COLUMBIA COMPENSATION
CONSULTING INC

And The Answer Is… (or, "Alex, I'll Take Surveys for $800")

We are again at that time of year that many employers look at what has been and is predicted to happen to wages so that they can put salary budget recommendations together.

So – it's 3% again for the US in 2016 (2017, 2018, 2019, etc.). Drama over. Even if your sources average out a tenth of a percent plus or minus that, you'll be close enough to maintain your strategy using 3%.

But beyond the headlines, consider a couple of other questions:

1. Does 3% allow you to maintain or enable a change to your human capital strategy such that you can ensure your top performers and crucial talent are being paid as intended?

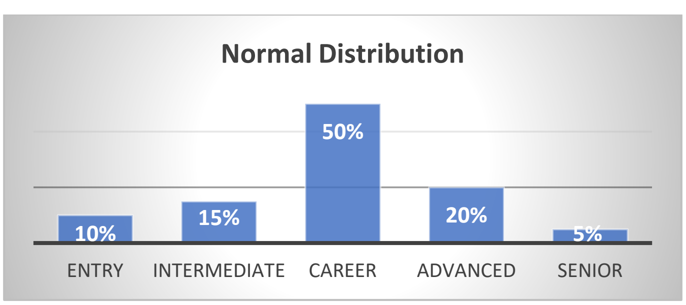
2. Does 3% consider what you'd need to fund promotions for your entry and intermediate level employees, typically promoted with more frequency than the rest of the workforce?

3. Does 3% take into account employees in other countries where not only are the market forces different but currency differences could cost you more than 3%?

If you are concerned about these questions, read on.

There still isn't significant economic pressure on wages to drive increases much beyond what we've seen for the last several years. Yet this can still become a test of wills between finance and HR on what percentage of payroll that will go into the budget. Consider though what should really be the concern, that being the total cost of payroll.

For example, if your total salary budget was $10M, at 3% you'd be budgeting $300,000. Having a better (and more strategic) understanding of what makes up the mix of the $10M can open up doors to what is actually affordable to put into a salary adjustment budget. Have you considered the mix of levels of employees doing the work? For example, a normal distribution of job levels making up that $10M payroll across a function like engineering might look like this:



Compensation & Rewards

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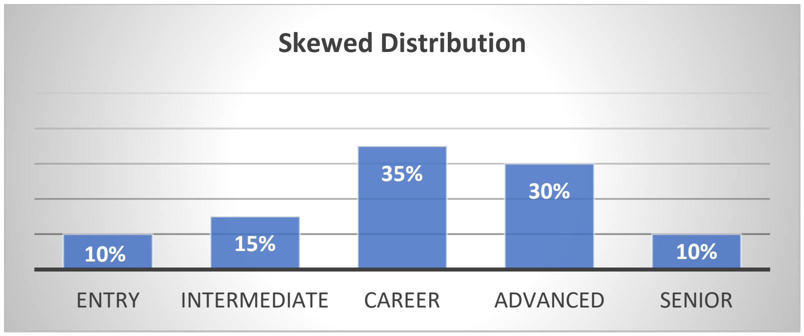
If your distribution was to be skewed to more employees occupying the higher levels of a job family, it might instead look like the graphic below, and assuming the same number of employees, the payroll cost of this distribution would be more than in the prior example.



Making strategic decisions about how your labor dollars are spent **on an ongoing basis** takes the discussion of whether you have $300,000 (3%) to spend or you get 3.5% or something else that better fits your human capital strategies. And this sort of problem can be compounded if you are "behind market" at the higher career levels, because now not only do you have fewer low-cost resources employed, you could be underpaying those in the higher levels.

So, think about if the answer to the question is "3%" or if the right question is being asked in the first place!