Dealing with Compensation 101

I once supervised a Compensation Analyst who had spent a great deal of time attending professional seminars and workshops. She had attended these instructional sessions to learn about Compensation, as part of her professional development.

One result of that education was a favored response when faced with a challenge at work; she would fall back on her class work experience by saying, "the greatest minds in Compensation say that . . . ". It took a great deal of patience on my part to educate this part time practitioner / part time student in the difference between the classroom / textbook answer and the reality of the workplace.

A short while ago I came across an HR blog in which the author was instructing readers in how to create a merit performance matrix. Very good stuff, I thought, admiring the technical step-by-step instructions, except I knew from long experience that the procedure being described would never work in the real world. Didn't the author realize that?

Yes, it is <u>very</u> important to understand the technical foundations of Compensation methodology and practice, but first and foremost you need to anchor yourself in the real world, to know what will work and not work in your own organization – no matter what the finest minds in Compensation think.

Why doesn't Compensation theory always match compensation reality in the workplace?

- Business realities: management will typically know more about a particular business situation than you do. What you are able to provide to the decision-making process as a Compensation professional is limited to your particular subject area, while management usually has the bigger picture – the perspective of multiple viewpoints. Your compensation advice may not fit their business reality, no matter how logical an argument you make.

- Bias of decision-makers: decision-makers may feel that they intuitively *know* the right approach to take (they've done it before, if-it's-not-broke- don't-fit-it mentality, a friend / relation / old college chum suggested an approach, etc.). Perhaps they read an article just the other day and now are insistent to follow the advice of an author who doesn't have a clue about their particular business. Years ago I worked for a company whose CEO forced HR to implement a particular benefit plan because he had read a magazine article. It does happen.

- Problem avoidance: short of killing the messenger, one solution for management is to do nothing about a problem (you've exaggerated it, the solution costs too much, there's still time, etc.). Senior managers can be like politicians in avoiding the *big* decision unless it bites them in the leg. It can sometimes be dangerous to your career if you try to force a decision.

- Business culture or model: some initiatives just don't "fit" in your organization. Managers with a laid back organization style will not be interested in demands to document everything, standardize policies and procedures and have approved forms for every possible use. Picture your head banging against the wall.

Aside from management giving you a dose of reality across the cheek , sometimes those subject matter experts who instruct in Compensation techniques fail to ground their instructions with a caution to their students: check this process out in the reality of your workplace *before* you take a laboratory technique and wave it in the face of your management.

Two examples:

1) Merit matrix: when designing a pay-for-performance merit increase matrix the standard rule is to place the average increase percentage in the cell block most populated by employees (average performance and average position-in-

range). The sound reasoning for this technique is to better manage the costs associated with that year's annual increase process.

A lot of years ago I followed that approach in my first compensation leadership role. I still have a little bump where my head hit the wall.

Here's the rub; such a technique requires that the matrix change <u>every</u> year, as the analysis demands you study where the population averages are for each year. But management will likely have none of that. They want the same matrix every year, for ease of administration and communication.

2) Cost of living as a basis for pay increases: I once watched over a fascinating exchange on a Compensation bulletin board where the debate raged on for days over the appropriate formulae to use for calculating the cost of living vs. cost or labor as it affected the average pay increase that management would approve. Each side would provide formulae, charts and graphs and quotes from notable experts to press home their opinion.

   The reality for this exchange is that management does <u>not</u> use the cost of living as a prime determinant in their decision-making. They are more likely to roll their eyes at the technical debate and ask only about competitiveness and bottom line cost – and why can't we do the same as we did last year? If their decision relates to the cost of living in some way, that's only a nice coincidence that they can use in their communications.

An area that separates the compensation technician from the compensation professional is the ability to deal with what I call the "softer" side of compensation. Survey statistics, charts and formulae are very good to a point, but management will want to know what it means and what to do about it. So the answer isn't simply reporting the data, but in taking that next step to help management understand and strategize their next move.

The contribution you can make to your organization is blending the technical knowledge (the how-to) with seasoning and experience to understand what will work for your organization, considering culture and management bias. Technical knowledge will give you the same answer every time, but knowing how to use that knowledge like a craftsman's tool to aid in achieving business objectives – that is the key to success as a Compensation professional.