Compensation Connections 18-1

Dear Reader,

Overmax and Pay Equity and more coming up in the latest edition of Compensation Connections!

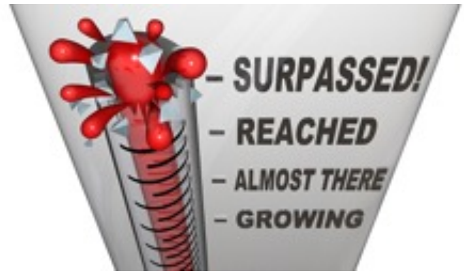
Overmax

“Well Wally, that’s my summary of your performance this last period. And from what I see here in the HR salary file, you’re at the maximum of the salary range, and you know what that means… No, actually what it means is no raise for you this year. I know, it’s been three straight years now, but my hands are tied. Thanks though for another great year, and go get ‘em again this year! Bye!”

Not that far outside of reality? Why have salary ranges and maximum in the first place? And why shouldn’t Wally get a raise if he was a good performer? You can probably imagine Wally’s mood after this phone call.

Why Use Ranges

A pay range represents your pay policy, for example paying on average at the 50th percentile. Typically the midpoint of a pay range is aligned to the market data for a job, and a range (minimum to maximum) is equally distributed around that midpoint. Pay ranges usually have a spread (percentage difference between minimum and maximum) from 50% to around 70% depending on the job type, level, and other individual design factors.



So what do minimum and maximum mean? I think we all know what the words mean, but philosophically they mean the least and most the company pays for jobs in that range. And since there is a spread, that means there is a reason for paying low or high in the range. Paying low is usually for employees who are inexperienced, still learning, less skilled or maybe even those with performance issues. Paying in the top half of the range is for all the opposites of those – higher skilled, experienced, better performers. So from bottom to top, if you were talking about two employees on either end of the pay range spectrum (assuming a 50% spread) your top performer is making 50% more than the employee at the low end.

Do they really need to make more? Remind me again of the definition of maximum? But maybe it's a tight job market and retention is a problem, or the competition targets a higher percentile like the 75th. All things to take into account.

Of course, I'm assuming you are keeping your pay ranges aligned with the movement of the market. If you haven't adjusted pay ranges for… awhile… it's difficult to use your philosophy and objectives as a foundation.

I've heard stories, reasons for exceptions, pleading cases… I won't list all those here. Let me instead talk about what to do.

Keeping Talented Employees Motivated

I recently read a brief article on this subject with a commentary by a compensation professional. There was the usual compensation response – offer a lump sum rather than increasing base (a lump sum is employee's base salary times merit percentage increase and pay as a one-time bonus). That's OK, it's one alternative. (By the way, I had an employee working for me once and gave her a lump sum increase because she needed travel money to visit her sick mother in New York. She mailed me her resignation letter 3 weeks later.)

A more powerful answer than the lump sum (or ignoring the definition of pay range maximum) is to consider the situation outside of compensation. Is this employee qualified for a career more? Why or why not? What would have to happen for that to occur? If they aren't in the right position, a move might create the 'headroom' needed to be able to grow salary in the future.

And an employee at or near the top of their pay range is not a surprise, assuming even basic transparency on compensation. You know who the Wallys are already, why wait for the manager (who probably only talks to Wally once a year about his salary) to have this discussion?

Another thing to keep in mind, especially when there are not career or developmental moves available is that an employee at the maximum of the pay range is well-paid. Equip your managers to communicate your pay program objectives and processes as well as the outcome of pay decisions. Sometimes that takes practice, and it's something that in my experience I think managers need to be better at than most are at present.

Pay Equity: Part I

I recently attended three separate presentations on Pay Equity. (click here for the Wikipedia page that describes Pay Equity). Same subject but three different takes – the first was focused on convincing management that it was important – the second was a very good discussion amongst compensation and HR professionals, led by an attorney, focused on the implications of state legislatures passing laws that they don't understand – the third a combination of a lawyer and a PhD statistician talking about the "how-to" aspect of conducting an audit.

This could be a lucrative new service for consultants like me, but I've decided to wait to enter these waters. Too much still undefined.

