

## How Effective are your Pay Programs?

Has anyone ever asked you this question? Did you have an answer?

To clarify, the question is whether your company's pay plans and practices are operating the way they were intended, and whether you are satisfied with what they have delivered.

When I ask a client this question the typical reaction is a deer-in-the-headlights return stare, followed by a puzzled frown, perhaps a cough, then – maybe – some mumbled explanation of their employee turnover situation.

In other words, they don't have a clue.

Why is this question important? The client's reaction would be humorous if there wasn't a cash register ringing in the background. If the method by which you reward your employees for their performance is not working, your company is wasting money like a silently dripping faucet – or worse. This money is draining directly from your bottom line and your program flaws are likely also causing resentment among your employees. Such a waste is also an avoidable expense, one that you can control. Squandering payroll dollars \*and\* upsetting your employees is a dangerous and expensive combination for any organization.

If you consider that upwards of 40% to 60% of your revenue goes right back out the door in the form of pay to your employees (excluding benefits), then the magnitude of your vulnerability should hit home.

Management time though is too often misdirected by worrying overmuch about whether next year's average pay increase will be 3.0%, 3.5% or 4.0% of payroll. However, the 800 lb. gorilla in the room is \*not\* the increase percentage, but the payroll itself – that huge amount of fixed and variable pay expense already budgeted. That is the figure that should receive the lion's share of attention.

So you ask, what do you mean by an "effective" program? Each Compensation program that you have in place (or set of practices) was likely designed or intended to perform a certain function. For example:

- Salary Structure – to offer the opportunity to earn competitive base pay
- Incentive Plan – to reward employees for achieving business objectives above and beyond their normal duties

Tel: +1 407.889.8918 • Mobile: +1 407.462.1645

[ccsizar@cmccompensationgroup.com](mailto:ccsizar@cmccompensationgroup.com) • <http://www.cmccompensationgroup.com>

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- New Hire / Promotional Guidelines – to staff the company with the right caliber of employees
- Pay-For-Performance – to recognize and reward higher achieving performers for their contribution to the company

How do you know if you need to be concerned about these programs / practices? There are signs for those prepared to look. Some examples:

- Poor documentation of job responsibilities: no one likes to write job descriptions, including me, but their absence, antiquity or inaccuracy can create an environment of blurred responsibilities, grade & title inflation and over staffing. The direct result is an increase in fixed costs.
- Absence of a Procedures Manual: you can't expect managers to follow a consistent company line when they have little or no guidance. They will fill the vacuum with chaos and damaging precedence, each of which is an expensive end product.
- Dashboard metrics not in place: to understand success you need to measure it. If you haven't established criteria to track the who, how and why of your Compensation programs, then you won't be able to understand whether your programs deliver desired results or not.
- Poor visibility of pay decisions: proper rewarding of good performance should be a celebration in the open sunshine, not hidden in a closet hoping the boss won't notice. If the Manager can grant pay increases without at least one additional level of signature, then the opportunity for improper (wrong amount, wrong employees, wrong reason) pay increases would flourish.
- Toothless Performance Appraisal Process: if your process of rewarding employees focuses more on activity than results, if it does not measure performance, if objectives / work routines are not tied to business needs, or if the appraisal document is viewed as an administrative headache, chances are the monies coming out of that process are a) providing little motivation for future performance, and b) are viewed more as delayed compensation than pay-for-performance.
- Limited Reward Differentials: if the reward difference between a high performing employee and "Joe Average" is less than 2% you're better off to consider across-the-board increases rather than go through the hassle of actually assessing individual performance. If your plan essentially rewards everyone (is that *\*really\** pay-for-performance?), then you're not going to have enough money to properly reward those most critical to business success. And who do you think will leave in a huff? Not Joe Average, that's for sure.

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- Weak Budgetary Controls: Is there anyone assigned to watch the Compensation purse strings in your organization? Someone to say “that’s too much” or “you can’t give that large an increase”? Someone perhaps to limit the growth of fixed costs? Absent the presence of limiting factors (“controls” is such a harsh word) your costs \*will\* rise, as undisciplined Managers in an unstructured environment will increase pay decisions in order to be liked by their employees.

So what can you do? You can find out. You can ask questions. You can avoid complacency by not simply waiting for the fire alarms to ring.

By the way, have your internal audit folks ever scheduled your Compensation programs for a checkup? If so, it’s usually the HR documentation of processes that get a look, not whether those processes are effective or are even damaging the business. They tend to look in the wrong direction.

Will a *comprehensive review* of your pay programs ensure that you will save money? Improve your pay programs? Improve retention and morale? Unfortunately, there is an “it depends” answer to those questions. The review will highlight your weaknesses and vulnerabilities, and show you the pathway to efficiency, cost savings and the effective use of your payroll dollars. But by itself a comprehensive review can do little more than show you the way. To reap success from your study Management must be willing to make critical decisions that differentiate pay on the basis of employee value and performance.

The challenge of actually getting Management to commit themselves will be the subject of my next article.

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[ccsizmar@cmccompensationgroup.com](mailto:ccsizmar@cmccompensationgroup.com) • <http://www.cmccompensationgroup.com>