



Compensation Management Issues

Insights

For Compensation Managers

A Common Misconception about Structure

Human Resources Made Simple Through Technology

Will Pay Policy Structure Constrain Our Pay Decisions?

Two of my sisters and their husbands will board cruise ships and head to warmer weather destinations in January. All passengers will board the same cruise ship and reach the same planned destinations but no two passengers will have the exact same experience during seven to eleven days and nights at sea. Within the same structure (cruise ship) there are thousands of combinations of food, drinks, rooms, entertainment, physical activities, relaxation opportunities and other experiences for each passenger to enjoy. Though the framework is the same, a cruise ship offers a flexible experience for its customers.

Though I'm not advocating this much flexibility in your pay policy structure there is a misconception that an adopted pay policy program will limit pay decision flexibility by executives and managers. A common refrain we hear is "I need to have the freedom to reward talent". But managers need to understand that with freedom comes responsibility, to all stakeholders. We have had top executives decline implementing a base pay plan program for fear that it would restrict their ability to recognize and promote top performers. A base plan program will provide structure (consistency and equity) but it does not need to impend and hold back reward programs for meeting and exceeding company, division, department, team or individual goals.

According to a survey published in the May, 2010 edition of the Harvard Business Review, about 25 percent of companies' top performers said they plan to leave their current job within a year. This is in comparison to 10 percent in 2006. This percentage will increase if companies decide to continue reaping the financial benefits from decreased labor expense from two years of tightening the belt at the sacrifice of restoring competitive employee pay adjustments and updating internal pay ranges to match market pay means. Executives need to exercise freedom within a structure that ensures consistency **AND** equity. Combined these characteristics promote:

- Balance and fairness in determining rewards across divisions, departments, genders and races
- Clarity and motivation around exact guidelines for earning rewards
- Reduced instances of de-motivating internal miscommunications
- Increased compliance and genuine protection for management and shareholders.

Tom McMullen, Hay Group's North America Reward Practice leader discussed compensation structure in a recent "Compensation Force" blog with Ann Bares. Tom stated, "Provide for a decent level of freedom within a framework and be flexible in terms of how you help an organization strategize, design and execute reward program."

The key to effective and strategically aligned rewards programs is flexible terms executed within a structured framework.

A solid and proven internal job evaluation process along with several market benchmark job pay sources and comparisons will provide the foundation for the establishment of a pay policy framework. If the base pay structure is inequitable, dated or non-existent, then variable pay and rewards programs pay issues will be compounded since many of the reward programs are based on a percentage of the employee's base pay.

We support Tom McMullen's recommendation of adopting of a base compensation framework with the ability to add flexible variable and rewards pay plans to incentivize top performance in their efforts to achieve short and long term goals. With less company resources to fund annual compensation adjustments and greater pay scrutiny by government labor agencies, it is imperative for top executives to work with their compensation and human resources professionals on the development of fair and competitive base and total rewards programs that attract and motivate competent top performers.

The current administration is getting more and more serious about pay inequity. Labor agencies, which saw their budgets shrink under the Bush administration, are getting a new infusion of staff and money. (NPR.org - April 19, 2010) For 2011 implement a base pay policy structure and a unique rewards program that includes a cruise for meeting established performance targets. Here's to sailing on the high seas, and no I'm not on a rewards incentive program with Princess Cruises.

Top performers are more than twice as likely to leave current positions as they were just 4 years ago.

