June 2016 Compensation Connections

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Change In Plans...

A change in plans isn't such a bad thing, it happens all the time. It's raining, so we go to Plan B. The restaurant is closed so we go to another. These sorts of changes don't seem to bother us so much. ***But change the compensation plan and watch out!!!***

The thing is, any compensation plan that hasn't changed in a while is probably no longer an effective plan. Yet changes cause stress, uncertainty and certainly encounter resistance. One of my favorite quotes about change comes from Machiavelli and goes something like this:

It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things… for the change has only enemies of those who have done well under the old and lukewarm supporters of those who may do well under the new.

So when making a change in compensation, the question becomes not how do we avoid change, but how to smooth the change process? Here are some ideas:

1. Talk to a variety of employees about the coming change. Be careful – this is not a poll or asking for them to help design the plan, but a way for you to better understand their concerns. Information gathered can be useful in the implementation, and at least you've had the opportunity to understand potential challenges.
2. Refocus from the immediate change to the longer term benefits. It may require some short term sacrifices and likely change in how work is done, but giving examples of the benefit can only help your case.

3. Recognize when real or perceived losses may exist, and be willing to talk about them. Ignoring concerns such as this only serve to vilify the new plan or change. Even if nothing can be done to address their concerns, a sincere attempt to listen and accommodate may temper resistance.
4. Think of ways to compensate any that may still be in the loser column. Is there a transition plan? Is grandfathering any element of the old plan worthy of consideration?

When you start to finalize your plans, try to ensure a higher probability of a successful result in the first year of the plan. This is especially important with variable pay plans, and consideration of the difficulty of reaching targets that produce payouts. Nothing worse than putting a new plan in place then laying stretch goals in that no one sees as achievable – in employee circles, this is called a "pay cut."

Another consideration when making plan changes is to carefully consider the degree of change being made. In my experience, best intentions are always to design a plan that will tie back to enabling the HR and business strategy, but timing to execute that may actually work out over more than one year – in other words, might the change be better spread out than taken all at once?

Circumstances for change should be openly discussed with employees so when future change is made it is not so much of a surprise. For example, no reason why you couldn't tell a salesperson that as the channel strategy changes/matures, their role may change and so could their compensation plan.

Finally, for those of you around my age, I've used the analogy of the Bat Phone for how employees react to pay change. You remember – when that phone rang, everything stopped, and that was the most important thing going on… you knew you had someone's attention. Keep that in mind when considering pay changes.

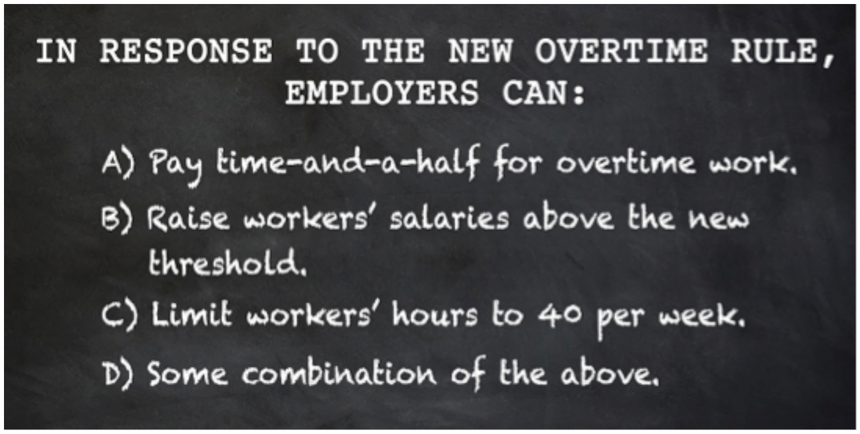
Nonexempt FLSA Earnings Threshold

It is official – we have the number, now it's time to consider the effect.

The number is $47,476 annually. That's the 40th percentile of earnings of full-time salaried workers in the lowest paid census region, the South. And it adjusts every three years (the original rule would have adjusted every year but for voracious feedback from the HR community). If you pay an employee less than that (in most cases), you'll need to determine what next steps to take once the law takes effect on December 1, 2016.

Here's a link to the DOL announcement:
https://www.dol.gov/whd/overtime/final2016/

According to a DOL Blog post, you have these options:



No mention here of how some employers have already determined their options – cut pay of employees so that new base plus overtime equals current salary, or potentially reduce employment to be able to afford this new regulation. I heard recently that one fast-food employer was getting ready to introduce self-service kiosks to take orders…

Perhaps the President and the Department of Labor didn't anticipate any resistance, but a bill has been introduced (HR 4773 / S 2707) that will require that before the new regulations can become effective later this year that the Department of Labor conducts a thorough economic analysis of the impact, and that any automatic updates to thresholds be overridden. These bills have not yet passed, and since they'd still have to get past the President would be unlikely to in their current form.

Jim Harvey is Founder and Principal Consultant for Columbia Compensation Consulting LLC. His 30+ 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 30 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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