Your Payroll Dollars at Work
by Deb Grigson

Employers spend 50% and sometimes 60% of total expenses, on average, on payroll annually. Every promotion, every hiring decision, every merit increase offered, commits the company to long-term costs and associated risks. It is the responsibility of the Human Resource organization to review, analyze and update the corporate compensation systems annually. A company that overpays or underpays its employees exposes the company to poor performance and/or underproduction caused by a myriad of difficulties linked to ineffective pay practices.

A company does not need to pay its employees in one way or another to be considered as performing inside of a best practice model. Rather, eConsultingNetwork encourages clients to develop a plan or a Rewards Philosophy and then provide compensation, benefits, performance evaluations, and learning in keeping with that plan - consistently.

Consistent rewards are difficult to maintain over time. Every company is experiencing a number of outside and inside pressures that effect how its employees are rewarded. At any point in time a job could command a greater or lesser dollar value in the market place. Companies need to be vigilant to ensure both an accurate and timely response to the changing market. Internally, the company may need to value a position or department more favorably to ensure that they are able to attract and retain the best and the brightest employees. Examples of this can be seen where an organization may be willing to pay a premium for engineers while still holding the remaining job groups to a level slightly below market rates. At another point in time, the employer may need to alter this practice. While each of these changes was made for good business reasons, they inadvertently create inequities.

Calibrating pay to align with business drivers is key to supporting your business objectives. Compensation effectively focuses the team on the most valuable business results and/or behaviors. Your organization can choose to use compensation to promote a change in behavior or work-culture or to support a change in progress. Either way, maintaining the business connection gives employees a consistent message.

eConsultingNetwork recommends that our clients review their compensation systems annually, making minor changes as directed by the business drivers and external climate. Bi-annually or at a minimum every 3 years, we recommend a thorough review of the compensation systems and processes.

Every 2 – 3 years review the following:

- Review, analyze compensation philosophy
  - Executive, Non-executives, Hourly compensation philosophy
  - Adapt the philosophy to better meet the goals of the company
    - Value of base, bonus, long-term compensation
    - Value of benefits
    - Value of paid time off
    - Value of training/succession planning

- Review the performance plan – assessments, and developmental tools
- Evaluate where the current plan is against the desired plan
- Create a plan for updating the compensation system based on the plan
- Evaluate job documentation
- Analyze jobs against the internal and external market
    - Select relevant surveys
    - Create job matches
    - Compare employees to composite market pricings (minimum 1/3 of all jobs reviewed)
- Analyze the jobs, first theoretically and then by employee and inside the ideal corporate hierarchy
- Update pay practices to accommodate the new compensation system
    - Hiring rates verses existing rates
    - Promotions
    - Lateral moves, etc.
- Update and communicate HR policies to be consistent
- Update and communicate Benefit policies to be consistent
- Update and communicate compensation policies to be consistent

In so doing the employer can be confident that employees are paid "right." Some of the important changes that result from a compensation study are listed below:

- Executive and Employee pay aligned with the business, the market, and current employees (hierarchically)
- Pay for performance - re-establish the link
- Employee development and succession planning instituted for future growth
- Focus employees on business drivers
- Establish procedures to create consistent pay practices across business units
- Avoid costly lawsuits, review FLSA, EEOC etc.
- Update job documentation, establishing the importance of the job independent of the employee doing the job
- Market relevant pay structures

The success of the company is dependent on the people that run the business. Successful leaders recognize the importance of establishing compensation systems that their employees can understand and embrace. We are in the age of information; we need to assume that our employees have access to the market. Employees today are fully aware of their legal rights and our legal obligations to them. It is incumbent upon each organization to maintain a current, relevant, compensation system.