits packages can bear the scrutiny of informed or misinformed employees. The communication of the benefits package is a particular area of concern which requires clarity especially if employees are in the position to choose their benefits. The organization must provide clear and concise information concerning each employee’s entitlement to benefits, descriptions of the benefits plans, employee obligations and the timelines for claims. If the organization provides a defined-contribution pension plan, it also has a legal requirement to provide clear communication of costs, timelines and payouts.5

The only certain way to know if employees have a good understanding of a compensation system is to encourage, obtain and assess their feedback, and by measuring turnover. Mechanisms for obtaining feedback can include one-on-one interviews, group/team meetings, employee opinion surveys, and a traditional or electronic anonymous suggestion box. If employees keep asking the same questions about pay-related matters that have been addressed through the various media, this may indicate that they are not accessing information because it is either not well organized or the language is not easily understood and may need to be re-worked.

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BARRIERS TO EFFECTIVE COMMUNICATION ON COMPENSATION

There are types of errors in communication that can sabotage even the best-designed compensation system.

1) “Bunching” describes combining several increases in compensation for very different reasons such as changes in market indicators, performance recognition, and cost-of-living. This type of increase does not permit employees to understand why they received an increase at the level they did and what to expect in the future. Moreover, it does not motivate them to continue excellent performance or to improve poor performance.

2) Taking away one increase because an employee has received another type of increase is another error that can cause resentment and discouragement. It reduces the incentive to improve performance or compete for promotion.

3) A poorly communicated rationale behind pay differences can lead employees to feel that they are not fairly treated in relation to their colleagues. Employees need to be informed about the criteria to determine the position of employees on pay ranges so that they will not feel that they have been subject to discrimination. While employers generally treat individual compensation levels as confidential, they need to assume that this information is widely shared. If the employees are well-informed about the system for setting pay, they will be less likely to feel they have been arbitrarily treated.

IN SUMMARY

Compensation communications require careful planning and implementation. The type of communication and how often it is conveyed must be tied to the needs of the organization. In common with other areas of management, employee morale and motivation are dependent on the quality of communications. Putting thoughtful effort into pay decisions can significantly enhance communicating these decisions effectively.
Appendix: Government Legislation in the Workplace

This appendix provides an overview of the key federal and provincial laws, regulations, policies programs and taxation legislation relevant to human resource management. Employers are required to comply with all laws governing their compensation policies and practices.

In Canada, both the federal and provincial governments have jurisdiction in the area of employment. The federal government’s jurisdiction includes its own employees and those workers in regulated industries such as transportation, communications, defense, uranium mining, many First Nations activities, and organizations engaged in interprovincial or international trade.

All organizations must comply with federal taxation legislation and with the legislation of each province where they operate.

Employers need to consider four types of legislation affecting compensation.

1. Employment Standards Act (provincial); Canada Labour Codes (federal)
2. Human Rights Legislation (provincial); Canadian Human Rights Act (federal)
3. Trade Union Legislation (provincial); Unionization and Collective Bargaining (federal)
4. Tax Legislation (provincial); Income and Corporate Tax Laws (federal).

The summary and links below are provided as a general guide only and are current only to the date of publication. To ensure compliance with all pertinent statutes, regulations and policies, it is wise for managers to research ongoing developments in each relevant area when implementing changes in compensation policies.

Ontario Provincial Legislation

Employment Rights and Responsibilities

Ontario’s Employment Standards Act 2000 (ESA) establishes minimum standards for workplaces; addresses “equal pay for equal work”; establishes minimum entitlements for employees, and sets maximum hours of work.

www.cbs.gov.on.ca/obc/english/5SCMLG.htm

Ontario’s Pay Equity Act outlines standards and procedures to ensure that male and female workers performing work of the same value are paid at comparable levels. “Equal pay for work of equal value.”

www.cbs.gov.on.ca/obc/English/642K39.htm

Occupational Health and Safety

Ontario’s Occupational Health and Safety Act outlines rights and obligations in the workplace along with the enforcement procedures for employers and employees in the area of health and safety.

www.labour.gov.on.ca/english/hs/ohsaguide/
The *Smoke-Free Ontario Act, 2006* bans smoking in enclosed workplaces and enclosed public places. This law was introduced by the Ministry of Health and Long-Term Care but it is enforced by the Ministry of Labour.


