


The 5 Biggest Mistakes in Compensation – *and How to Avoid Them*


For MT-SHRM's
2015 Midsouth Compensation Symposium

Presented by
Barry L. Brown, SPHR, CCP
Effective Resources, Inc.



Ya mean there are only five? !

No matter what you think or may have heard, compensation is a subject of endless complexity ... only because every job and every company considers itself 'unique.'





The good news ...

- Because modern compensation has been around since World War II, there are some strong principles we can count on
- Common sense and logic still have a place
- Even though every situation is 'unique,' there are enough similarities to minimize the differences
- There is very little that's really 'new'

The 5 biggest comp mistakes ...



- Compensation communications
- Self-induced wage compression
- The merit budgeting process
- Poor pay delivery
- Performance management

Compensation communications ...

- Causes:
 - Thinking there are secrets in compensation
 - Failing to communicate basic information on grades, pay ranges, etc.
- Remedy:
 - Share just about everything short of individual pay rates

Self-induced wage compression

- Cause:
 - Hiring people at more than earned by current employees
- Remedy:
 - When vacancy approved, establish a hiring range: not less than range minimum and not more than lowest paid competent performer
 - Pay attention to internal pay equity

For the number crunchers ...

- Help determine where people “should be” in their pay range by using an “expected rate” in Excel
- An “expected rate” is a theoretical rate based on the MIN of the employee’s pay range, the YRS the employee has been in their current role, and a comp philosophy that says the employee should reach MID within 3 years
- $\text{=min(abs(fv(7.7217\%,YRS,,MIN,)),round(MID*1.025,2))}$

Merit budgeting ...

- Cause
 - Thinking that merit budgeting means carefully surveying, then doing what everybody else is doing
- Remedy
 - Use compa-ratio, pay range, the company’s comp philosophy, average years-in-the-job, and, finally, the survey average of what everybody else is doing

Merit budgeting – the right way

Merit Budget Worksheet for Your Company or Work Unit

Compa-Ratio	Avg Yrs in Job	MRP by Yrs in Job	Average Range Spread	Market Movement
92.5%	2.4	3	50.0%	3.6%

Enter the numbers for your organization above - (instructions below).

96.0% Expected Compa-Ratio Based on Yrs in Job
7.4% **Recommended Merit Budget to Achieve Goal This Year**
 (Difference between expected compa-ratio and actual plus Market Movement)

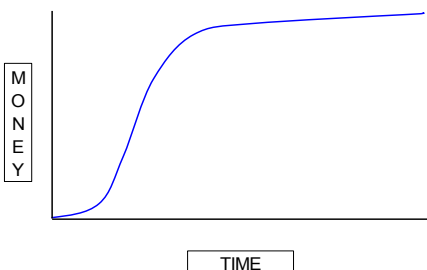
Poor pay delivery ...

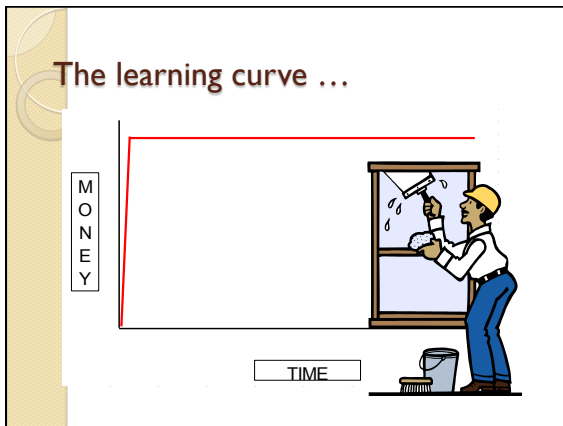
- Cause:
 - Inadequate budgeting for merit increases and market adjustments
- Remedy:
 - Budget sufficient dollars to provide for increases
 - Move employee pay at the same rate their skills increase

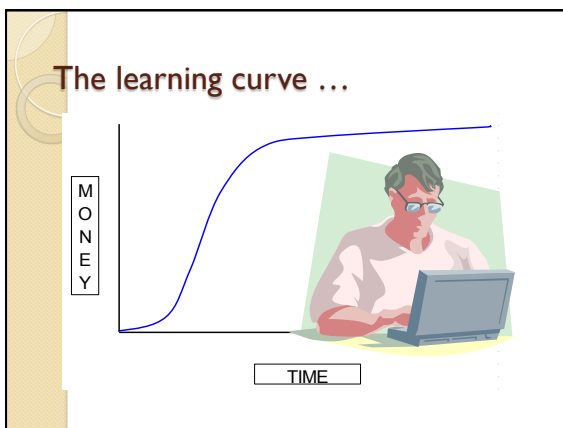
Pay delivery ...

