CMC Compensation Group

But . . . we already pay competitive wages!

What doesn't happen when your company pays competitive wages?

You've read your company's want ads and heard the pitch from your recruiters; you offer competitive wages to qualified candidates. That's got to be a strong hook for attracting talent, right?

Big deal.

You regularly update your pay structures based on market trends, so the opportunities you offer your employees should support your retention and motivation strategies, right?

Not enough.

Most employees presume that your company is already doing or aspiring to meet the goal of competitive pay. After all, companies routinely advertise the practice ("we offer competitive wages") and candidates in return expect this of potential employers. But what happens when your goal of offering competitive pay is finally achieved? Are employees pleased and content? Can companies rest in their efforts to attract, motivate and retain?

I'm afraid not.

When in a situation where they're not paying the "going rate", management fervently hopes that employee challenges and criticisms will disappear once they reach that difficult to achieve target. I say difficult because it's not only an illusion but an expensive problem if you have a large body of underpaid employees. And once you climb that mountain, well . . . so what?

What doesn't happen when you offer competitive pay is that your recruitment problems <u>have not</u> magically disappeared, your employees <u>won't</u> be satisfied and your compensation program has achieved <u>nothing</u> more than being average – and isn't that a "C" grade in school? Is that where you want to be? Is that a practice that ensures your employees will be content to stay with you? As far as aspirations go, it's only middle-of-the-road. You will find that it is not an advantage to pay the going rate, but it is definitely a disadvantage if you don't.

Even if your company does pay "the going rate" or the norm or the competitive average (what the survey data shows), that means that approx. 50% of the companies out there are paying *more* than you. That's what <u>average</u> gets you, with half doing more and half doing less. Is that what your company aspires to achieve?

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Remember, no one leaves your company for less money – so all you'll hear from your employees is about how so-and-so is making more money somewhere else. And of course, employees only hear what supports their own notions – so they wouldn't pay attention to the whole rewards package, just the data points that confirm their opinion that your company isn't paying enough.

The only way to avoid this scenario is if you're the premier paying company in your market / industry – and can you afford that cost?

Lest we forget, it is important that we differentiate between having a salary structure (grades, salary ranges and midpoint) that provides competitive rate "opportunity" and actually paying employees at those rates. Some may describe this as whether the company is "walking the talk". I recall a client who was proud of the fact that their salary range midpoints were continually adjusted to mirror market rates, but later was embarrassed to discover that their actual pay practices delivered pay levels well below their published midpoints. However, it did help explain the high turnover and low morale.

For their part, employees will relate to what they are being paid, not the midpoint of a salary range or other such declared "opportunity". To them the company's supposed "competitiveness" is more illusion that fact; especially if they're experienced and have been with you for awhile. Thus the company needs to keep its focus on actual pay vs. opportunity pay.

Why don't employers pay the "going rate"? Typically it is not a strategy, but a series of practices that have evolved over time.

- Some candidates will accept a lower rate than should normally be paid for their knowledge and experience, and managers tend to view this as good news and a cost savings. Though it is more like putting a skeleton in the closet and hoping it doesn't scare you down the road. One day these same employees will change their minds.

- Once you've started down the slippery slope of paying some employees below market rates the practice is soon compounded by the well-intentioned practice of internal equity. Managers don't want to pay similarly qualified new people more than existing employees, so the new hires are offered either below market pay or placed inappropriately in higher value jobs to get them more money (a different problem for another article).

- Pay-for-performance systems have a hard time keeping up with the increased marketability of employees. A minimally qualified employee hired at the minimum rate will gain knowledge and experience (and thus marketability) faster than a company's annual merit system can recognize. This is compounded when you have to hire a qualified worker and discover that the market requires you to pay more than what you're paying your more experienced employees.

So, what's the answer? You likely won't find management agreement to become the premier payer in your area, so you should consider instilling some flexibility into your pay practices. By that I mean you should consider targeting certain key jobs in your organization (highly skilled, difficult to replace, etc.) and make sure those jobholders are well paid for the market.

Other positions that are not as skilled and more easily replaceable you could continue with your "competitive opportunity" strategy. Any losses would not upset the applecart. This approach is somewhat akin to ring-fencing your key talent, protecting them against poaching while recognizing / rewarding those with the most potential impact on your business.

So be careful when you proudly claim how your company provides competitive wages. You may not be correct, and if so – big deal.

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