

HUMAN RESOURCE ADVISOR

Human Resource Issues and Trends



Compensation It's More than Just Salary

The ability of companies to attract and retain qualified staff requires more than salary. Employee surveys consistently indicate that salary, by itself, is only a true motivator during the hiring process. Once hired, employees consider salary to be an expectation. While it is not a motivator, salary may become a “demotivator” if it does not keep pace with the market place.

Salary alone does not take into consideration other direct and indirect employment costs. In addition to wages, costs associated with benefits, taxes, time off, etc. amount to a considerable sum that, when combined with salary, represents the total compensation package. Consider that benefit costs alone can range from 28% to 38% of an employee’s salary depending on the types of benefits offered and the portion paid by the employer.

Employees also have greater expectations of what should be included in their compensation packages, and they may demand specific benefits that can be costly, especially for small employers. Costly or not, building a fair and attractive compensation package is critical for attracting and retaining employees.

Compounding the problem is a predicted tightening of the labor market—fewer qualified people to fill positions as the economy continues to grow. Research shows a number of employees have contemplated a career/job change for the past few years and have been waiting for businesses’ confidence in the economy to reach levels where they are willing to add positions. According

to Monster.com, as of January 2006, job postings on their website are reaching the highest levels ever and that number will likely increase.

Base Pay Increases

According to research conducted by Hewitt Associates and Mercer Consulting, base pay increases are projected to be at the same level as 2005. Surveys of US companies conducted by both consulting firms reveal base salary increases for 2006 will range between 3.6% and 3.8%. One of the challenges cited by companies in both surveys is attracting and retaining key talent with relatively flat pay increases compared to 2005, while employees’ pay checks continue to shrink due to increased health care and energy costs.

Even though employers are being somewhat cautious in their pay increase budgets, the labor market is becoming more competitive. In order to retain top performers, organizations need to analyze groups of positions to determine whether salaries are competitive and in some cases, process “pay equity adjustments” (that are over and above salary increase budgets) to bring key employees more in line with market pay rates.

Compensation Trends

While base salary increases remain stable compared to 2005, there is increased activity in the area of variable pay—performance-related awards that must be re-earned each year—to make up and supplement where base salary increases fall short as companies rely more

on bonuses as a primary means of attracting, motivating and retaining key talent. Companies are attracted to variable pay awards because they are self-funding and only pay out if certain performance criteria are met each year.

Employees appreciate the opportunity to be rewarded for meeting their goals—more plans now incorporate individual performance measures that help employees focus on elements they can control in their jobs.

Common variable pay awards include:

- Business Incentives – Awards employees for a combination of financial and operational performance measures for the company, business unit, department, plan and/or individual performance.
- Special Recognition Awards – Acknowledges outstanding individual or group achievements with small cash awards or merchandise, such as gift certificates.
- Individual Performance Awards – Based on specific employee criteria.

To receive the maximum payout from variable pay plans, it is essential that employees have a clear understanding of the expectations, specifics regarding measuring results, and performance updates throughout the year.

Emerging practices with respect to reward programs include:

- Performance-Based Pay – Directly linked to employee performance and company results.
- Non-Monetary Recognition Awards
- Expanding Talent – Formal career planning, competency-based performance management and use of multi-rater feedback to develop internal talent to grow revenue.

Conclusion

Salary is still the single largest component of a compensation package and, not surprisingly, the most common point of comparison used by employees and potential employees. Employees can readily find a number of sources for salary information on the Internet (some are valid and others are not) so it is important that you, too, know the market value for key positions.

Check salary surveys and want ads, and scout out competitors to see if they are underpaying or overpaying their staff. Paying too much is an unnecessary drain on your resources, but paying too little will make it difficult to find and keep the best people. A starting salary should be tied to a person's skills and experience. Subsequent increases need to be based on an employee's performance, value and contribution to an organization.

Dare Enterprises, Inc. is a local full-service human resource consulting firm with years of experience assisting organizations, both small and large, design and integrate effective human resource policies and practices to support business needs either on a project basis or as the outsourced human resource department. Contact us for an initial cost-free consultation and assessment. Your comments and questions are always welcome.

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