**Ontario’s Workplace Safety and Insurance Act, 1997 and Regulations.** The agency overseeing the Act has the dual function of promoting workplace safety and providing compensation to employees injured on the job.

www.wsib.on.ca/wsib/wsibsite.nsf/public/about

**Labour Relations**

Ontario’s *Labour Relations Act 1995* governs the processes and procedures for union certification and collective bargaining for employers in Ontario.

www.labour.gov.on.ca/english/about/leg/lr_leg.html

**Human Rights**

Ontario’s *Human Rights Code (the “Code”)* specifies equal rights and opportunities for everyone without discrimination or harassment on 15 grounds: race, ancestry, place of origin, colour, ethnic origin, citizenship, creed (religion), sex (including pregnancy), sexual orientation, disability, age (was 18 to 65 before Bill 211 for employment, and 16 and over in occupancy of accommodation), marital status (including same sex partners), family status, receipt of public assistance (in accommodation only) and record of offences (in employment only).

http://ohrc.on.ca/english/publications/hr-code-guide.pdf

The *Accessibility for Ontarians with Disabilities Act, 2000* sets out standards for accessibility in five important areas: customer service; transportation; information and communications; built environment; and employment. All organizations, including not-for-profits offering goods or services to the public must comply within specified timelines.

www.mcss.gov.on.ca/mcss/english/pillars/accessibilityOntario/

In 2006, Ontario’s *Bill 211* ended Mandatory Retirement at age 65 and provides employees with the choice to either retire or continue working past the age of 65 (with specified exceptions).


**Privacy Legislation**

Ontario’s *Freedom of Information and Protection of Privacy Act* (FIPPA) and the *Municipal Freedom of Information and Protection of Privacy Act* (MFIPPA) establish the rights of and procedures for individuals to access information at public institutions and to protect their privacy.

www.accessandprivacy.gov.on.ca/english/act/index.html

**FEDERAL LEGISLATION**

**Human Rights and Employment Equity**

Along with *The Canadian Human Rights Act, The Employment Equity Act* is administered by the Canadian Human Rights Commission; this legislation protects employees and job applicants for positions in federally regulated industries from unfair discrimination and sets out procedures and policies for affirmative action to remedy systematic discrimination and to accommodate difference unrelated to ability.

Labour Relations

Under the federal Trade Unions Act legislation, employees in both the public and private sectors have the right to strike, except for those in the public sector who provide essential services (with some exceptions). Trade union rights are officially guaranteed in federal legislation, although each province also has its own legislation, setting limitations on these rights. The law prohibits anti-union discrimination and protects collective bargaining.

www.gov.ns.ca/legislature/legc/statutes/tradeun.htm

Privacy

The Federal Office of the Privacy Commissioner (OPC) administers The Privacy Act which provides individuals with protection for and access to information about themselves held by federal government institutions and the Personal Information Protection and Electronic Documents Act, PIPEDA a relatively new law, protects personal information in the hands of private sector organizations and provides guidelines for the collection, use and disclosure of that information in the course of commercial activity.

www.privcom.gc.ca/aboutUs/index_e.asp

TAXATION AND REMITTANCES (Federal & Provincial)

Pensions

Canada/Quebec Pension Plan (C/QPP) is funded by contributions from employers and employees based on earnings through employment. It is mandatory for employers to remit their contributions and those of their employees to the Receiver General for Canada.

www.cra-arc.gc.ca/tax/business/topics/payroll/calculating/cpp/menu-e.html

Workers’ Compensation

Workers’ Compensation is administered in Ontario by the Workplace Safety and Insurance Board (WSIB). Employers fund the program through premiums that are calculated based on the safety record for their industry as a whole and for their specific workplace.

www.cra-arc.gc.ca/tax/business/topics/payroll/calculating/ei/menu-e.html

Health Insurance

Ontario’s Employer Health Tax (EHT) is mandatory payroll tax and is paid and remitted by organizations that employ workers in Ontario:

www.rev.gov.on.ca/english/guides/eht/2436.html

Collected through the income tax system, the Ontario Health Premium (OHP) (mandatory) is a health tax on employee earnings. The amount deducted from pay (and pensions) is considered a form of extra income tax and is submitted with other federal and provincial income taxes.

www.fin.gov.on.ca/english/publications/healthpremium/healthfaqemp.html
Personal Income Tax

The Canada Revenue Agency's Information Return (T4) is the reporting form for employment income and deductions. Employers file these returns annually and must provide information slips to employees before the end of February for the previous year's earnings and deductions.

