

Tight Times Demand Smart Pay Choices

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Among the job elements listed by employees as key to their satisfaction and motivation, compensation rarely makes the top of the list. But among the irritants that will de-motivate and drive top talent out, compensation is the leading villain.

A larger payroll or merit budget is not always the responsible answer. When revenues are tight and uncertain we've got to do a better job of allocating available payroll dollars. Real talent is an asset, not an expense, so its upkeep is critical. In your operation you've identified the capital equipment that is most essential for your business. Have you made that same assessment of your talent? Or are you spending precious money for little or no return?

Your funds are limited. Where do you want to invest them? Without preventive maintenance and repairs, your critical capital assets will deteriorate. Without that same attention to your people, your critical talent will leave. Even in the toughest economies there's always a market for the best talent. Your inattention to good people leaves your barn door ajar. Some of your best horses will wander out now. An upturning economy will open that door wider and the wandering may become a stampede as it places more and larger carrots outside your door. It's then too late to close it. If your

prized stallions are gone, look around. Who will be left?

Who are your best people? Revisit your business model, strategy and challenges. Within that framework, consider what is essential for you to get from each job, regardless of who fills it. Against that template evaluate your current incumbent(s) based largely on their actual results, and to a lesser degree their *proven* potential. With that substantive assessment in hand, dispassionately force-rank all of your employees. With emotion and seniority aside, you'll now know who is most and least critical for your success.

You've taken the essential first step in identifying your key performers. Make sure they know that you appreciate them even if your monetary rewards may not be as high as usual. This often, not always, will help retain top employees. In the meantime it serves as notice to weaker performers that they are not necessarily meeting the performance levels needed to support the business or receive further increases. You may now have their attention and with your help they may be motivated to improve.

Your Compensation Investment. The next key step is to ensure that your workforce is paid in the competitive marketplace where the organization strategically needs it

to be. Many organizations automatically assume that they want to pay at the market midpoint or median, but that may be inappropriate. For example, if you produce commodity products and most of your jobs require little specialized training, then you may want to position your pay scale below the market median. On the other hand, if you produce a high cost product where innovation and quality are critical, then you may want to be above the market median.

Once you've made this determination, you need to ensure that your employees' current pay is at that right level. From the market median you've determined for each job, calculate an acceptable range, plus and minus from the market point, that you want to work with. This range will give you leeway to individualize compensation based on performance, skill level, experience and other relevant factors.

This exercise may, for example, establish that some top performers are already paid well above the competitive market point, reducing the need for, or size of, planned increases. Others who are not considered top performers, but who make a good contribution, may be far enough below their market point that they still warrant increases.

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Paying for Results. Merit increases, even on a limited budget, can now be focused on each employee's actual contribution and you're now ready to force rank their contributions. In doing this, keep in mind that executives or senior managers are not automatically ranked above administrators, analysts, accountants, etc. They're already paid appropriately for their position, so the ranking should be based on how each employee contributes relative to their job's expectations.

The critical factor in managing a small merit budget effectively is to be sure that the limited funds are allocated to the employees who are performing. Again, ensure that all employees understand that they're already being paid competitively, and that the limited budget and the focus on results will not allow for an annual increase for everyone.

For example, budgeting 2 percent of your total payroll, for each employee who gets an 8 percent increase, there will be three employees who get no raise. If you accept that this is the correct thing to do, an 8 percent increase now becomes possible for your best performers and is a significant enough reward when the employee is already paid fairly relative to market. While a minimal or no increase may be currently warranted for your lesser performers, they too are already fairly paid relative to the market for their skills.

Most managers have difficulty with the idea of giving raises to only a portion of their employees. Remember, the whole point of this process is to reward and retain key contributors. If as a result you lose some weak performers, you are likely to replace them with someone better. If you lose your best

performers, you're likely to replace them with someone weaker. What you're providing is a merit increase, not a guaranteed increase. When everyone gets nearly the same "merit" increase, the weaker performers are reinforced and the better performers are given a message that their contribution and efforts are not differentially valued.

Keep all of your people aware of the state of your business and the opportunities for your company. Make sure they appreciate what you see in their individual contribution. Don't forget that the keys to keeping good people are job challenge, career opportunity, recognition, a sense of belonging and a good boss. But remember that a compensation system that equally rewards everyone will placate lesser performers to stay and motivate your best performers to consider their options.

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