



Making Everything Easier!™

UK Edition

HR for Small Business

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Learn to:

- Develop your employees to grow your business and lead change
- Pay the right rates for jobs and reward employees fairly
- Manage employee performance by setting clear expectations
- Implement key HR legislation to avoid pitfalls

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Introduction

Welcome to the world of Human Resources, or HR for short. From the peaks of strategy to the foothills of statistics, you will travel through the law of the land, with a peek at European regulation, and some diversions into amateur psychology along the way, but don't be daunted! Armed with this basic guide and a good dose of common sense, you can avoid most of the pitfalls and may even enjoy the ride.

About This Book

We wrote this book for people running small businesses who have ambitious plans and don't want to spend all their time sorting out people problems. Whether you are dealing with a tricky employee issue right now, or you can see opportunity or trouble coming down the road, grab this book and you will find some practical tips about how to handle it.

In its broadest sense, *HR* covers every aspect of people at work, so we offer advice about how to attract the right people to work for your business, and how to manage them so that they add value. We show you some of the ways you can create a positive relationship with your employees, using the employment contract, the working environment, pay and benefits, and creative career development. We also share some ideas about how your leadership and management can make a big difference to people's performance.

To make it easier for you to find what you need, *HR for Small Business For Dummies* follows certain rules. When we introduce an important new term, we put it in *italics*,

and if one item on a list is really important, we write it in **bold**. You will find some content in shaded grey boxes, and this is material that we think you might find interesting, but it's not critical to your knowledge of HR. There are lots of inter-related topics in HR so throughout the book as you read about one area, we will point you to other relevant chapters. Sometimes you will want to go straight there, but you can also save it for later.

Foolish Assumptions

Whilst we like to think we're experts, and we give you lots of golden rules to follow, it would be foolhardy to think we know everything, so treat these pages as a guidebook rather than a Bible.

We're not lawyers, but we've based our advice on the laws of England and Wales, assuming we are still in the EU, so if you are using this book somewhere else, bear that in mind.

Lord Denning is quoted as saying 'the law is an ass' and it may well be, but who wants to be kicked by an ass? We've provided lots of signposts to online legal and government advice, so if in doubt, follow these signs rather than taking a shortcut.

We've tried to anticipate many of the people issues you might face, but as the Yorkshire saying goes, 'there's nowt as queer as folk' so there are bound to be situations we haven't covered. If you're not sure what to do, our advice is to establish the facts, assess the risk and then make a decision in good faith that's right for the business and fair to the person.

Icons Used In This Book

To help you pinpoint vital information, we place icons throughout the text to highlight nuggets of knowledge.



This icon tells you we're using a real example to illustrate a point - of course all the characters are suitably disguised!



This icon offers you practical advice about how to apply some of the principles of good HR.



The Remember icon prompts you to pause and take note of something that could backfire if you don't pay attention.



Proceed with caution when you see this icon - usually we're letting you know that if you take a wrong step, you'll face a fine, or something worse!



This icon points you to other places online where you can find information and guidance. It is particularly useful for recent legal and government updates, because lots of HR and legal stuff changes at least twice a year.



This icon tells you that the paragraph goes into technical detail you may not need, so you could skip it, but reading it could give you more credibility and confidence.

Beyond The Book

As you scale the heights of HR knowledge, you can pick up extra tips and tools online. Check out the Cheat Sheet at www.dummies.com/cheatsheet/hrforsmallbusiness and some short bonus articles at www.dummies.com/extras/hrforsmallbusiness.

Where To Go From Here

This is a reference book, so you can read it from cover to cover, to improve your general understanding of HR, or you can just dive straight into the page that deals with your challenge. The best place to start is [Chapter 1](#), which gives you the highlights of the whole book, and tells you where to find more detail on each topic.

We've been reasonably logical by organising the material to reflect your journey with employees, from finding them to working with them through rewarding and managing them to sometimes losing them.

HR is full of highs and lows so we hope that you use this book to climb to some of the heights of great HR as well as to plumb the depths of people problems!