Forms are available at: www.cra-arc.gc.ca/formspubs/request-e.html

Further information is available at: www.cra-arc.gc.ca/E/pub/tg/rc4120/

Employment Insurance

Employment Insurance is funded by mandatory premiums/contributions from employers and employees that are collected as a payroll tax:

www.cra-arc.gc.ca/tax/business/topics/payroll/calculating/ei/menu-e.html

Under the Employment Insurance Act a Record of Employment (ROE) must be issued within 5 calendar days of an interruption in an employee's earnings due to pregnancy, injury, illness, adoption leave, layoff, leave without pay, or dismissal or the day the employer knows of the interruption.

www1.servicecanada.gc.ca/en/ei/employers/roe_guide.shtml

ROEs can be ordered by mail, telephone or in person from the local Service Canada - Employment Insurance office, in the blue pages of the phone book, or at: www1.servicecanada.gc.ca/en/gateways/business/cluster/category/eiie.shtml

Self-employed Contractors

As the previous sections of this Appendix (and indeed this entire) volume have shown, complying with employment laws, regulations, policies and tax requirements can be somewhat onerous for organizations. As a result, some managers (especially those whose primary function is not HR) may wish to choose to retain a self-employed contractor to perform work, rather than hiring an employee. However, it is not enough to simply say that someone is self-employed for them not to be considered as an employee by government agencies and very importantly, for these government agencies not to see the relationship as employer-employee. There are specific guidelines issued by the Canada Revenue Agency (CRA) which help determine whether the individual hired is considered an employee or self employed contractor.

Information is available at:

Canada Revenue Agency (CRA) at 1-800-959-5525
www.cra-arc.gc.ca/E/pbg/tf/cpt1/README.html

(see specifically: CRA form CPT1 Request for a Ruling as to the Status of a Worker under the Canada Pension Plan or Employment Insurance Act)

and also:

**Glossary Terms**

**Alternation Ranking (Paired Comparison)** is a job evaluation method that ranks jobs from two extremes – most important and least important – simultaneously. The most valuable and the least valuable jobs are ranked, then the second most valuable and the second least valuable, until all jobs in the organization have been ranked.

**Base Pay** is compensation based on time worked, such as an annual salary or an hourly wage and it does not include pay benefits, overtime or incentive pay.

**Benchmark (or key)** job is a standard job from either within the organization or outside the organization used as a reference point for pay comparisons. These jobs have relatively the same job content and there is not much difference in their rates of pay.

**Benefits** are any form of indirect payment due to an eligible employee (or his/her beneficiary) under an employee benefit plan. These payments can include pension, medical and/or dental coverage.

**Benefit Ceiling** is the maximum amount paid for specific benefit claims.

**Benefits Deduction** is the deduction from an employee’s pay to cover all or a portion of the premium of his/her benefits package.

**Broadbanding** is the condensing of multiple salary grades into several broad and wide-ranging grades.

**Cafeteria Plan (Flexible Benefits Plan)** is a customized benefits plan in which an employee may choose the benefits best suited to his/her needs. In most cases a common core package is mandatory, with elective programs available at the employee’s discretion. The employee may also choose to contribute for additional coverage.

**Canada/Quebec Pension Plan (C/QPP)** is a government-sponsored pension plan, mandatory for all employed Canadians and funded equally by employers and employees.

**Classification** is a job evaluation method based on job descriptions into which jobs are categorized by class descriptions such as “managerial” or “clerical” to name a few. Jobs are classified by comparing each job to the existing job classes and/or job families of characteristically similar positions and selecting the pay grade that best matches them. This method is popular with the services sector.

**Collective Agreement** is a contract, negotiated between an employer and a union, that states terms and conditions of employment for unionized staff.

**Collective Bargaining** is the process where the union and management come together to discuss and negotiate the terms and conditions of employment for the employees in the bargaining unit.

**Compensation** may be in the form of financial returns, tangible services, and benefits received by employees as part of their employment. It does not include other forms of rewards such as recognition and interpersonal relationships etc.

**Compensable Factors** are the most important characteristics of a given job, on which pay rates are established and relative worth evaluated. They are determined by their ability to further an organization’s strategy and relate directly to the work itself. The four major criteria most often used to measure jobs are skill, effort, responsibility and working conditions.

**Compensation Mix** may include a part of base pay and/or performance pay and/or indirect pay or a relative proportion of each.

**Compensation Strategy** is the organization’s plan for how compensation decisions on the types and amount of pay are made, based on the interests of the employees and keeping with the organization’s mission and competitive position in the market.

**Cost of Living Adjustments (COLAs)** are general wage and salary increases or extra payments based on changes in a referenced price index, usually the Consumer Price Index (CPI). They may be implemented automatically, if stipulated by a union contract.