Here is what I can tell you about this.

1. Pay equity is not new – the Equal Pay Act was passed in 1963 and is regularly and repeatedly enforced.
2. If you already have processes and policies in place and follow them fairly closely, you probably don't have too much exposure to these new laws that are re-defining pay equity to be less about good business practices and more about re-defining it as pay equality.
3. If your pay system has always been pretty secretive, get used to transparency.
4. In Oregon, you can still maintain disparities in pay if based on seniority, merit, quality or quantity of work, location, travel, education, training, experience, or combination of any of these.
5. Most anywhere these laws are enacted, including California and Oregon, and soon in Washington, asking an applicant about their salary history is not permitted. In Oregon you have an exception for current employees, but that only takes effect in 2019.

I can't even begin to describe what it will take to do the analysis to determine if you'd have issues with pay of your current employees. I can tell you that listening to a PhD describe how he'd approach it made me think I'd need to upgrade the processor on my PC (or hire a PhD).

Here are a few things you can do immediately that will help you steer through these waters.

1. Stop asking candidates what they made elsewhere. I think this is probably the most powerful aspect of these new laws to bring about pay equity (not equality). Make job offers based on the candidates recent and related experience, skills, and capabilities that match the job requirements.
2. Make sure your job descriptions are up-to-date (key responsibilities and job requirements especially) so that candidates and current employees are evaluated against the same standards. Since job content is in most cases the "controlling factor" to determine comparability, suddenly this documentation becomes much more important.
3. Take the "Current Salary" field off any internal transfer/promotion form, job application of any other hiring form. Simple.
4. If you start any sort of pay analysis around Pay Equity, loop in your Attorney or Counsel immediately. Protect yourself from yourself.
5. Give some serious thought to what you ask managers to do when it comes to performance management. For example, formal or informal documentation of performance and coaching especially as it relates to two of the permitted elements for different pay levels, quality and quantity.
6. Educate your managers about these new laws and how their actions and decisions can increase or decrease the risks you'll be facing.
7. Consider adding a temporary salary review process where HR reviews all salary changes and new hires once you have a handle on your own data. Don't let things get any worse.

It was the PhD who may have had the best insight when he said, "Tell employees your story about pay or else they'll start telling their own stories." (By this he meant become potential plaintiffs because they are dissatisfied with their pay and they aren't getting any answers from you.) This obviously requires transparency in areas like pay ranges (what are they, how do they work), who is your market (other companies, geography, etc), where do you target your policy (your policy is your intent, i.e. 50th percentile – your actual practice -- how you actually pay your employees may be different).

Final thought: additional benefit to transparency. The Compensation Roundtable of the Corporate Executive Board has conducted extensive research on perceptions of employees as to satisfaction with how they are paid. It resulted in two primary discoveries with quantitative results that drive employee performance (their discretionary efforts) and retention (intent to stay). Both of these satisfaction drivers are able to be influenced by a manager because they are based on the employee's perceptions, and those perceptions are formed from the manager's action or lack of action on how they set, communicate and evaluate performance targets as well as communicate the company's intent and strategy for pay programs that the manager administers. The two drivers are pay process fairness and pay distribution fairness. More on these elements in the next newsletter as well as an update on additional developments.

Jim Harvey is Founder and Principal Consultant for Columbia Compensation Consulting Inc. His 35+ years' experience encompasses high-tech, aerospace, utility and health care industries, specializing in leading companies in the formulation and execution of their rewards strategies in support of business objectives. His global work experience and collaborative reputation includes translating business needs and ideas into tangible and measurable deliverables, and a hands-on results-oriented attitude with a strong track record of driving large-scale projects through to delivery and implementation.

At Columbia Compensation Consulting, you are working with someone with over 35 years of expertise in executive, equity, incentive, sales and base compensation. My consultative style includes a D-T-S approach to working with clients: D for Do, since most clients have already identified the need and are looking for specific deliverables; T for Teach, where those opportunities present themselves and transferring knowledge to the client can enable self-sufficiency in the future, and S for Support either through ongoing retainer support or coaching of those then delivering. For more information please visit www.columbiacomp.com.

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