Part I
Getting Started with HR



For Dummies can help you get started with lots of subjects. Visit www.dummies.com to learn more and do more with *For Dummies*.

In this part ...

- ✓ Get off to a good start as an employer
- ✓ Find the right people for your business
- ✓ Get to grips with pay and benefits
- ✓ Find out how to fire people fairly

Chapter 1

Getting into the Business of People

In This Chapter

- ▶ Getting the basics right at the start
 - ▶ Managing people to get great results
 - ▶ Keeping out of trouble
-

A small business owner is more likely to groan than smile at the mention of HR because the term ‘Human Resources’ conjures up fear in many forms. You can’t afford the time or money it costs to get it wrong. You’re afraid to make a mistake that you’ll have to defend at an Employment Tribunal. You worry about how to keep control, get in the right people and get rid of the wrong people as your business grows.

Human Resources is all about balancing people, time and money. If you apply common sense, common decency and a basic knowledge of your employees’ rights, which you can read about in [Chapter 7](#), you will avoid most of the pitfalls. But to turn to a sporting analogy for one moment, Formula One Racing drivers don’t focus on avoiding the potholes — they focus on winning. Their sponsors pay for the best car and the best pit stop team so they can win races and make money. If you apply the knowledge in this book to how you do HR in your business, your employees will deliver great results, and your business will win.

Becoming an Employer

As soon as you become an employer, you acquire legal, tax and moral obligations.



Just because you pay someone to work for you does not automatically make you his or her employer. Following are three fundamental factors that determine whether someone is your employee:

- ✓ **Control:** You have control over someone if you or someone in your business has a contractual right to decide when, where and how the person does his or her work for you.
- ✓ **Personal service:** Personal service is a service provided by the person themselves, precluding the option of sending a substitute to do the work for you.
- ✓ **Mutuality of obligation:** Mutuality of obligation exists between you and another person if you have promised that person a minimum amount of work, and that person is obliged to do any work that you ask him or her to do.

Where someone is providing a personal service to your business under your control and you are contractually obliged to give them work and they are obliged to undertake the work, there is probably an employment relationship, so they are an *employee*.



If you want to avoid becoming an employer, you need to avoid taking control and creating a mutual obligation. In [Chapter 2](#) you can read about the pros

and cons of employing people or using other kinds of workers.

A *worker* is any individual who undertakes to do or perform personally any work or service for another party, whether under a contract of employment, or any other contract. They are protected by some of the employment legislation.

If you use *self-employed* people in your business, your relationship depends on the contract you have with them, often called a *Contract for Service*. They are protected by contract law and some discrimination law but not employment law.



Workers is an umbrella term, and all employees are also workers.

Employment status

You need to be clear about the status of the people doing work for you, so that you know which laws and regulations to follow.

Irrespective of the person's status, you have to follow Health and Safety and Data Protection regulations to protect anyone who is doing work for you. You can read more about these regulations in [Chapter 6](#). If you want to know how to handle Whistleblowing, you can find out in [Chapter 15](#).

Employees have the most protection, arising from European Regulations and UK law. Within the UK there are sometimes different rules for Scotland and Northern Ireland.

The following table gives you a snapshot of which rules you need to follow, depending on the status of the person

doing work for you.

Employment status	Control	Personal Service	Mutuality of Obligation	Regulations you must follow
Employee	✓	✓	✓	All employment law, based on length of service Disciplinary and Grievance rules Working Time Regulations including rests and holiday Pay, notice and pension rules Flexible working rules Paid and unpaid time off for certain reasons Transfer of Undertakings Regulations Redundancy provisions Employee Representation
Self employed	x	x	Only as a service provider	Some workplace discrimination laws Contract law
Worker	?	✓	✓	Some employment law Disciplinary and Grievance rules Working Time Regulations including rests and holiday Some pay and pension rules



Before you employ someone you must check that they have permission to work in the UK, either because they are a UK or EU citizen, or because they have a work visa. If you break the law you will be fined. Check out the rules in [Chapter 14](#).

