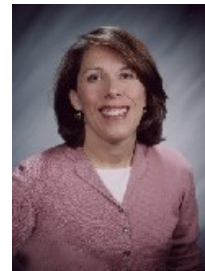


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Much Ado About Compensation

By Carol Bergeron

Compensation is a hot topic especially given the range of company scenarios that have played out over the last 18 months. Some companies were hit hard with layoffs, some flat lined and still others experienced modest workforce growth. It isn't easy to know the right things to do in times of economic flux. Keeping costs in check, and payroll is one of the biggies, while providing employees attractive wages will be no small feat moving into next year. Now is a good time to revisit compensation practices to avoid potential quagmires further down the road. Here are a few guiding principles.



1. Re-define your organization's **compensation philosophy**. Confirm the affordability, purpose, goals and workings of each compensation component (base, pay increases, bonuses, other incentives, stock options, benefits, etc.) before communicating more broadly. Then walk the talk.
2. Make sure your pay rates are **competitive relative to the external marketplace**. You don't have to be the highest paying; but you do have to be in the ball park even in tough economic times.
3. Establish and **maintain internal equity** among people in like jobs, with like experiences generating like value and contributions.
4. **Reverse salary reductions or freezes**, if you've had to resort to them, as quickly as your budget allows. It helps re-build employee confidence in the organization's future.
5. Implement **fair pay practices** where increases and bonuses are earned for achievement of well formulated and understood goals.
6. **Reward people handsomely for exceeding goals**; it's one of the best ways to reinforce future like accomplishments and may result in a growing number of "A" players.
7. **Resist the temptation of bringing new hires in at significantly different pay rates than existing employees because the approach will backfire.**

People may initially accept drastically lower wages because they have bills to pay (satisfies the safety or 2nd level on Maslow's hierarchy of needs) but this approach may produce unintended consequences:

- Significantly lower wages may not inspire the best work ethic, so **organizational performance suffers**.
- Once the job market opens up, and it will, **unengaged employees leave their employers** which puts business goal achievement at risk and increases intellectual capital losses, turnover costs as well as missed opportunity costs.
- Eventually the gap between existing employee and new hire pay rates will have to be reconciled. Unfortunately, it's often preceded by a **pattern of "buying" employees to stay which can snowball**,

foster a culture where the squeaky wheel rules, pay inequities ensue and employees' lack confidence in espoused fair pay practices.

- When a pattern emerges where “compensation” becomes the most commonly cited reason for leaving then other causes of unwanted turnover never surface. And that misdiagnosis could have **long term negative impact on the organization’s ability to attract, retain and maximize productivity of top talent.**

8. **Routinely analyze** external market competitiveness, internal equity, compensation program alignment to business goals and payout results so that your compensation programs do not get out of whack and become ineffective. Because the resulting patterns and problems are often far more difficult to change.

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