**Deductible** is a subtraction of a specified amount of money ($25 or $50) on a benefit claim that is taken off just the once at the beginning of an annual term.

**Defined Benefit Pension Plan** is a benefits package in which an employer agrees to provide a specified income from the time of retirement until death. The amount is based on the employee's annual income and modified by how many years the employee has been covered by the plan.

**Defined Contribution Pension Plan** is a benefits package for which an employer gives an employee an established amount to an employee's retirement fund and the maximum payout is based on the contributions by the employer and employee and the amount of money earned in the trust.

**Employee Assistance Programs (EAPs)** are employer-sponsored services to help employees with personal problems that affect job performance (stress, substance abuse, family problems, etc.).
**Employee Benefits** are part of an employee’s total compensation package, other than pay for time worked, provided in whole or in part by employer payments (includes life insurance, vacation, worker’s compensation, pension, paid time off, etc.).

**Error of Central Tendency** is when all employees are rated as “average” with no really high or low performers.

**External Competitiveness** results from the comparing and matching or exceeding the compensation rates of one organization to those of its competitors.

**External Equity** is the fairness in relation to the total compensation in other competing organizations or in the relevant labour market.

**Extrinsic Rewards** are rewards that an employee receives because of the job itself, including cash compensation, benefits, promotions and job security.

**Factor Comparison** is a more complex job evaluation method in which jobs are assessed using a set of compensable factors (i.e., skill, responsibilities, effort and working conditions) and then ranked based on the value to the organization. Jobs are compared within the organization to the benchmark jobs and their rates of pay for each factor to determine job salaries.

**Factor Weights** are assigned to each compensable factor in a job evaluation system to indicate its overall importance. Factor weights can be based on judgment or on statistical analysis.

**Fixed Benefit Plan** is a benefit plan that is provided to all eligible employees with the same array of benefits.

**Flexible Benefit Plan** allows employees to choose the benefits they prefer. Employees are allotted a fixed amount of money and permitted to spend that amount in the purchase of benefit options. Employees can also top up or buy benefits with their own salary.

**Flexible Spending Accounts or Health Care Expense Account** is an employer deductible tax-favoured employee benefit that allows employees to use employer-provided health care credits to purchase a wide array of health care services. Employees have separate spending accounts with an allotted maximum to fund allowable health care services.

**Green Circle Rate** is the pay rate that is lower than the minimum pay rate for a job or pay range for a grade.

**Group Registered Retirement Savings Plan (Group RRSP)** is an employee pension plan where each employee has their own individual plan but it is set up and administered as a group plan by the employer or the union. The contributions are made through payroll before income tax is deducted and the earnings of the plan accumulate on a tax deferred basis.

**Halo Effect** is either the positive (or negative) rating of an employee on one trait will bias the other traits positively (or negatively).

**Hierarchy (or Job Structure)** is a ranking of jobs based on their value to the organization.

**Hybrid Pension Plan** is a pension plan that combines elements of the defined benefit pension plans and the defined contribution pension plans.

**Indirect Pay** is part of an employee’s total compensation package, non-cash items or services provided to employees in return for their contribution to the organization (i.e., health benefits, paid time off). Sometimes the costs for the items are shared by the employees.

**Internal Equity** is the fairness in the employment contract or compensation programs when compared with other employees within the organization.

**Intrinsic Rewards** come from the work environment and are valued internally by the employee. Job satisfaction, self-esteem, achievement, growth, and professional and personal development are some examples of intrinsic rewards.

**Job Analysis** is the process of identifying and determining information about a job for the purpose of writing descriptions. Factors considered include duties, tasks, responsibilities, and skill requirements, among others.

**Job Class (Job Grade)** represents a group of jobs that are substantially similar, justifying a common name, similar selection processes and similar compensation.

**Job Description** is a written summary of a job which identifies the position and describes its tasks, major duties and responsibilities and minimum qualifications and abilities required to perform the job.

**Job Evaluation** is a systematic process that compares jobs and ranks them based on their relative worth to the organization. It is used to create a job structure for the organization and establish compensation standards.

**Job Family** is made up of related jobs distinguished by levels of knowledge, skills, and abilities (competencies) as well as other factor required of the jobs.
Labour Market is the geographical area from which an organization recruits employees and where individuals seek employment.

Lockout is a work stoppage that includes the closing of the place of employment or refusal to continue to provide work for the union members as a means to pressure them to agree to the terms or condition of employment.

Long-term Disability Plan is an employer sponsored plan that provides income protection in the event of a long-term illness or disability that is not work-related.