Employers' Liability Insurance

As soon as you take on your first employee, by law you must have Employer's Liability Insurance from an authorised insurance company to cover you for up to £5m liability, just in case your employee is injured or becomes ill because of the work they do for you. You have to display the insurance certificate where your employees can see it.



You can be fined £2,500 per day for every day that you are not properly insured.

Health and safety

By law you must display a health and safety poster or give each employee a leaflet, explaining their health and safety rights. Additionally, you can't allow employees to smoke in enclosed spaces, and you could be fined if you don't stop them.



You can download the health and safety poster for free from the Health and Safety Executive website:

www.hse.gov.uk

Taxing work

Like it or not, as an employer you have tax obligations.

If you employ somebody and they earn above certain thresholds, you must

- ✓ Register with Her Majesty's Revenue and Customs (HMRC) as an employer and set up a payroll or get someone else to run one for you

- ✓ Deduct income tax, national insurance contributions and if applicable, pension or other deductions from your employees' pay before you pay them
- ✓ Send a return, called 'Real Time Information', to HMRC outlining payments and deductions you have made to employees after each pay date. Annually, send a return of taxable employee benefits you have provided
- ✓ Pay your Employer's National Insurance contributions to HMRC either monthly or quarterly depending on your size



You must provide a written or electronic pay slip for employees, giving them details of their pay and deductions.



For more information on your responsibilities as an employer when it comes to tax, plus plenty of helpful advice, check out: <https://www.gov.uk/register-employer>

Navigating the moral maze

There is a legal concept called *mutual trust and confidence*, which underlies the employment relationship. It is the assumption that neither party, the employer nor the employee, will do anything deliberately detrimental to the other party. This means that you could reasonably assume that your employees will not deliberately bring your company into disrepute through their actions, steal from the company or reveal confidential information to outsiders. Similarly, the employees should reasonably assume that you will not

defame them, subject them to harassment or undue stress or expect them to break the law on your behalf.

Although none of these assumptions are explicit in the employment contract, each party is obliged to fulfil them. Many cases that are heard at Employment Tribunals arise because of a 'breakdown of mutual trust and confidence', which amounts to a breach of contract.

Whilst you can never presume to know what your employees are thinking, if you respect your employees' rights, stick to the rules and behave reasonably, you will minimise the risk of causing such a breach.

Getting the right people into your business

[Chapter 2](#) provides some ideas for attracting and selecting the right people to work for you, and in [Chapter 14](#) there's advice on how to avoid the common recruitment pitfalls and make a legally compliant job offer.

Before you start looking, be clear about what you're trying to find. Consider the following:

- ✓ Your medium and long term plans for the business
- ✓ The skills and knowledge you've already got in the business - your own or other people's
- ✓ The gaps in skills and knowledge that you want to fill in the short and medium term
- ✓ Your values and how you do business
- ✓ How much money you've got to spend

Then write a *job description*, which is what you want the person in the job to do, and a *person specification*, which

is a description of the kind of person you are looking for. Read more about these in [Chapter 2](#).

HR: Balancing people, time and money

You wake up one morning and decide to recruit an Apprentice. You've only got a tiny budget so you think that's all you can afford. Think again.

Q: Will the Apprentice fill a skill or knowledge gap in your business?

A: Not immediately, of course. But they probably will in time.

Q: Are you prepared to invest your time, or someone else's time, to teach the Apprentice what he or she needs to know, and supervise the Apprentice until he or she learns the ropes?

A1: If you are, calculate the actual cost of that time to the business and count it as part of the cost of employing the Apprentice.

A2: If you're not, don't recruit an Apprentice. It's not fair to them, and it will ultimately cost you time and stress to manage a failing apprenticeship

Q: What are your personal beliefs about apprentices? Cheap labour or potential stars?

A: If you commit time and energy to developing an Apprentice, your short-term investment will probably pay off in the medium to long term.

Q: Does this fit with your strategic plan for the business?

A1: Your Apprentice is unlikely to stay with the business after his or her training, unless you can offer some new opportunities and more money. If you are planning for growth, those opportunities may arise.

