

A Principled Approach to Compensation

According to Bloomberg, 8 out of 10 entrepreneurs who start businesses fail within the first 18 months. A whopping 80% crash and burn. They don't know their customers well enough, their products aren't compelling or differentiated, and there are many reasons to simply focus on getting the business ramped up. So it's no surprise that Human Resources isn't the first and most important role filled, and many times HR falls on someone's plate as things start to get in the way of real business.

It typically starts as an ancillary part of someone's job. If the business experiences growth and success, typically someone begins to think about people strategy, lawyers may create some fear of risk and liability looming on the horizon. And frankly, enough time goes by and other priorities are dealt with, so an HR function is birthed.

Another phenomenon often occurs as more people are hired – labor costs continue to grow. If those costs weren't already your biggest overhead, they most certainly will become your company's highest expense. As the head of HR, eyes turn to you to see if you can pull the rabbit out of your hat and come up with a way to pay people that falls in line with the company's way of thinking – typically based on a combination of philosophy, strategy or principles. You've been bootstrapping it so far, perhaps calling a friend, using the occasional lifeline. You might begin to see different kinds of pay – premiums for shifts, skills, sales incentives, equity... It's time to start thinking about why you pay the way you do, how do you align compensation and rewards to your values and make decisions going forward. If you think about it, this is where it gets complex. This is where you need to look back to where you dropped a pin on your map, your principles.

It's not that other parts of HR aren't principled, but the kind of issues that surface in compensation typically require some discussion or debate amongst the leadership to take something that has been historically operational and tactical and transition it into becoming more strategic and principled. Done incorrectly, and compensation can make you company's biggest asset (your employees) dissatisfied and discouraged about the future; done the right way, and your employees will be satisfied and engaged.

So, where to start? Many times you can find the path that has already been worn, and it may just be a matter of establishing and formalizing the philosophy that is already engrained in the business. More than one company has figured this out by reviewing prior decisions and

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extracting their approaches and philosophies. The compensation philosophy is an overarching statement from which specific strategies, principles and objectives can be derived around specific types of compensation. For example, will you be transparent with employees when it comes to explaining what is behind the decision about their base pay? Will you tell them their pay range, and pay ranges for jobs they aspire to? Do you reward performance at the individual, team or company level? If you had to choose how to spend your limited dollars, having stated principles one way or another may lead you to make a specific choice over the other.

What does principled mean? Honorable, upright, ethical, righteous, just, moral... all are synonyms for Principled. Hopefully you can use the same synonym for any other function in HR! But in the case of compensation it also means being confident in what your path looks like because you spent the time to explore it, consider alternatives and make a decision on a future with a specific plan. From the moment you make a decision to put a compensation plan to practice, you can always bounce future actions and decisions off your philosophy and principles to determine the best course of action.