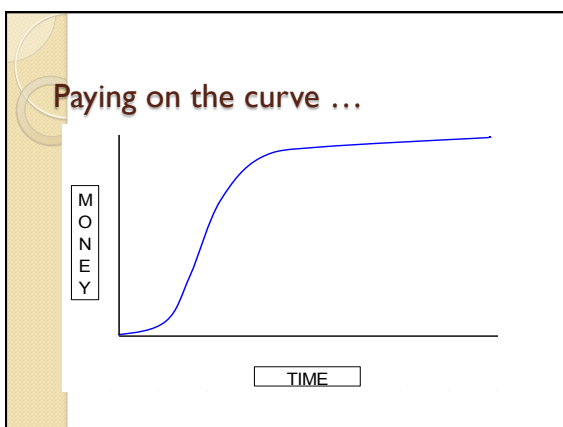
- Ask two questions:
 - Question 1: How long does it take to become fully competent in the job?
 - Question 2: How long does it take to move from the Min to the Midpoint
- If there is a difference of more than 12-18 months, you've probably got turnover

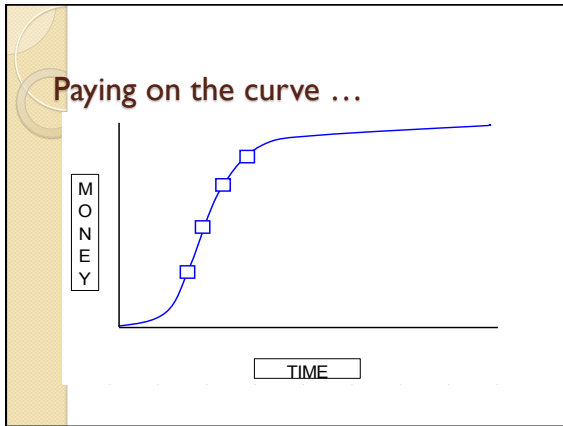
The learning curve ...