A2: If you can't offer progression, expect a successful Apprentice to move on. Start again with a new one. It's an equally valid strategy, and you give another Apprentice an opportunity to learn.

Managing People, Pay and Rations

With just one employee you can limit your HR knowledge to the basics of employment contracts and employment

rights, which are covered in [Chapter 7](#). Once you grow beyond the first two or three employees, you need to broaden your understanding to include equal pay, which you can read about in [Chapter 4](#), and HR policies, which are introduced in [Chapter 6](#).

Working together: The psychological contract

You might think that the employment contract embodies your entire relationship with your employees, but in addition to the written words, and the implicit assumptions of mutual trust and confidence outlined earlier in this chapter, there is another dimension to the relationship, called the *psychological contract*.

The psychological contract is a combination of unwritten mutual obligations and expectations between the employee and employer, which can be specific to individual employees, and can change over time. You can read more about it in [Chapter 15](#), and it can sometimes explain why employees behave in an apparently irrational way and take you by surprise.

Whilst you can't hope to control the intangible constituents of the psychological contract, you can build trust, which is a key component, by treating people fairly and consistently, being open, dealing with issues when they arise, keeping your promises and recognising people's hard work.

Paying fairly

Following are some fundamental facts about pay you need to know:

- ✓ **You must pay all employees and workers at least the National Minimum Wage.** This is set each year

based on the age of the person doing the work. You can read more about this in [Chapter 4](#).

- ✓ **From 2016 at the latest, depending on your size, you must provide a pension scheme and automatically enroll all your employees and workers in it.** You can find all the details in [Chapter 16](#).
- ✓ **You must pay at least Statutory Sick Pay to qualifying employees who are off sick.** There are rules about how people qualify and how much you must pay. The rates are updated every year in April. You can be more generous by paying company sick pay. Find out more in [Chapter 4](#).
- ✓ **You must pay at least the statutory pay to qualifying employees while they are on maternity, adoption or shared parental leave.** There are lots of rules about dates and payments. You can read more in [Chapter 7](#).



You can reclaim 92% of the costs of paying statutory maternity, adoption or shared parental pay to your employees. You may even be refunded with 103% if you qualify for Small Employers' Relief.

- ✓ **You must pay men and women equal pay for work of equal value.** Read about the basics in [Chapter 4](#), and learn how to do an equal pay audit in [Chapter 16](#).
- ✓ **You must pay people their contractual salary or wages, and any contractual commission or bonus payments if the employee has fulfilled the criteria for payment.** Otherwise you will be in breach of contract.

- ✓ **You can't deduct money from an employee's wages without permission, even if you're trying to recoup an accidental overpayment.** The employee could make a claim to an Employment Tribunal for unfair deduction of wages.
- ✓ **If an employee leaves without taking all his or her holiday entitlement, you must pay the employee for the outstanding balance.** Find out how to calculate holiday entitlement in [Chapter 6](#).
- ✓ **If you dismiss someone and give notice, you must pay the employee for the statutory notice, which is 1 week for every year of service up to a maximum of 12 weeks, or the employee's contractual notice, whichever is longer.**
- ✓ **If you make someone redundant and he or she has worked for you for more than two years, you have to pay at least the statutory redundancy amount, based on the employee's age and length of service.** Read more about this in [Chapter 17](#).

Setting the rules for your business

Having said you can't control every aspect of your relationship with employees, this wouldn't be an HR book without a bunch of juicy rules to control the important things at work. In [Chapter 6](#) you can discover the signs that your business needs some rules and policies, and once you see the signs, it's worth taking action to put some in place.

There are some minimum legal requirements, and if you don't create your own policies, you have to follow the statutory rules. These are

- ✓ Disciplinary policy and procedure to manage misconduct or poor performance
- ✓ Grievance procedure to allow employees to raise grievances
- ✓ Health and Safety policy and procedure
- ✓ Equal Opportunities policy
- ✓ Sickness absence policy
- ✓ Flexible working
- ✓ Time off work for certain activities or reasons
- ✓ Maternity, paternity, shared parental leave

Your business may have particular requirements and obligations. Find out more about setting the ground rules for your business in [Chapter 6](#).