Mandatory Benefits are legally required government sponsored employee benefits, such as pensions and employment insurance, to which employers are obliged to contribute on behalf of their employees.

Market Rate is the rate of pay established for a “benchmark job” outside of the organization. It is determined through the collection of pay data gleaned from surveys of numerous organizations.

Merit Pay is a monetary reward given in recognition of outstanding performance which increases base pay. It may be paid in a lump-sum or added incrementally to base pay.

Pay Equity Act is a law intended to ensure that equal pay is provided to both male- and female-dominated jobs with the same value or worth to the employer. It is intended to address gender-based wage gaps.

Pay For Time Not Worked refers to employee benefits that cover a variety of circumstances in which employees receive pay even though they are absent from work.

Pay Grade is a grouping of jobs of the same or comparable value to the organization. Each job within a pay grade will have the same pay range - minimum, midpoint, maximum. Movement to another grade is through promotions or demotions.

Pay Range is the upper and lower limit of pay rates to be paid for jobs in a pay grade, from minimum to maximum. Movement through a pay range is a result of experience, seniority, training, etc.

Pay Structure is a hierarchy of jobs within an organization. Jobs are ranked based on content and value to the organization. The pay structure includes all the pay rates for different jobs within a single organization, factoring in the number of pay grades/levels with or without ranges, differences between grades/levels, and the criteria used to determine the differences.

Pension Plan is a plan that provides income to employees upon retirement as compensation for work performed now. Pension plans are provided by the employer and/or union, and employer contributions are usually matched by the employee.

Performance Appraisal (Performance Review) is a process in which a manager evaluates an individual's past performance and sets goals for their future.

Performance Management is a process that not only focuses on the performance of the individual but also can be expanded to encompass groups and the organization as a whole. This is accomplished through goal setting, feedback, encouragement and support and rewards for successes.

Performance Pay is a monetary onetime payment made to an employee, team or the whole organization for achieving results established at the beginning of a performance cycle.

Point Method (Point Value; Point Evaluation), is a quantitative job evaluation process that assigns points to each job, based on compensable factors. These points are then scaled and weighted, and a total score tabulated for each job. A job's total points determine its relative value to the organization and its location in the pay structure.

Premium is the periodic amount under a contract of insurance in respect to benefits paid by the employer and/or employee to keep a policy in force.

Promotion is an advancement in which an employee moves to a higher level position that usually requires further skills, education, experience and knowledge and pays a higher salary.

Ranking is a simple job evaluation method that ranks jobs from highest to lowest based on the overall value of the job to the organization.

Recency Effect refers to ratings that are affected strongly by the employee's most recent actions. Recent actions – either good or bad – are most likely to be remembered by the rater.

Red Circle Rate is the pay rate for a position that is higher than the maximum rate for a job or pay range for a grade.
Registered Retirement Savings Plan (RRSP) is a tax deductible voluntary individual retirement plan funded by the employee's own earnings. Some organizations dedicate part of their employee's salary for an RRSP. The responsibility for making the RRSP contribution lies with the employee.

Salary is direct compensation/pay calculated at an annual or monthly rate rather than by hour.

Salary Survey is a gathering and summarizing of compensation information paid by employers for various jobs in the labour market. Salary information is often used to price benchmark jobs, and it is used to compare salary levels in an organization to external jobs.

Seniority is the length of time an employee has been with an organization. It is compulsory in a unionized setting when considering promotions and lay-offs.

Short-term Disability Plan is an employer sponsored plan that provides income protection for the employee due to non work-related illness or disability. It takes effect after sick days have been spent and earnings have ceased and continues until the employee returns to work or when the employee qualifies for long-term disability.

Spillover Effect (Union Threat Effect) pressures non-union organizations to take measures to avoid unionization. Non-union employers match or exceed compensation packages and working conditions offered to unionized organizations.

Strike is a work stoppage that takes place when the union is unable to negotiate a collective agreement. Bargaining members refuse to continue working for the employer until the employer agrees to the terms or conditions of employment.

Trade Unions Act falls under federal legislation however each province has its own employment laws giving workers in both the public and private sectors the right to organize and bargain collectively. Union rights are officially guaranteed and anti-union discrimination is prohibited.

Union is an organization of workers whose purpose is to maintain or improve the conditions of their employment through negotiations and a legal contract (collective agreement).

Wages are direct compensation/pay calculated by the hour.

Workers’ Compensation is a legally required government-sponsored plan, employer-paid no fault insurance plan that provides income and benefits to victims and their dependents of work-related accidents or illnesses.
Books


Publications/Articles


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