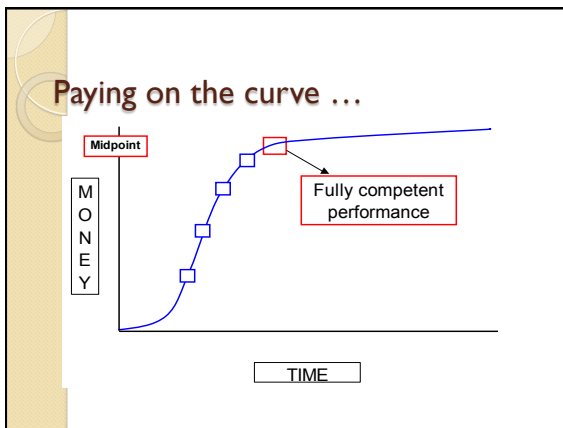


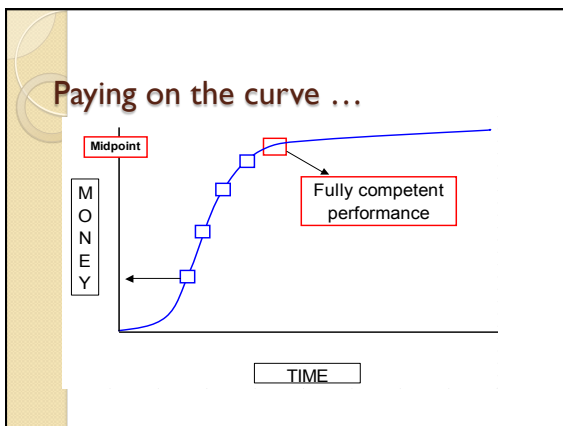


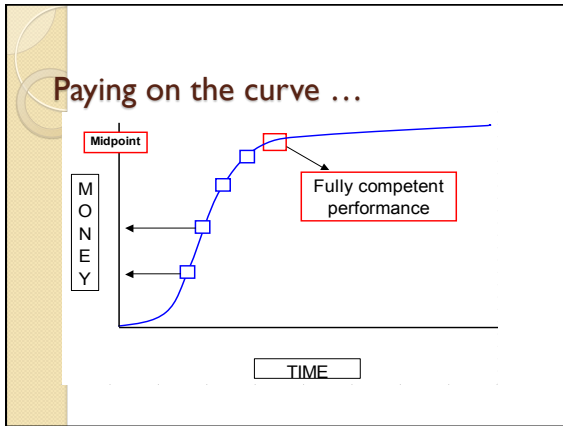


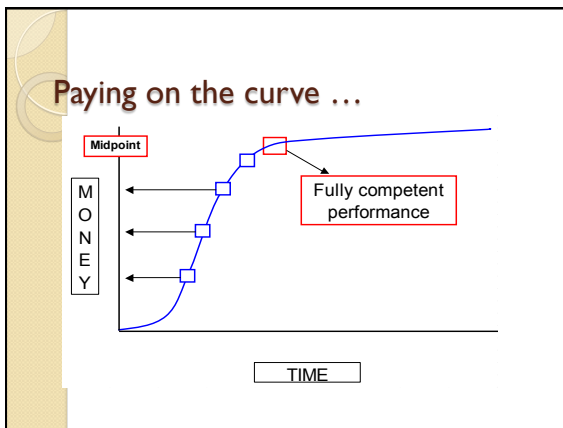


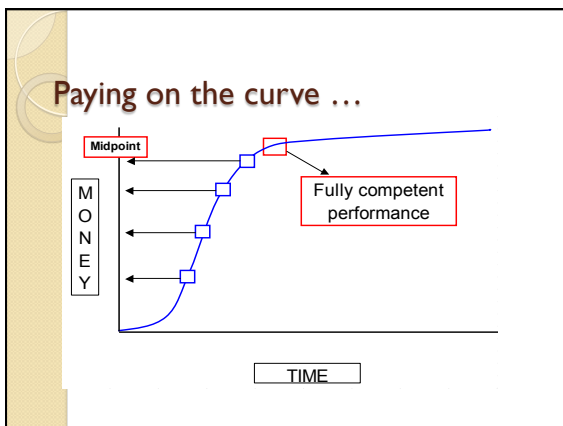


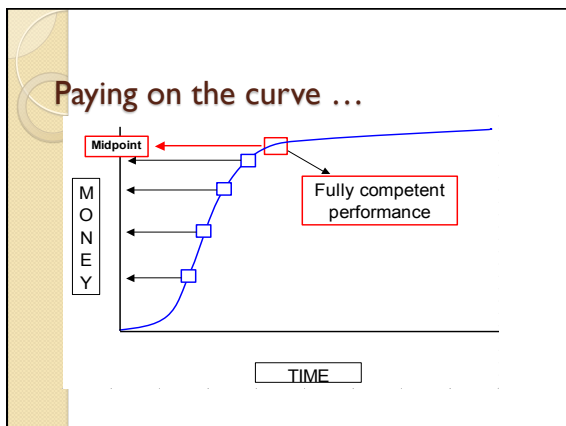


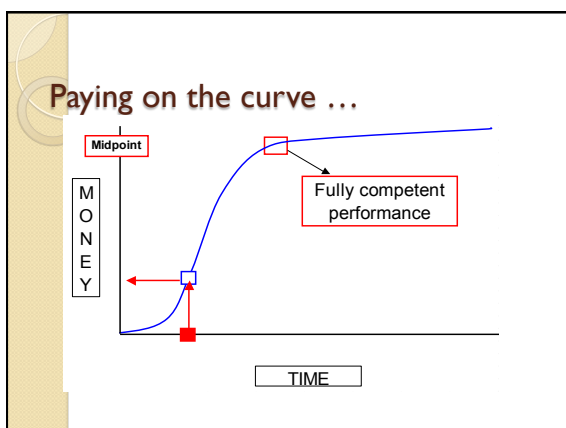


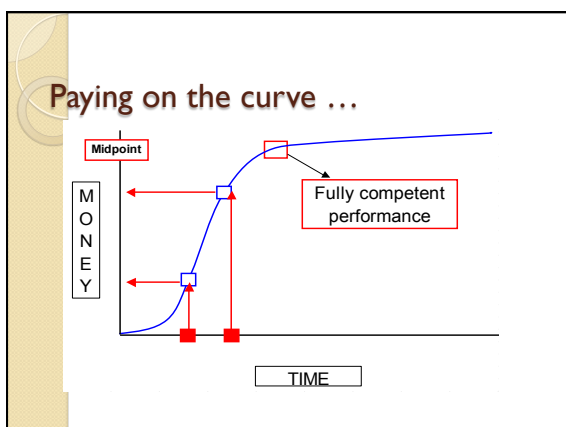


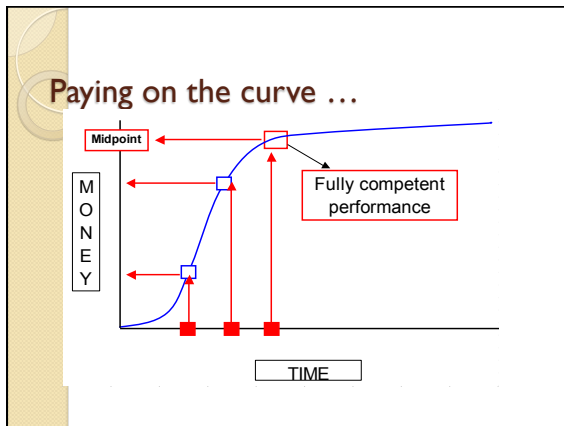












- ### Performance management ...
- Cause:
 - Believing that slick forms and detailed instructions will make performance management work in your company
 - Remedy
 - Realize it's not the form – it's the process
 - Train your managers and hold them accountable

- ### Performance management ...
- A very simple approach to serve as a good foundation for performance management
 - Question 1 – How do you know when you're doing a good job?
 - List 3 – 5 key important points
 - Question 2 – How can we measure them?
 - This is the hard part
 - If you can't measure it, don't use it
 - Don't overlook the absence of negatives

Performance management tips ...

- Performance appraisal is not an annual event – it's an ongoing process
- Train your managers to be good note takers
- Hold your managers accountable for timely and well-done performance appraisals
- Ideally, conduct two discussions: one on performance and another on pay
- Spend less time reviewing past performance and more time on the future

Questions ?



Effective Resources, Inc.

Barry L. Brown, SPHR, CCP
(800) 288-6044 Toll Free

Barry@EffectiveResources.com

- Pay Structures
- Incentive Plans
- Employee Opinion Surveys
- Affirmative Action Plans