Handling people who don't follow the rules

HR is often perceived as a policing function in a business because of the focus on enforcing the rule book. At its heart, good HR practice provides the same foundation to your business as the police provide to society. The rules are for the protection of law-abiding citizens as much as for the punishment of the rule breakers.

Most of the time, the rule book is not required, but for the good of the business, and the good opinion and continued motivation of the majority of employees, when someone breaks the rules, you must be prepared to use the disciplinary policy and procedure. Using it consistently and correctly will protect you from claims of unfair treatment, discrimination or unfair dismissal.

Find out how to write a disciplinary policy in [Chapter 6](#) and how to follow the procedure properly, especially if

you might end up dismissing an employee (covered in [Chapter 5](#)).

If one of your employees has a complaint or *grievance* against you, the business or another employee, you need to have a process for them to raise it. You need to show that you are taking the matter seriously, with the aim of resolving it. Read more about this in [Chapter 6](#).



If an employee makes a claim to an *Employment Tribunal*, which is an independent body that hears claims by employees against their employer, the Advisory, Conciliation and Arbitration Service (Acas) will get involved and ask if you and the employee have tried to resolve the problem. You will be in a much stronger position if you've followed the right disciplinary or grievance procedure.



You could lose your case at a Tribunal hearing just because you didn't follow the right procedure.

Staying on the right side of employment law

Your employees' and workers' rights come from UK common law, UK employment law and European regulations, and broadly fall into the following categories:

- ✓ Equality of opportunity and treatment
- ✓ Terms and conditions including pay and working hours
- ✓ Time off work
- ✓ Parents' and carers' rights

- ✓ Representation
- ✓ Redundancy, retirement or transfer

In [Chapter 7](#) you can get to grips with the fundamentals of employee rights.



Acas provides excellent resources for employers, and some useful checklists especially written for small businesses; check these out at www.acas.org.uk. If you read the online guidance and you still have questions, they offer a free helpline: 0300 123 1100 (8am-8pm Monday to Friday and 9am-1pm Saturday)

Equality of treatment

If you discriminate against an employee, potential employee or worker because of a *protected characteristic*, they can take you to an Employment Tribunal, and if they win, you will have to pay them compensation.



Unlike other compensation, which is capped, there is no limit on the size of compensation payment for unlawful discrimination.

Protected characteristics include age, being or becoming a transsexual person, being married or in a civil partnership, being pregnant or having a child, disability, race including colour, nationality, ethnic or national origin, religion, belief or lack of religion/belief, gender and sexual orientation.

Direct discrimination is where you treat someone with a protected characteristic less favourably than other people, by reason of the protected characteristic. For

example: Not offering someone a job because he is 75 years old would be direct age discrimination.



Following are a couple tricky aspects of discrimination:

- ✓ **You indirectly discriminate against someone if you create a condition that a person with a protected characteristic would be less likely to be able to meet.** For example, you select people for redundancy based on their flexibility to work shifts, which is a condition that fewer women with caring responsibilities are likely to be able to fulfill.
- ✓ **You are not allowed to discriminate against someone because they are associated with someone who has a protected characteristic.** For example, you don't offer someone a job because their partner is just about to have a baby and you don't want to offer shared parental leave.

Read all about avoiding discrimination in your recruitment process in [Chapter 14](#) and how to avoid discrimination in your pay practices in [Chapter 4](#).

Contract of employment

The contract of employment may be made up of a number of documents, including an offer letter, a *Statement of Employment Particulars* and a handbook.

The Statement of Employment Particulars is often referred to as the contract, because it has all the terms you must specify in writing, within eight weeks of an employee starting work with you. Some of the terms may be detailed elsewhere, but you must refer to them in this document.



When you offer someone a job, make it a *conditional offer*, which means the employee must meet certain criteria for the offer to remain valid. Most importantly, include the condition that they have permission to work in the UK. You could also require satisfactory references, evidence of qualifications, and a Disclosure Barring Service certificate if that is relevant. Give them a time limit to accept the offer.

