



Compensation Landmines:

Top Seven Compensation Mistakes to Avoid before they Become Catastrophes for Your Company!



After over thirty years in the Compensation and Benefits world, I have probably made (or seen) every mistake ever made when it comes to creating a compensation plan. I have assembled a list of what I think are the top seven mistakes that companies make when compensating their employees. These seven *landmines* to avoid are listed below:

1. Failing to communicate the organization's official compensation strategy and the reasons behind it.

An organization's compensation strategy says a lot about its expectations, goals and rewards. It expresses the values the organization holds in a very tangible way. However, *having* a compensation strategy is only half the battle. *Selling* the strategy to the managers and their employee is the key to its success. It is important that everyone in the organization understand the strategy and the reasons behind it. Effective compensation planning and implementation increases current employee satisfaction and helps in future recruitment efforts.

2. Failing to equip (or train) managers to have effective conversations about compensation.

Explaining compensation is a big responsibility. Managers do not communicate compensation strategy and individual compensation decisions credibly. At best, they put employee morale at risk. At worst, they put the organization in legal jeopardy. Organizations spend a lot of money on management training for hiring, anti-harassment and performance appraisals, but neglect to train managers on how to talk about compensation. Managers should be equipped to answer the difficult questions that employees ask.

3. Failing to have an effective job classification process that accurately classifies jobs as "exempt" or "non exempt" based on responsibilities and duties versus job titles.

Experts believe that approximately 70% of businesses are out of compliance with wage and hour laws, and particularly as it relates to properly classifying "exempt" status. The most commonly misclassified positions fall under the administrative exemption, IT jobs, inside sales jobs and first line supervisors. The job title itself can be misleading. Oftentimes, employees are given titles that sound like "exempt" positions and when their duties and responsibilities are examined closely, it becomes clear that they are really non-exempt. Don't wait for one of the 250 newly hired Department of Labor agents to show up on the doorstep of your company, before you address this critical issue!

4. Failing to accurately identify market data, and to subsequently implement market adjustments to close the pay gap between current salaries and target pay based on Compensation Philosophy.

Are you paying your best employees enough to retain them after the economy picks back up? Be proactive! Make sure to continuously obtain up-to-date (real time) market survey data by position and compare this to your current salaries. It is important that you compensate your

top performers at or ahead of the market at all times if you want to hold onto them. If your employees can resign and then walk in the front door and be hired at a higher rate, then there is something wrong with your compensation system. This happens more than you would ever think is possible. It doesn't make sense, does it?

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5. Failing to have an effective credible performance management system that is linked to compensation practices.

If your organization has a "pay-for-performance" strategy, it is imperative that your managers conduct effective performance reviews and know how to hold employees accountable for accomplishing established goals and objectives. There should be a trend between actual performance ratings and the amounts given for pay increases across the organization. Managers need to be trained on how to conduct performance reviews effectively and a new performance appraisal form should be developed every 2-3 years, so the form does not become stale and out of date.

6. Creating overly complex incentive plans.

As compensation incentive plans attempt to account for all aspects of an organization's goals and objectives for each year, they become far too complicated to effectively drive behavior. It is imperative that a company's incentive plan be easily understood, simple to administer, and motivating to employees. Some of the best and most effective incentive plans were designed by employees themselves, and tested in advance to get the "bugs" out before implementation.

7. Failing to realize that "Compensation" is not the same as "Salary."

Although these two terms are often used interchangeably, they actually refer to two totally different values. Salary is a person's monetary pay, while "compensation" refers to the total value of an employee's salary, benefits and other perks. Low cost/high return non-monetary rewards can have a significant impact on performance, morale and retention. Companies often neglect to communicate all the many perks that exist for employees. A positive workplace environment can be a huge motivator and is considered to be an important part of an employee rewards system. Other such things are flexible hours, work from home, wellness programs, day care, professional development, casual attire, paid time off, etc. Being an "employer of choice" or a "Best Places to Work in Maine" goes a long way toward retaining your best employees and/or recruiting high quality employees. Salary is just one piece of "total compensation" and companies make a big mistake not communicating this effectively to all current and potential employees.

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Deborah L. Gallant, SPHR, CBP, CCP, President of D. Gallant Management Associates has been in the consulting business since 1987 and has clients all over the country. Prior to consulting, Deborah spent fourteen years with Key Bank as Senior Vice President, Director of Human Resources, and Corporate Training. Deborah has over thirty years of hands-on HR experience. She graduated Summa Cum Laude from the University of Maine, completed graduate work in Business Administration and Psychology, and is a graduate of “The Program on Negotiation” at Harvard Law School. Deborah has earned designations as Senior Professional in Human Resources (SPHR), Certified Benefits Professional (CBP) and Certified Compensation Professional (CCP).