Read about all these conditions, and what to include in the contract, in [Chapter 14](#).

Statutory entitlements

If you don't give employees at least their statutory entitlements to pay and time off you may

- ✓ Incur fines from HMRC of up to £3,000 for some offences.
- ✓ Have to pay compensation and legal costs if your employee takes you to an Employment Tribunal and wins

Read more about employee rights and the consequences of breaching them in [Chapter 7](#).

Following procedures

Just like the disciplinary and grievance procedure, there are statutory procedures you must follow to ensure that you stay on the right side of the law for

- ✓ Managing sickness absence
- ✓ Responding to flexible working requests
- ✓ Enrolling and administering opting out for workers in your company pension scheme

- ✓ Handling the notice, time off and return to work arrangements for employees on maternity, paternity or shared parental leave
- ✓ Handling retirement



If in doubt, visit the government website www.gov.uk, which gives you a step by step guide to statutory entitlements and procedures.

Representation

Employees have a legal right to be informed and consulted about how things that are happening in your business may impact their jobs and working conditions.

It is good practice to have an employee representative group, which can take various forms, including a Trade Union. Read more about how to elect and work with employee representative groups in [Chapter 15](#).

Managing redundancy, retirement or transfers

Most employment law was written to protect employees from being exploited by unscrupulous employers, and one of the fundamental principles behind many of the rules is to protect the employee's job from being taken away unfairly.

If you are considering making employees redundant, read [Chapter 17](#) to understand your obligations about consulting employees, notifying the right authorities, and following a fair redundancy selection process. The penalties for getting it wrong can be very high.



Because of age discrimination legislation, you can't force people to retire at a certain age.

A *Transfer of Undertakings* takes place when a business, part of a business or the provision of a service moves from one organisation to another. There are regulations to protect employees' jobs and terms and conditions in these circumstances. Just like with redundancy situations, you have a number of obligations, whether you are transferring employees in or out of your business. Read all about it in [Chapter 12](#).

Growing People as Your Business Grows

In the juggling act that is HR, with the people, time and money balls constantly rotating between your hands, it is the people ball that offers the most potential for you to make a difference. The time and money balls are tangible and quantifiable. When you have them under control, it feels good. Good but dull. The people, on the other hand, are unpredictable. They go off in different directions, change size, demand your attention, and steal your time.

Let's assume that you have all the controllable aspects of the people ball under control: you have clear employment contracts, good HR policies, and tight HR processes (or that you're working them!). That's great, but none of these aspects of HR will add value to your business.

Growing the value of your business

Throughout this book we refer to growth, and the HR demands that come with it, not because we assume that

every small business owner is constantly striving to have a bigger, more profitable business, but because standing still in business isn't an option.

Growth comes in many forms, and the only right and wrong kinds of growth are the ones that work or don't work for your business. Nature provides some useful analogies.

Oak trees grow taller, lay down another ring of bark, and spread their branches a little bit wider year by year. The growth is slow, incremental and invisible in the moment. They can live for hundreds of years. If the oak tree wasn't growing it would be dying.

Stagnant water hosts algae that multiply so often they block the sunlight from other organisms in the water and kill them off. Happy algae, dead fish.

Magnificent stag beetles with their emblematic 'horns' and shiny black carapaces spend six years in the larval stage feeding off a low-nutrient dead woodpile and emerge for only a few weeks to mate and then die.

Whether your business is based on making things, serving things, inventing things or delivering things, you need people. As in the rest of nature, people thrive when they are in the right environment, and have the opportunity to grow. The thriving might look different depending on who they are!

Creating the environment for growth

Some of the HR fundamentals outlined earlier are important in creating the right environment for growth, but there are some other important ingredients to add.

Providing leadership

Your personal values will shape how you do business, and how you treat your employees. Understanding what makes you tick is a good place to start, and you can find some tips about how to use your values to shape the culture of your business in [Chapter 3](#). Because you're not the exception to the rule, your personal growth will have a significant impact on how the business grows.

Understanding the role you play in the team and the management style you tend to adopt will help you to influence others. [Chapter 9](#) unpacks some theories about team roles. Read more about how you can manage your transition from entrepreneur to business leader in [Chapter 11](#).

Encouraging flexibility

Encourage people to work flexibly, and recognise and reward them when they do. Give people the tools to work in different ways. Get some ideas about how to create a culture of flexibility in [Chapter 12](#). Read about factoring in flexibility to your pay and incentives in [Chapter 8](#).

Growing skills and knowledge

Invest in training people not only for the job they are doing now, but the job you might want them to do next. Don't worry about wasting money on training people who will just leave. Focus on the value they will add while they are in your business, and factor that in to your thinking about the costs. In [Chapter 13](#) you find some useful tips about how to access 'cheap and cheerful' training if money is still a barrier.

Structuring your business to allow for growth

The time and money dynamics are inescapable in a small business. You need to optimise the time and effort people are putting in to get maximum value out.

Build in some flexibility to your structure by using contracts creatively, and thinking about different ways to get the work done. You find some good ideas in [Chapter 12](#).

Think about who is 'doing' your HR now. At its simplest level it is very transactional, but as you employ more people, and build an organisational structure with more layers, HR will become more complex. [Chapter 10](#) takes you through the pros and cons of keeping HR in house or contracting it out to others and gives you some tips about protecting your employees' confidential data.

Growing through improved performance

Like the oak tree you may want your business to grow steadily and healthily without too much visible fuss. Alternatively you may want to gear everyone up for fast growth to kill off the competition.



Your strategic plan is the description of your growth ambitions. You should express your shorter term targets in the annual business plan. The strategic plan gives you the headlines to tell employees where you are hoping to take the business in financial terms, and often includes target numbers of customers and employees. Your annual business plan brings the horizon a bit closer, and should help people to focus on the immediate priorities. [Chapter 11](#) has more detail about getting everyone in the business aligned and pointing in the same direction.

The key to achieving growth through improved performance is to

- ✓ Be clear with employees about the big picture as well as the short term priorities.

- ✓ Help everyone to see where their job and their targets fit in.
- ✓ Keep track of progress against the targets, and share it with employees as you go along.
- ✓ Be prepared to take action if people are not performing well.
- ✓ Reward and recognise the people who are performing well.
- ✓ Train managers to pro-actively manage the people in their teams to perform well.

Read [Chapter 8](#) to find out how to link your business goals with employee goals, and discover some good principles for setting objectives.

Get some guidance on mentoring and coaching your managers in Chapter 13.

Rewarding and motivating people

People are not just working for the pleasure of growing in your metaphorical field or pond. A fundamental principle of the employment relationship is that people expect to be paid for their efforts, and rewarded fairly for their discretionary efforts.

A fundamental principle of good business is that it's not worth doing, if it's going to lose money. The time and money balls come back into play when you juggle people's expectations about pay and reward with what the business can afford. You need to have a good grip on the financial numbers before making any promises.

Reward has become the popular collective term to encompass all the elements of pay, incentives and benefits that you provide to your employees.

Base pay

Base pay is effectively the wages or salary that someone can expect to receive every week or month. These are the costs you need to build into your business plan, and ensure that you can meet them every month, even when cash flow is tight.

When you are deciding the base pay for a job, you will need to consider

- ✓ Your legal obligations about National Minimum Wage
- ✓ What the business can afford
- ✓ What similar jobs are being paid in the external market
- ✓ The skills and experience required of the person doing the job
- ✓ The base pay of similar jobs in your business
- ✓ What incentives or other benefits you plan to provide
- ✓ The relative size and scope of the role compared to other jobs in the business

You find out about *benchmarking pay*, which is comparing pay between jobs and organisations in [Chapter 16](#).

Incentives

Incentives or bonuses are incremental payments you make when an employee has achieved a goal. Usually, incentives are paid for discretionary effort on the part of the employee, based on adding value to the business.

Creating good incentive schemes is both an art and a science. It requires an understanding of what makes people tick, as well as the law of unintended consequences. A well designed incentive scheme will be based on sound financial analysis and sensible assumptions about the business.